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Business Sector Analysis in a Contemporary Economy

A Focus on the Tourism Sector in Myanmar

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Abstract

The country of Myanmar is in a state of rapid transition from a centrally planned economy to a liberalized free market and is emerging as one of the most attractive new economic hubs in South East Asia. The following paper aims to conduct research on how foreign firms are currently adapting to changes in Myanmar's economy and successfully entering the country. The tourism sector was selected as a focus for the study because it is a key service industry in Myanmar and it is experiencing rapid growth as a result of the transition process. A framework for analyzing business sectors in emerging countries was adopted as foundation for the research. The framework was comprised of three widely acknowledged theories: Whitley's Business System theory, Porters Diamond of national competitive advantage and the resource based view. The framework was expanded to include an analysis of the external social and economic impacts investment in a sector can generate. To conduct the research a triangulation method was adopted. Primary research was conducted on location in Yangon through qualitative semi structured interviews with persons associated with the tourism sector. Secondary research regarding the economy and tourism sector was gathered through extensive literature and article reviews. The study found that the demand for tourism is growing tremendously in the region due a variety of factors including countries improved foreign relations, easing access for tourists and improved investment climate. However, challenges and barriers to entry were found to be prevalent. They included a shortage of skilled labor, inadequate supporting industries, insufficient infrastructure, limited access to information technology, corruption, complex bureaucracy and strong competition. Foreign firms must also enter joint venture alliances with local partner firms in order to enter the Myanmar tourism market and these conditions pose both threats and opportunities for new entrants. To achieve a competitive advantage firms need to develop an appropriate human resources strategy for recruiting, training and retaining skilled worker and be strategically flexible in coping with the unstable and stringent conditions in Myanmar. Furthermore, firms in the tourism sector can contribute to their external environment by adopting responsible tourism practices and developing training programs for the workforce.

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Introduction

The country of Myanmar is in a state of rapid transition from a centrally planned economy to a liberalized free market and is emerging as one of the most attractive new economic hubs in South East Asia. The country is resource rich, has a large domestic market, underdeveloped industries and institutes and is ideally located as a hub for trade between Asia, the Middle East and Europe (PWC, 2014). This combination of factors offers foreign businesses an exciting and attractive new frontier with unique opportunities and challenges. The country is also initiating major reforms that include restructuring and improving business climate, establishing a stable political environment and strengthening economic relations with the international community. Reforms that have been implemented range from new economic policies, adjustments to investment and trade laws, liberalization and privatization initiatives (Mandalay Capital, 2013). However, the country is merely in the infant stages of its transition from a centrally planned economy to a free market. This transition phase makes the business climate dynamic, complex and unpredictable for new entrants. In addition, the country still has significant difficulties with corruption, political instability, human rights violations, ethnic conflicts, and poverty (Chhor, et al., 2013). These factors result in a highly unique and interesting business climate to observe.

Due to the fact that these are recent and ongoing change, very limited research in an academic context has been conducted on this contemporary phenomenon. Through a preliminary investigation on existing academic research regarding the Burmese business environment and recent changes occurring in Myanmar, only limited research was found and none that directly addresses how the current changes in the economy are affecting foreign businesses. Hence, there is a large gap in research on how foreign investors and businesses are managing themselves in Myanmar. Due to the unique opportunities and challenges that the Myanmar business environment offers to foreign firms, research on how firms successfully manage themselves in this environment is highly interesting and significant as the country continues to grow as a major new business hub in South East Asia.

Brief Overview

The Republic of the Union of Myanmar, formerly known as Burma, is an emerging transition economy in South East Asia bordering Thailand, Laos, China, India and Bangladesh. Since 1962 the country has been ruled by a military junta which embarked on a failed policy of central planning and total nationalisation. Under military rule the country became one of the most impoverished and restricted nations in the world with wide spread violations of human rights, economic mismanagement and political oppression. The economic damage was amplified due to embargos on the nation by Western powers, which condemned the military government's treatment of its people, resulting in immense limits on international trade (Bajoria, 2013).

However, since 2010 the government has embarked on a policy of major reforms and a transition towards increased democracy. Free elections were held which led to the military backed Union Solidarity and Development Party declaring victory. This was generally seen as a move away from a military dictatorship to quasi-military ruled government in which the military could still safeguard its own interests (PRS Group, 2013). Since then the new government has undertaken a series of reforms that aim to move the country towards reconciliation, a free market system and a liberal democratic government. Major economy reforms have focused on anti-corruption, currency exchange rates, FDI laws, taxation and privatization. New liberal FDI laws allow foreigners in most sectors to operate with minimal restrictions, lease land and establish fully owned businesses without a local partner (PWC, 2014).

Furthermore, the government has taken major steps to improve its human rights record including freeing political prisoners and relaxing press censorship (AAPP, 2014). These actions have been welcomed by the international community and embargos have steadily been lifted to further encourage the countries progress.

As of 2013, the country has an estimated nominal GDP of US\$51.93 billion with a rapid growth rate of 6.5% annually. Between 2010 and 2011, the year the new government was formed, FDI increased by a momentous 667% from US\$300 million to US\$20 Billion (The World Bank, 2014). The tourism industry in Myanmar, in particular, is experiencing rapid growth as a result of the reform process. It is currently the fifth largest sector in the country with an estimated total worth of US\$1.8 billion. Visitor arrivals to the country have been

growing approximately 30% annually and in 2012 the country received over one million visitors for the first time (IRRI, 2014). This growth has been attributed to the improving image of the country, easing tourist visa application procedures and major improvements to tourism infrastructure. More improvements are being made to facilitate the growth of the sector and the government is aiming to increase the volume of international visitors to three million by 2015 and 7.5 million by 2020. Based on these growth scenarios, tourism's contribution to GDP will rise to approximately \$10 billion by 2020 and tourism's contribution to employment will rise to 1.5 million jobs (Ministry of Hotels & Tourism, 2013). As a result, the government of Myanmar has classified the tourism sector as one of its key growth sectors and has pledged significant resources to its development in the coming decade.

Research Design

Research Problem

The following paper aims to conduct research on how foreign firms are currently adapting to changes in the Myanmar economy and successfully entering into the country. The tourism sector was selected as a focus for the research because it is the largest service sector in the country and represents a major source of economic growth for Myanmar. The framework of Van Den Ban is adopted as a foundation for the analysis of the tourism sector. It is a coherent framework that allows for a thorough analysis of business sectors specifically in emerging economies. The framework combines Whitley's business system theory for a macro level analysis of a country's business system with Porter's Diamond of national competitive advantage for a meso level analysis of major sector characteristics and the Resource Based View theory for a firm level analysis of resources and capabilities required to compete in a sector (Van Den Ban, 2009). Furthermore, this study will attempt to enhance the framework by providing an analysis of the social and economic benefits of the tourism sector and how investment into the sector by foreign firms can benefit communities in Myanmar.

Research Questions

The purpose of this research is to analyzing the tourism sector in Myanmar from the perspective of foreign firms to understand the opportunities and threats that exist for potential investors in the sector. As an extension of this investigation the findings can reflect the service industry as a whole and the general characteristics of the industry in Myanmar that must be taken into consideration by foreign investors. As the research is exploratory it will utilize the sector analysis framework of Van Den Ban as a foundation to guide and consolidate the investigation and its findings. Hence the primary research question for this investigation is as followed:

What are the main opportunities and threats to foreign firms entering the tourism sector in Myanmar?

The sub-research questions that will be utilized to answer the primary research question are as followed:

Firstly, the general business system and primary characteristics of the Myanmar economy have to be determined to understand the status quo of the Myanmar economy. This will represent a macro level analysis that is crucial to all foreign investment decisions. Hence, the first sub question is as followed:

What are the major characteristics of the Myanmar Economy?

Secondly, a comprehensive analysis of the tourism sector is required to understand what its major characteristics are. How the current reform process and changes in the political and economic system are impacting the tourism sector will be analyzed. Hence, the second sub question is as followed:

What are the major characteristics of the tourism sector in Myanmar?

Thirdly, it is essential for foreign firms to recognize what specific resources and capabilities are required to enter the Myanmar market and what entry mode is most suitable. This is primarily a focus on the resource based view theory of the firm. Hence, the third sub question is as followed:

What are the resources and capabilities required by foreign firms to enter the tourism sector in Myanmar?

Fourthly, in order for this sector analysis to be more comprehensive and take into account both internal and external stakeholders, the study aims to determine how foreign investment into the tourism sector can result in social and economic benefits for local communities in Myanmar. Hence, the fourth sub question is as followed:

What are the social and economic benefits of foreign firm entry into the tourism sector in Myanmar?

Research Limits

This is a cross sectional study and due to the rapid pace of change in the Myanmar economy and its primary sectors any conclusions or findings drawn from this research may have changes or be invalidated in a short period of time. Hence, this investigation is primarily exploratory in nature and aims to provide a current depiction or “snapshot” of the complex and dynamic economic circumstances taking place in Myanmar.

Due to time limits, the primary research was only conducted in Yangon, Myanmar, the former capital and countries commercial center, the primary headquarters for a majority of foreign firms. As the research is aiming to investigate the tourism sector of the whole country, investigating firms solely based in Yangon may have led to geographic bias in its findings.

Methodology

Research Classification

The analysis of the tourism sector in Myanmar as a means to understand the business climate and its implications for foreign firms can be approached as a case study. The research will be explanatory in nature and tries to understand what phenomenon is occurring in a specific environment. Hence, the chosen research method is a qualitative case study. A case study is defined as ‘a research design that takes as its subject a single case or a few selected examples of a social entity’. The entities in the context of this investigation shall be foreign firms operating in the tourism sector in Myanmar. As only limited research has previously been conducted on the phenomenon and the research aims to produce explanatory findings, a qualitative case study is a suitable form of research for approaching this investigation. Because of the limited availability of existing research, a case study on the tourism sector in Myanmar initiates an unsearched area for

investigation and serves a 'revelatory purpose' (Thomas, 2004). A case study approach to the research will allow the investigation to be conducted more holistically and to take into account a wide range of key elements involved in business sector analysis. A case study approach will also provide substantial more in depth examination, deeper understanding and more intensive analysis regarding the economy and tourism sector of Myanmar. Because case studies involve a highly in-depth investigation of a social entity, it can lead to findings and potential theoretical insight that are grounded in reality. Hence, the findings of these case studies will form the basis for the construction of a grounded and present analysis of the tourism sector in Myanmar.

A case study approach was also chosen due to limits and challenges involving data collection. The number of foreign companies operating in the region is still relatively limited and wide scale data collection would have been difficult to gather with the time and resources available. Many companies will likely not take part in surveys and reject invitations to interviews. Hence, the focus was placed on acquiring information from a few selected firms rather than a wide range.

Secondary Research

Information required to conduct a thorough business sector analysis were gathered through a process of triangulation. Secondary information regarding the economy and tourism sector was gathered through extensive literature and article reviews. This literature included articles from newspapers, magazines, business websites, government and organization reports, commercial firm reports and case studies. The information collected would provide a thorough overview of the structure of the Myanmar economy and the major characteristics of the tourism sector.

Primary Research

Primary research was conducted in the form of qualitative semi structured interviews. This research was conducted to gain a thorough overview of the firm level resources and capabilities that are required to be successful in Myanmar. In addition, information gathered through such interviews would facilitate the findings of the secondary research and assure that the research is current and precise. The targeted candidates for interviews were primarily owners or heads of operations for foreign tour operators in Myanmar. Local tour operators were interview as well to gain insight into their experiences in the sector.

Besides interviewing owners of foreign tour operators, representatives and heads of government organizations including the Chairman of the Myanmar Tourism Federation and professors from several universities in the region including the Yangon Institute of Economics, were interviewed to gain a broader view on the sector and the economy of Myanmar as a whole.

Interviewees were asked a set of semi-structured open questions that aimed to stimulate and guide an interactive discussion about their company's entry strategy, decision making processes and opinions regarding the economy and tourism sector in Myanmar. The semi structured interview format allowed interviewees to speak about issues they consider important whilst the researcher retained a degree of control on the direction of the interview. The approach also allowed the research to be more flexible and exploratory in nature and allowed the interviewees to present a stronger narrative based approach to describing their company's operations and entry strategies which yielded more in-depth findings.

Data Collection

All data collection was conducted on location in Yangon, Myanmar. Due to the poor communication infrastructure and lack of technology in the region, conducting live interviews over phone or internet was not effective. Hence, three weeks were spent on location in Yangon, the commercial capital of Myanmar, to conduct interviews with persons involved in the Myanmar tourism sector. A total of thirteen people were interviewed to collect primary research for analyzing the economy and the tourism sector in Myanmar. The interviewees ranged from owners and operators of foreign and local tour operators to representatives from government organizations and faculty of academic institutes. Due to the broad scope of the tourism sector and focus of this study, the criteria for candidate selection was not exceedingly explicit. Potential interview candidates had to meet at least one of following criteria:

- The candidate must be directly involved in the Myanmar tourism sector through their profession
- The candidate must have experience with owning and/or operating a business related to the tourism sector in Myanmar
- And/or the candidate must be able to offer insight or relevant information regarding the tourism sector in Myanmar

- And/or the candidate must be able to offer insight or relevant information regarding the Economic system in Myanmar

To seek out potential interviewee candidates, extensive investigation was conducted online and through local tourism magazines, newspapers and business publications. Interviewee candidates that met the chosen criteria were primarily contacted through phone calls. Candidates that were willing to take part in an interview were offered the choice of a face to face interview, a phone interview or an email administered interview. Approximately half of the interviewees chose to meet for face to face interviews and the others requested that the interview be administered through email or phone call. The face to face interviews were all conducted on location in Yangon, Myanmar. The interviews lasted from thirty minutes up to two hours with very in depth and thorough discussions regarding tourism, the economy and the reform process. All of the interviews were recorded with consent of the interviewees. Most of the interviews took place at the interviewee's place of work; however in certain situations, the interviews were held at the interviewee's home or at a restaurant/café. Some of the interviewees wished to remain anonymous if direct quotes from their interviews were used in the research and therefore it was decided that the personal details of all the interviewees would remain anonymous.

In total the owners of four tour operators with offices and operations in Myanmar and the heads of operation for three tour operators were interviewed. The country of origin of these tour operators were primarily European and operators from five different countries were represented. These interviews were conducted to gain an understanding of the firm level opportunities and threats that exist in Myanmar. In the sector analysis, the findings of the interviews would be utilized to determine the resources and capabilities required of foreign firms to enter the Myanmar market. Six interviews were conducted with representatives from organizations and regional universities. These interviews were conducted to gain an enhanced understanding of the economic and political situation in Myanmar and a grasp on the major characteristics of the tourism sector. A key interview was conducted with the chairman and head of the Myanmar Tourism Federation. The federation's primary responsibilities include marketing Myanmar as a tourism destination, developing Myanmar's tourism sector, assisting tourism investors and developing human resources for tourism related industries. In addition, professors and lecturers from the Yangon Institute of Economics were interviewed. The institute is the premier university for economics and business in Myanmar and the oldest academic institute in the country.

The full list of Interviewees is presented below:

Table 1. List of Interviewees

No.	Name	Company	Function
1	Anonymous	Anonymous	Head of Operations
2	Anonymous	Anonymous	Head of Operations
3	Anonymous	Anonymous	Head of Operations
4	Anonymous	Anonymous	Owner
5	Anonymous	Anonymous	Owner
6	Anonymous	Anonymous	Owner
7	Anonymous	Anonymous	Owner
8	Anonymous	Myanmar Tourism Federation	Chairman
9	Anonymous	University of Chiangmai	Professor
10	Anonymous	Yangon Institute of Economics	Professor
11	Anonymous	Yangon Institute of Economics	Lecturer
12	Anonymous	Yangon Institute of Economics	Lecturer
13	Anonymous	Yangon Institute of Economics	Dean

Evaluation of the Methodology

Case studies and qualitative data collection can be criticized as often the generalization and external validity of the findings can be highly limited. It can be argued that it is impossible to generalize from a single or even a limited set of case studies and can only be used for explanatory processes within the specific context of the case. The internal validity of the findings may be limited due to the potential of investigator bias and subjectivity in conducting the research and processing the findings. The design of the interviews, the selection of companies and the ways in which the findings are presented and examined all stem from the decisions of the investigator. Hence, there may be risk of

bias in conducting case study research which can lead to uncertainty over the internal validity of the findings. In addition, choosing to conduct interviews with several tour operators may lead to lower quality and less depth in the research. Time and resources have to be divided across a number of cases instead of placing all focus on a single case.

The reliability of the findings may also suffer as the primary research has been gathered through semi-structured interviews. Interviewer bias and subjective interpretation of results lead to findings that may not be consistent in future research. However, due to the rapid pace of change in the Myanmar economy, the research context will continue to change and certain elements of the current findings may become out of date and inaccurate. As a result, it is difficult to control the research context and conditions and hence it is unlikely any future research will produce the exact same results.

In light of these issues, the research adopted a triangulation method that aims to increase the dependability and credibility of the findings. Extensive research into secondary sources of data was facilitated by primary research. By adopting a triangulation approach, information from different sources and angles can be used to corroborate, elaborate or illuminate the research problem. They also reduce the personal and methodological bias issues and enhance the generalizability of the findings (Decrop, 1999).

Literature Review and Framework

In the following section the sector analysis framework is described in detail and its relevance in analyzing the tourism sector in Myanmar is conveyed. The sector analysis framework of Van Den Ban (Van Den Ban, 2009) was adopted as a foundation for the research. The framework is comprised of three widely acknowledged and applied theories: Whitley's business system theory, Porter's diamond of national competitive advantage, and the resource-based view of the firm. It allows for a comprehensive analysis of business sectors in contemporary economies by comprising of a macro, meso and micro level analysis of any chosen sector. In the following investigation the framework will be further extended by conducting an additional analysis of the social and economic benefits of the chosen sector. An analysis of social and economic benefits extends the framework by determining opportunities and advantages for foreign firms in the sector that extend beyond the needs of their own internal stakeholders. Hence, the sector analysis framework of Van Den Ban is expanded to include an analysis of the social and economic benefits

investment in the tourism sector may produce, to establish a more comprehensive and encompassing analysis of opportunities and threats.

Whitley's Business System Theory

Whitley's Business System theory is a widely acknowledged theory utilized for identifying business system in a particular country. The framework in the theory identifies "the key characteristics of economic coordination and control that together constitute the distinct business systems" (Whitley, 1998) of a country and these systems vary interdependently with the structure of institutes and organizations in the country. In other words, business systems represent the degree of separation between coordination and control i.e. the mode of corporate governance, moderated by the institutional environment in a country. Analyzing and comprehending the business system in any particular country is essential for foreign investment as investors will be required to manage and cope with the foreign countries distinct economic coordination, control and employee relation structures. Identifying a countries business system as a macro level analysis of a sector analysis can provide country level information that is essential to understanding potential opportunities and threats.

To determine a countries business system, Whitley's framework is comprised of eight dimensions/business system characteristics that are grouped under the following three categories: Ownership Co-ordination, Non-Ownership Co-ordination and Employment Relations.

The first category, Ownership Co-ordination, refers to degree of involvement by an owner in managing economic resources and activities (Whitley, 1998). The first dimension in this category is ownership control. This refers to the degree of control by firm owners. There are three major types of ownership control; Direct Control, Alliance Ownership & Market Control. Direct control ownership is characterized by high involvement in management, highly concentrated ownership, strong commitment and deep knowledge of the business. A typified example of direct control ownership is owner managers of family businesses. Alliance control is characterized by moderate/considerable levels of involvement in management, concentration of ownership, knowledge of the business & commitment. Bank and allied company ownership of shares exemplifies alliance ownership. Lastly, market control is characterized by low levels of involvement in management, low concentration of ownership, limited knowledge of the business and low commitment.

Institutional portfolio investment demonstrates this market or 'arms-length' type of control (Whitley, 1998).

The second dimension of ownership co-ordination assesses the extent of ownership integration across production chains i.e. the extent to which vertical integration in supply chains takes place through common ownership. The third dimensions of ownership co-ordination assess the extent of ownership integration across sectors i.e. the degree to which horizontal diversification takes place through common ownership.

The second category, Non-ownership Co-ordination, refers to relationships between ownership units/ inter-firm relationship. The first dimension is alliance coordination across production chains, which assesses the extent of vertical alliances in production chains. The second dimension is collaboration between competitors. The third dimension is alliance coordination of sectors, which assess the extent of alliances across sectors. In all three dimensions "the broad comparison is between zero-sum, adversarial contracting and competition, on the one hand, and more cooperative, long-term and mutually committed relationships between partners and competitors, on the other hand (Whitley, 1998).

The third category, Employment Relations, refers to the relationship between Employers and Employees in a business system. The first dimension is Employer-Employee Interdependence which refers to the commitment and duration of employment in a business system. In a business system that that have more flexible and mobile labor markets, employee turnover tends to high and commitment low, resulting low Employer-Employee interdependence. In other business systems commitment, mutual investment and long term employment in organizations is encouraged and results in high Employer-Employee interdependence. The second dimension is Delegation to Employees and refers to level of discretion and trust employers grant to their employees in organizing and carrying out tasks.

The aforementioned dimensions are utilized in Whitley's framework to characterize six distinct business systems. These business systems are briefly summarized below:

Fragmented Business System – Characterized by small privately owned businesses and strong competition. Ownership integration across production chains, collaboration with

competitors and coordination across sectors are rare. The labor market tends to be mobile leading to short term employer-employee relationships and low trust.

Co-ordinated Industrial District – Characterized by small privately owned businesses but non-ownership coordination is common. Employer-employee relationships are longer and rely on commitment and trust.

Compartmentalized Business System – Characterized by large businesses that integrate activities within production chains and across sectors. Ownership integration across production chains, collaboration with competitors and coordination across sectors is limited. Employer-employee relationships are short and commitment and trust limited.

State-Organized Business System – Characterized by large state owned and family owned enterprises. The business system is primarily controlled by the government and those affiliated with it. Vertical and horizontal integration is common. Ownership integration across production chains, collaboration with competitors and coordination across sectors is limited.

Collaborative Business System – Characterized by intensive cooperation and collaboration between large businesses. Diversification is low and so firms rely on alliances to access resources and improve their competitiveness.

Highly Co-ordinated Business System – Also characterized by intensive cooperation and collaboration between large businesses. However, there is more integration within and across sectors. This widespread integration leads to extensive alliances and networks across sectors.

Porters Diamond

Porters Diamond of National Competitiveness is utilized to assess a countries national competitive advantage. The models primary aim is to identify why particular industries become competitive in particular locations (Porter, 1990). In this framework, Porters Diamond is used to facilitate in the comprehensive examination of a sector (Van Den Ban, 2009). Applying Porters Diamond to a particular sector provides an overview of its key characteristics.

Porter's framework, to which he referred to as the 'National Diamond', to assess a countries competitive advantage is comprised of six broad interactive attributes; *Factor*

conditions, Demand conditions, Related and supporting industries, Firm strategy, structure and rivalry, Government and Chance. For a graphic illustration of the diamond, see Appendix 2. These attributes individually and as a system create the diamond of national advantage. A brief overview of these determinants is presented below:

Factor Conditions – A nation's position in terms of the factors of production, such as skilled labor and infrastructure, needed to compete in a particular sector (Porter, 1990). In his analysis, Porter distinguishes between advanced factors of production and basic factors of production. Advanced factors are those that involve sustained and heavy investment and are specialized such as skilled labor and technological innovations whereas basic factors are those that a sector has readily available such as natural resources or a geographic advantage. Advanced factors require long term investment and hence are difficult to duplicate resulting in a competitive edge for sectors. Hence, competitive advantage derives from acquiring advanced factors of production and continuously upgrading these factors. In the context of this framework, factor conditions will be analyzed in terms of what factors are currently present and available to the tourism sector in Myanmar and what factors are limited or not available that may be hindering the potential of the sector.

Demand Conditions – The nature of market demand for a sectors products or services. Sectors gain competitive advantage in markets where the demand provides firms a clearer or earlier signal of emerging buyer needs and where demanding buyer's pressure firms to innovate faster and gain competitive advantage of rivals (Porter, 1990). In the context of this framework, demand conditions will be analyzed in terms of the demand for Myanmar's tourism sector and what major forces are shaping the current demand.

Firm Strategy, Structure and Rivalry – The conditions in a country governing how firms are created, organized and managed. This also includes the nature of competition/rivalry within the particular sector (Porter, 1990). Management and firm organization may vary between sectors and can be a primary source of competitive advantage. Furthermore, intense competition in a sector can lead to increased pressure to innovate, reduce costs and improve quality, potentially leading to a competitive advantage. In the context of this framework, firm strategy, structure and rivalry will be analyzed by observing the general strategic trends in Myanmar's tourism sector, how firms are generally structured in tourism sector and the current state of competition in the tourism sector.

Related and Supporting Industries – The presence or absence of supporting or related sectors (Porter, 1990). Related and supporting industries provide access to resources that may be necessary for the continuation and success of a particular sector. Close working relationships with related and supporting industries can provide innovation and upgrading for a sector. Complementing and overlapping activities between sectors can result in shorter lines of communication, quick and constant flow of information and ongoing exchange of ideas and innovations (Porter, 1990). In the context of this framework, related and supporting industries will be analyzed by observing the state of industries vital for the continuation of the tourism sector in Myanmar. These sectors include the hotel industry, airline industry and transportation industry.

Government –According to Porter, the proper role of the government is to be a catalyst and challenger for sectors. It should encourage and pressure companies to aspire and move to higher levels of competitive performance (Porter, 1990). Government can work with favorable underlying conditions in a sector and amplifying these forces. However, the government can also directly hinder the competitiveness of a sector through poor policy making, burdening bureaucracy, red tape and corruption. Hence, the government's actions can have a direct influence on all the attributes of the diamond. In the context of this framework, the role of government will be observed by analyzing how the current government of Myanmar and the economic reform process in the country is either benefiting or hindering the competitiveness of the tourism sector.

Chance – This refers to events or incidents, beyond the control of a sector, which may affect the sectors competitiveness (Porter, 1990). Chance events that may affect the competitiveness of any sector include political instability, natural disasters or major shifts in world financial markets. Such chance events can both improve or hinder the competitiveness of any particular sector. In the context of this framework, chance will be analyzed by identifying the most probable events or incidents that could occur in Myanmar and evaluating the impact such events may have on the tourism sector.

The Resource Based View of the Firm

The resource based view (RBV) of the firm is the third theory adopted in the framework. The RBV asserts that sustained competitive advantage is generated from a firm's resources and capabilities (Barney, 1991). Firm resources are defined as all assets, capabilities organizational processes, firm attributes, information and knowledge controlled by a firm and that enable the firm to conceive and implement strategies for improving its efficiency and effectiveness (Daft, 1983). Four empirical indicators are used to determine if resources and capabilities can generate a competitive advantage; value, rareness, imitability and non-substitutability (VRIN).

Valuable – The resource must be valuable in the sense that it exploits opportunities and neutralizes threats in a firm's environment (Barney, 1991). *Rare* - The resource must be rare among the firm's current and potential future competitors. *Inimitable* - The resource should be difficult to imitate by competitors. Firm resources can become imperfectly imitable due to one or more of the following reasons: resources obtained from historical conditions, causal ambiguity or social complexity (Mahoney & Pandian, 1992). Historic conditions can lead to path dependency and can generate opportunities or lead to the acquisition of resources that cannot be recreated by competitors. Causal ambiguity occurs when the link between a firm's resources and competitive advantage is not fully understood by competitors or the firm itself. Social complexity arises from a firm's web of interpersonal networks and interactions among different stakeholders. Such complex systems of interactions may be difficult for competitors to imitate. *Non-substitutable* - there can be no perfect substitute for the resource that is strategically equal and can be used as a replacement by competitors. As a result, resources that are both valuable and rare can generate a competitive advantage for firms. However, such resources have to also be both inimitable and non-substitutable in order for the firm to generate a sustained competitive advantage.

In the context of emerging countries, firms need to match their internal set of resources and capabilities to the dynamic environment by proactively and adaptively utilizing their resources. In such markets, firms often need to acquire resources and capabilities that are highly context specific. Matching resources in a changing environment involves three elements; resource functionality (identifying the most profitable use of resources and how resources should be utilized), resource recombination (identifying and combining

complementary resources to create added value), and resource creation (accumulating resources that are dependent on the firms activities) (Lockett, et al., 2009). However, often firms do not possess all of the resources or capabilities required in the context of a new emerging market. Hence, firms have to make strategic decisions for acquiring the resources during their entry process i.e. choosing an appropriate entry mode into the new market (Meyer, et al., 2009). Choosing an appropriate entry mode can allow companies to benefit from location specific advantages and opportunities and compensate for their internal lack of resources and capabilities (Bhaumik & Gelb, 2005) Therefore, by adopting the RBV and understanding what context specific resources are required in a particular emerging market, the most appropriate entry mode strategies can also be determined.

The RBV essentially examines the link between a firms internal resources and its performance. It is adopted in this framework to compliment the external market based sector analysis conducted through Whitleys Business system theory and Porters Diamond. RBV is fundamentally based on firm heterogeneity, but it can be utilized to determine critical resources and capabilities that all firms must possess in a given country or industry (Van Den Ban, 2009). Hence, it provides an analysis of firm level threats and opportunities in a sector through an analysis of critical resources that are required to compete within a particular sector. The RBV is also utilized to determine which entry mode strategies are recommended in any particular sector. In the context of this study, the RBV will be applied by analyzing what are crucial resources and capabilities foreign firms must obtain to compete in the Myanmar tourism sector and what entry mode strategies are recommended for foreign firms in the sector.

Economic & Social Benefits

Multinational enterprises and foreign investment can have a significant role in economic development and facilitating social change in emerging economies (OECD, 2002). However, it is often the host countries public policy and local institutional and cultural conditions that shape the economic and social effects of foreign firms (Jones, 2013). As a result, it is important to understand the local context in which a foreign firm is operating in and to analyze how a foreign firms operation can socially and economically influence this environment.

Foreign firms can be important in transferring knowledge, technology, organizational skills and facilitating trade flows. In regards to economic development, foreign firms can facilitate

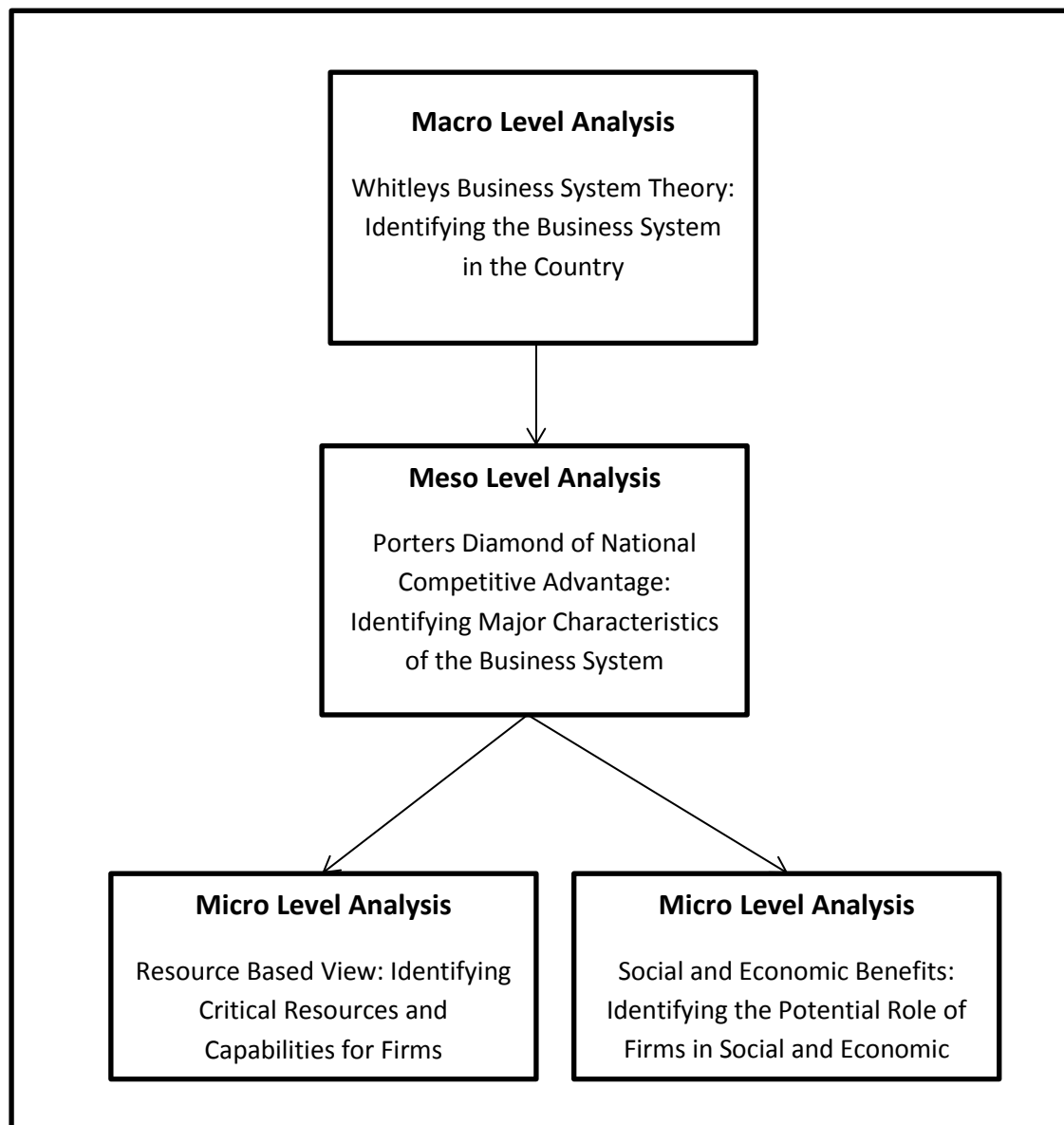
the transfer of knowledge, expertise and technology to local enterprises and boost their competencies, skills and competitiveness (Borensztein, 1998). MNEs and foreign investment can also have an impact on lifestyles, income distribution and social structure in emerging economies. The most direct social impact of foreign investment is the creation of employment. Foreign firms can provide local labor with access to decent income and working conditions and opportunities for upgrading skills and competencies. The provision of employment, widening job opportunities and developing human resources can be a major source of social change in an economy. Foreign investment can also result in indirect job creation through the foreign firm's linkages with supporting and related industries (OECD, 2002). Foreign firms may also be in a position to advocate and insist for local governments and authorities to make political, judicial, institutional and social reforms. Furthermore, foreign investment can have a major impact on the natural environment of a country. Damaging the natural environment can have long running social and economic effects hence firms need to adopt a responsible and sustainable approach to their operations in any country context. (Jones, 2013)

Hence, the sector analysis framework of Van Den Ban (2009) will be extended to include an analysis of the external economic and social benefits investment in a sector can provide. In the context of emerging countries, it is essential for potential new entrants to comprehend the impact their sector can have on economic and social progress. Understanding the potential impact of their investment, firms can make strategic decisions that are more responsible and take into consideration social and economic issues in their wider environment. In this study, major social, economic and environmental issues in the context of the tourism sector will be identified. An analysis will then be conducted to determine what role or impact foreign firms in the tourism sector can have on these major issues.

Conceptual Framework

In summary, a sector analysis framework will be adopted to analyze the major characteristics of the tourism sector in Myanmar and to determine opportunities and threats for foreign investors considering entry to the market. Market-based information will be acquired through the application of Whitleys Business system theory and Porters Diamond of National Competitive Advantage. Applying Whitleys Business System theory will provide an overview of how business is conducted in a country by determining what is the primary ownership structure, how inter firm networks are organized and how employee relations are formed. Subsequently, Porters Diamond is applied to determine key sector level information. In combination Whitleys Model and Porters Diamond will provide a macro level overview of the external environment and the key characteristics in a sector. Based on the key characteristics of the particular sector, the RBV is applied to determine critical resources and capabilities that all firms are required to possess in order to compete in the sector. The context specific resources and capabilities will also serve as a basis for determining the most appropriate form of entry strategy into the particular sector. Lastly, the sector analysis framework is extended to include an analysis of the external social and economic impacts entrance into a particular sector can produce. In the context of emerging economies, where social and economic development issues commonly exist; firms should understand the role their operations can have in facilitating social and economic progress. The conceptual framework is summarized in the diagram on the following page.

Diagram 1. Business Sector Analysis Framework



Assessment of Myanmar's Economy

In the following section the first sub question is addressed: *What are the major characteristics of the Myanmar Economy?* Firstly, to introduce the country, a general overview of basic facts about Myanmar is presented. Then a brief background of Myanmar's political and economic context is presented to establish the circumstances that have led to the current circumstances. Finally, an overview of macroeconomic issues, major reforms and political issues is presented.

Overview of Myanmar

Myanmar, officially the Republic of the Union of Myanmar and formerly known as the Union of Burma, is the second largest country in South East Asia, covering a total area of 678,500 sq. km and is bordered by Bangladesh, India, China, Laos and Thailand (Business Source Premier, 2011) (See Appendix.3 for map). The country has a population of approximately 60 million making it the 24th most populous country in the world (Asian Development Bank, 2014).

There is no official state religion in Myanmar. The primary religion is Theravada Buddhism (approximately 90% of the population), followed by Christianity (4%) and Islam (3%) (Bureau of Democracy, Human Rights & Labor, 2007)

The country is highly ethnically diverse and the government officially recognizes 135 distinct ethnic groups. These ethnic groups are into eight major national ethnic races, the largest of which are Bamar (68%), Shan (9%) and Kayin (7%) (IRIN, 2012). It should be noted that the government classifies ethnic groups under ethnic races by geography, rather than by linguistic or genetic similarity (PWC, 2014). The official language is Burmese; however eight recognized regional languages exist, spoken by the each of the major ethnic races.

The capital city and administrative center is the newly established Naypyidaw (pop. 924,608). The administrative capital was moved from Yangon to Naypyidaw in 2005 (BBC World News, 2006). Yangon (pop. 4,572,948), formerly known as Rangoon, is currently the largest city and the commercial capital of the country. Mandalay (pop. 1,237,028), is the second largest city and the central commercial hub for upper-Myanmar. The urban

population is 32.6% of the total population and is growing at a rate of 2.5% annually (CIA, 2014).

A Brief History of Myanmar

In the following section a brief overview of the politically and economic history of Myanmar is presented as a background for the analysis of Myanmar's current economic system.

In 1885 as a result of three Anglo-Burmese wars, Burma became a province of British India. Under British rule, Myanmar's economy grew rapidly to become the second largest economy in South East Asia, after Indonesia. This was primarily due to growing demand for Burmese rice and raw materials after the Suez Canal opened. However, economic assets were controlled and consolidated primarily by British firms and this led to wide spread discontent as common citizens did not gain from the prospering economy (Wall Street Journal, 2013).

In 1940, Aung San, a revolutionary and prominent politician fled Myanmar due to a warrant for his arrest for attempting to organize a revolt against the British rule. He escaped to Japan, where he and other revolutionaries were offered arms and financial support by the Japanese government to bring independence to Myanmar. With Japanese support, Aung San formed the Burma Independence Army (BIA). In 1942, during World War II, British forces were defeated and Myanmar fell to the Japanese. The BIA formed an administration to govern the country that operated parallel to the Japanese Military administration (Wall Street Journal, 2013).

On 1 August, 1943, Japan declared Myanmar an independent nation. However Aung San and the BIA realized that the Japanese declaration was a fabrication and Japanese government had no intentions of giving Myanmar full independence. On 27th March, 1945, the BIA initiated a country wide revolt against the Japanese. The BIA continued its revolt by officially allying itself with the British to fully eliminate Japanese forces from the country. Soon after, the BIA was disarmed and the British restored their control over Myanmar, establishing a military administration. As a result, there was significant discontent and instability in the post war nation. The British administration aimed to calm the situation by establishing an executive committee of Burmese politicians and key figures including Aung San. With increased credibility the executive council immediately began to negotiate Myanmar's independence. In 1947, during the historic Pinlon conference, a constitution

was completed and independence granted in January 1948. However, General Aung San was assassinated with most of his cabinet by political rivals before the constitution went into effect.

From 1948 to 1962, Myanmar had a democratic, parliamentary government. However, constitutional disputes, division among political parties and rows between ethnic groups, destabilized the country's democratic government. In 1962 General Ne Win led a military coup and established a new authoritarian military government. He established socialist economic policies and took steps to isolate the country. In addition, all industry was nationalized, and excessive emphasis was placed on industrial development at the expense of agriculture. The actions devastated the country's economy and business climate.

In the decades that followed, demonstrations that broke out in response to the worsening economic situation were suppressed through violence and oppression. In August 8, 1988, mass demonstrations broke out in Yangon and military forces killed over 1,000 demonstrators. At a rally following the massacre, Aung San Suu Kyi, the daughter of General Aung San, made her first political speech and was made the leader of a new opposition party, the National League for Democracy Party.

In the late 1980's falling commodity prices and rising debt led to an economic crisis, economic reforms that eased foreign direct investment and relaxed socialist control were not sufficient. To make matters worse, in 1987 U Ne Win cancelled or demonetized certain currency notes, leading to a massive down turn in the economy and wiping out the savings of a vast majority of people. The primary reason for the cancellation was the leader's superstition, his lucky number was the number nine and so he decided to allow only notes that were divisible by nine.

In September 1988, another coup took place deposing U Ne Win, suspending the constitution and establishing a new ruling junta called the State Law and Order Restoration Council (SLORC). In 1989, the military government officially changed the name of the country from Burma to Myanmar. The council continued to rule the country under military rule until parliamentary elections were held in May 1990. Aung San Suu Kyi's opposition party, the National League for Democracy (NLD) party, won an overwhelming 60% of the votes. However, the SLORC refused to honor the results of the election, instead imprisoning political activists and sentencing Aung San Suu Kyi to house arrest. The

economy continued to be in turmoil throughout the 1990's and widespread human rights abuses committed by the military government lead to condemnation and sanctions by the U.S. and Europe. In 1997, the ruling junta changed its name to the State Peace and Development Council (SPDC). (PRS Group, 2013)

In 2007, the SPDC, without prior announcement, removed fuel subsidies leading to a sharp rise in fuel prices. This result in wide spread protests throughout the country and even prompted Buddhist monks, who had traditionally avoided involvement in political activism, to lead peaceful demonstrations. The Junta renewed violent crackdowns against civilians and monks taking part in the protests leading to further sanctions from the West. (PRS Group, 2013)

In February 2008, the SPDC announced that a referendum for the constitution would be held and elections would take place in 2010. Prior to the elections, the military introduced new election and party registration laws, that granted a regime appointed commission broad authority to oversee and regulate political parties. In addition, the military formed a proxy party named the Union Solidarity and Development Party and appointed the regimes prime minister Thein Sein to lead the new party. The country held its first election in 20 years on November 7th, 2010. Western nations criticized the elections for not being free or fairly executed. The Union solidarity and Development party won approximately 60% of the seats and as per Myanmar's constitution, military representatives filled one quarter of the parliamentary seats. This ruling was seen as a means for the military to continue its control of the country. Aung San Suu Kyi's opposition NLD party won 41 of the 44 remaining contested seats. Thein Sein became the president and head of state of the new government. The new quasi civilian administration took office on April 1, 2011 and the SPDC was dissolved. As of today, former SPDC members fill almost all key positions in the new government. (PRS Group, 2013)

The new administration has vowed to take on a series of political, economic and social reforms. To date these reforms have included the release of opposition leader Aung San Suu Kyi, establishment of a human rights commission, amnesty for hundreds of political prisoners, institution of new labor laws, investment laws, judiciary reforms, financial regulation and eased press censorship. These reforms have begun to open the country's borders to foreign investors and improved diplomatic relations with other nations significantly. The EU and The U.S. have called for further reform and action on the

government's part, but have announced several sanction lifting initiatives to support the nation and improve relations. (UN Department of Political Affairs, 2013)

Macroeconomic Overview of Myanmar

The current estimated nominal GDP of Myanmar is US\$52 Billion and with a GDP per capita of US\$1,700 (The World Bank, 2014). The economy grew 6.5% at the end of the fiscal year 2014, compared to 5.5% at the end of 2012. GDP growth is expected to rise by 7.1% between 2014-2018 (PRS Group, 2013). Inflation was at an average of 6.5%, falling from average of 7.7% from 2008-2012 and is expected to fall further in the years to come. The key economic forecasts are summarized below:

Table 2. Key Economic Forecasts

Years	Real GDP Growth %	Inflation %	Current Account (\$US Billions)
2008-2012 (average)	5.3	7.7	-1.24
2013 (current)	6.6	6.5	-2.3
2014-2018 (forecast)	7.1	5.2	-3.1

Source: (PRS Group, 2013)

The currency in Myanmar is the Kyat (MMK). The country introduced a managed floating exchange rate regime in April 2012. Since the introduction of the float, the Kyat has gradually depreciated. The depreciation has been attributed to strong growth in imports and slow export expansion. The exchange rate as of January 2014 was as followed: \$US1 = MMK972 or €1 = MMK1,340. The exchange rate is expected to be volatile in the future due to the unpredictable effects of the rapid economic reforms (Maung & Chowdhury, 2013).

The GDP by sector in 2014 was composed of Agriculture 38%, Industry 20.3% and Services 41.7% (CIA, 2014). The primary agricultural product is rice which is cultivated on 60% of the country's total cultivated land area (IRRI, 2014). The primary industrial sectors include agricultural processing, wood processing, rare minerals, oil and natural gas. Myanmar's key industries are presented in the table below. It should be noted that the tourism and Hotel sector comprise the fifth largest sector in the country with total value of \$US 1.8 Billion, 4.1% of the total value of the economy, making it the largest service sector in Myanmar.

Table 3: Myanmar's Key Industries

No.	Industry	Value of Sector (\$US millions)	%
1	Power	19,300	43.6
2	Oil and Gas	14,000	32.5
3	Manufacturing	3,600	8.2
4	Mining	2,800	6.4
5	<u>Hotels and Tourism</u>	1,800	4.1
6	Real Estate	1,200	2.8
7	Livestock and Fisheries	360	0.8
8	Transportation and Communication	300	0.7
9	Industrial Estate	190	0.4
10	Agriculture	190	0.4
	Total	44,200	100

Source: (PWC, 2014)

Reforms

In 2012, Myanmar's civilian government initiated wide-ranging reforms in its economy, politics and the public sector and began a process of rejoining the global economy after over half a century of isolation (Mandalay Capital, 2013). But major difficulties still persist for foreign investors in the region and uncertainty remains over how far the military backed government is willing to take reforms and how much power is it willing to relinquish.

A major reform enacted in November 2012 by authorities in Myanmar was a new Myanmar Foreign Investment Law (MFIL). Under the newly adopted law, foreign investment could take the form of either a fully foreign owned proprietorship, a joint venture partnership with a citizen, government, or organizational body or a branch or representative office (Mandalay Capital, 2013). The law would also allow foreigner investors to lease land, offer tax incentives and protect foreign investors with explicit frameworks for arbitration and protection from nationalization.

However, in 2013, Myanmar was included in World Bank's annual *Doing Business survey* for the first time, in which it ranked near the bottom at 182nd out of 189 countries (The World Bank, 2013). According to the study which evaluates the ease of doing business in a country for SMEs, Myanmar is the most difficult country in South East Asia to conduct

business (See Appendix 4. for a summary of Myanmar's ranking in the survey). Conducting business in Myanmar requires firms to undergo complex and lengthy bureaucratic processes. Major difficulties include procedures for obtaining company certifications, a process which can take approximately 80 days. Therefore, rapid reforms are still expected to tackle the complicated regulations, burdening bureaucracy and deficiencies in the legal system.

Other critical reforms that have thus far been initiated include deregulation and restructuring of the financial sector. Local banks have gained more autonomy and foreign banks will be able to enter the market to spur competition. The currency market has also been deregulated and the government has imposed a market based exchange system of managed float for the Kyat. (Mon, 2014)

In addition, as part of the reform process, the government began to take steps to distance itself from its legacy of oppression and to meet the demand of Western nations for reform. During 2013, over 100 political prisoners were released from prison. This was estimated to be about 50% of the total number of prisoners and the government has indicated that will release the rest of the prisoners within the next year (PRS Group, 2013).

Foreign Direct Investment

Foreign Direct Investment in Myanmar is set to more than double that of last year to US\$3.5 Billion with telecommunications and manufacturing as the main sources of growth. The trend is projected to grow even further in 2015 with FDI increasing up to US\$ 4 Billion. More than 80% of all FDI has come from Asia and China alone accounted for about one-third of the total. China is the country's largest foreign investor comprising 32% of all foreign trade, valued at \$US14.2 billion, followed by Thailand (22.6%), Hong Kong (14.6%) and the U.K. (7.1%). (Asian Development Bank, 2014)

Under the newly introduced MFIL, investment can be legally carried out in the following forms (PWC, 2014):

- Carrying out investment by a foreign firm with 100% foreign capital is permitted
- Carrying out a joint venture between a foreigner and citizen or government organization/department is permitted
- Carrying out any agreements contained in a contract between foreign and local partners is permitted. This implies that, if a joint venture is formed between a foreign

and local partner, the ratio of foreign and local capital can be prescribed with the approval of both parties without any restrictions set by the state.

However these reforms do not apply to all industries and certain restricted or prohibited business sectors are still strongly regulated. Industries where domestic competence was considered high were excluded from the law. This included the service industry and in particular the tourism sector. In addition, certain industries are protected and reserved for the state under the State-owned Economic Enterprises Law (SEE Law). Sectors under this law are closed for private investment and are only operated by the government. These sectors include forestry, oil and gas, broadcasting, air and transport services. (KPMG, 2013)

The new MFIL also offers extensive investment incentives for foreign firms. Firms engaged in the production of goods and services can be granted exemption from all income taxes for the first five years of operation. There is also income tax relief (up to 50%) on all exports produced by foreign firms in Myanmar. Income tax paid for foreign employees will be equal to the rate that applies to local employees. Furthermore, there is an exemption on customs for imports of raw materials or machinery for the first three years of operation. (KPMG, 2013)

The MFIL also provides a guarantee that enterprises cannot be nationalized during the term of their contract and allows foreign firms to remit all of their investment and profits in foreign currency when they end their operations in the country.

Foreign ownership of land and property is prohibited by law. However, under the new MFIL, foreign firms can lease land from the government, citizens or local businesses for up to 50 years. In January 2014, The Myanmar government introduced new Special Economic Zone (SEZ) laws. The new laws contain provisions for SEZ that will be developed in the coming years. Incentives under the new law include income tax holidays for new investors, tax reliefs for long term investors, fast tracking of work and building permits and exemption from custom duties and import taxes for any foreign firms operating in SEZ. (Kyaw, 2014)

The countries pro-business reforms, increasingly democratic political state and improving foreign relations are making the country more attractive for foreign firms. Major companies that have already invested in the region include Coca-Cola Co., which has opened a

bottling plant in the country and pledges to invest US\$200 million in the region during the next five years. Other market leaders include Ford Motor Co., Unilever & Visa, all of which plan to make substantial investments in the country in the following years (Mandalay Capital, 2013).

As the government continues to introduce new reforms and open sectors to foreign investors, FDI will be expected to grow rapidly. Key Sectors such as financial services and telecommunications are to be further liberalized in the coming years and the country will continue to emerge as an attractive investment destination.

The Financial Sector

In 2012, the government of Myanmar authorized the import of financial services to Myanmar and began to reconnect with the world's financial system. US payment companies including Visa and MasterCard began to swiftly enter the market.

On 13 July, 2013, the Myanmar government passed new legislation granting Myanmar banks increased autonomy fueling the development of a reformed financial sector in the country (PWC, 2014). This new legislation included the following financial sector reforms:

- Domestic banks are allowed to enter joint ventures with foreign banks
- Foreign banks are allowed to establish locally incorporated fully owned subsidiaries
- Foreign Banks allowed to open bank branches in Myanmar

The financial sector reforms have also allowed local state owned and private banks to open foreign exchange accounts allowing them to conduct international currency transactions and providing them with access to foreign currency markets. Further banking reforms are expected shortly and over 30 foreign banks, including HSBC CIMB and The Bank of Tokyo-Mitsubishi UFJ, have already opened offices or representative agencies in Myanmar. (Tun, 2014)

In addition, the country is planning to open a securities exchange and stock exchange. The latter is currently scheduled to be opened in 2015. Both initiatives are expected to significantly increase foreign capital inflow into the country. (Mon, 2014)

International Relations

Through increasing bilateral visits and agreements with various foreign countries Myanmar has gradually begun to improve its relationship with the global economy. Improving international relations have resulted in loosening economic sanctions, restructuring of major debt and financial backing for various critical endeavors such as major infrastructure projects (Mandalay Capital, 2013).

Sanction easing initiatives by the EU and U.S. have been primarily conducted to encourage and facilitate Myanmar's reform process. Most sanctions by the EU, the U.S., Australia and Canada have been lifted or temporarily suspended. It is believed that a full lifting of sanctions by the EU and US will not occur until the country has made further progress on human rights issues, ethnic reconciliation and democratization. In the past, the EU had imposed strict bans on the import of and investment in raw materials originating from Myanmar and bans on the provision of services from Myanmar. However, as of April 2013, the EU Foreign Affairs Council has agreed to lift all restrictive measures against Myanmar. (Mahtani, 2013)

Previously, the U.S. had imposed restrictions on the provision of financial services and imports. The country had also banned all investment in Myanmar and any bilateral and multilateral forms of assistance. As of May 2012, sanctions on investment and trade have been entirely lifted and financial services are allowed to operate in the region with federal authorization. (Eckert, 2013)

It should be noted that the Japanese government has never imposed sanctions against Myanmar. In the past, the country has maintained trade relations with Myanmar; however, most Japanese firms have refrained from investing in the region in recent years to avoid endangering relations with the US and EU. As a result of the reforms, the country has written off US\$3.7 Billion of debt and increased pledges for development aid. (The New York Times, 2012)

Trade Agreements

Myanmar currently has trade agreements with most South East Asian nations and other major Asian economies including China, Turkey and Kuwait. It is currently a member of the Association of South East Asian Nations (ASEAN) and the ASEAN Free Trade Area

(AFTA). The primary purpose of AFTA is to eliminate all barriers to trade between the ASEAN member countries. Tariffs and import duties between member countries aim to be mostly eliminated by 2015. The country is also a member of the ASEAN Framework Agreement on Services (AFAS). The agreement aims to liberate the service industry in the ASEAN region and reduce restrictions on trade in services. As a member of ASEAN, Myanmar also has free trade agreements with Japan, China, South Korea, India, Australia and New Zealand. (PWC, 2014)

Employment and Education

The Myanmar government does not officially release employment statistics however it is estimated that a third of the country's population is unemployed. Myanmar is still primarily a traditional agricultural country and this is evident in the distribution of the work force which is largely skewed towards the agricultural sector. The average daily wage in Myanmar is approximately MMK1500 or US\$1.17. Hence, labor costs in Myanmar are some of the lowest in the world and low even compared to neighboring South East Asian Nations. (Roughneen, 2013)

During the time of British rule, the Myanmar population was highly literate and generally well educated. However, due to decades of poor investment in education by the military government, the educational system has deteriorated and the current population severely lacks sufficient education, technical skills and language proficiency. Due to influx of foreign investment and the rapid growth of the economy, skilled labor and managerial staff are in high demand but there is very little supply of such labor. Hence, competition over skilled labor is growing and is resulting in high turnover. Steps are being taken by the current government to rectify the situation. Prior to the reform process, education constituted about 1% of the government budget, but by 2013, the budget had been raised to 5.8%. (Brownell, 2014)

Through the reform process, labor conditions have begun to gradually improve. The Labor Organization law passed in 2012 allowed workers to legally form trade unions and allowed workers to go on strike. As of December 2013, approximately 400 firm level unions have been formed in range of industries. The government has also set explicit regulation on minimum working age, wage rate, and work hours but these regulations are often not observed in the private sector. (International Labor Organization, 2012)

Under the new Myanmar Foreign Investment Law (MFIL), foreign investors are required to hire only local employees for jobs that do not require specialized skills. New foreign investment funded enterprises must have Myanmar citizens comprise 25% of their total skilled employees/workforce by the first two years of operating, 50% by the subsequent two years, and 75% by the third two-year period (PRS Group, 2013). However, there are no restrictions on the number of foreign employees foreign firms can have employed.

Economic Growth

The economic growth of Myanmar has accelerated rapidly in recent years is anticipated to grow another 5.5% in the fiscal year 2014 (PWC, 2014). The increase in economic activity has been primarily contributed to the pro-market and pro-business government reforms that have been rapidly implemented by the government and the contribution from large projects funded by foreign investors (Mandalay Capital, 2013). The country is benefitting from improved investment and business sentiment has a result of loosening economic sanctions, exports of commodities, substantial increase in inflows of foreign direct investment, growing private consumption and accelerated pace of fixed capital expenditures from both public and private sectors. Myanmar is endowed with massive and largely undeveloped natural resources, primarily oil and gas. These untapped resources are attracting significant foreign investment and will contribute greatly to future export revenues. The previously mentioned Myanmar Foreign Investment Law (MFIL) is expected to increasingly attract further capital inflows in coming year (PWC, 2014). Furthermore, rapid growth in the telecommunications industry will also be expected to boost investment in the economy as telecommunication infrastructure and connectivity improves nationwide (Deloitte, 2013).

The general economic outlook seems favorable, however, domestic instability associated with ethnic tensions and sectarian violence and uncertainty regarding the economic and political reform process are potential risks for the growth of the economy (Lin, 2013). Another major concern is the potential economic slowdown in China, Myanmar's largest investor, which would have a definite spillover effect on Myanmar's economic growth (Rowley, 2014).

Assessment of Myanmar's Political Situation

The current government that took office in 2011 is officially recognized as a nominally civilian parliamentary government. The president is former military general Thein Sein. The key political parties are the USDP (Union Solidarity and Development Party), the NLD (National League for Democracy), the NDF (National Democratic Force) and several ethnically based parties including Shan nationalist Democratic Party and the Rakhine Nationalities Development party. The USDP controls a majority of the parliament and as per Myanmar's 2008 constitution 25% of the parliamentary seats are filled by the military. Of the remaining seats, the opposition NDF party controls the large majority. (PRS Group, 2013)

While the international community has responded to the political reform process through sanction lifting initiatives, the preferred approach through these initiatives has been to temporarily lift sanctions and trade restrictions rather than lift them entirely. This has been done to act as incentive for the Myanmar government to continue their progress as sanctions can easily be reemployed. (PWC, 2014)

New elections are expected to take place in 2015. As a result, the parliament is currently reviewing the 2008 constitution and discussing the possibility of constitutional reforms. The opposition NLD party is demanding the Parliament and the judiciary be freed from military control and the ethnic Chin, Karen and Shan states given more autonomy (The New York Times, 2014). In January 2014, President Thein Sein voiced his support for such changes; however no official adjustments have been made to the constitution. Changes to the constitution require 75% parliamentary majority, and the parliament is still controlled primarily by the military which controls a fixed 25% of the seats. "Leaving the military with an effective veto over constitutional changes, among others, does not augur well with Myanmar's democratic ambitions especially leading up to the 2015 elections," stated Tomás Ojea Quintana, The United Nations Special Rapporteur on the human rights situation in Myanmar (Quintana, 2014). Analysts have advised foreign investors to closely follow the constitutional reform process before making any major investments in Myanmar (PRS Group, 2013)

In regards to the 2015 elections, if the elections are held fairly, the NLD party is expected to win a majority of seats. However, without constitutional changes, military leaders will ultimately choose the new president. Persistent security risks are a major factor why the

military may not be willing to relinquish complete political control (PRS Group, 2013). Conflicts with several ethnic guerilla groups and sectarian violence between Buddhists and Muslim populations are major concerns for the military and are viewed as a threat to democratization and stability.

The Tourism Sector in Myanmar

Overview of the Tourism Industry

The global tourism industry has for decades experienced strong growth and diversification to become one of the fastest growing economic sectors in the world. Currently, international tourism accounts for about 29% of the world's exports of services and 6% of overall exports of goods and services (UNWTO, 2014). The direct contribution of travel & tourism to the world economy grew by 3.1% in 2013, contributing US\$2.2 trillion to world gross domestic product (GDP) and 101 million jobs (World Travel & Tourism Council, 2014). The number of international tourists increased by almost 5% from the previous year, reaching 1087 million travelers in 2013, up from 1035 million in 2012. In 2013, the tourism industry generated over 6 million new jobs resulting in a 1.8% growth in worldwide employment from the previous year (World Travel & Tourism Council, 2014).

The Asian Pacific region experienced the strongest growth in 2013 with a 7% increase in the number of tourist arrivals, closely followed by Africa 6% and the Americas 5% (UNWTO, 2013). In South East Asia sub region, the sector generated a total of \$US 91.7 billion in revenue in 2013, representing a 6.5% increase from the previous year. Strong performing countries in the sub region included Myanmar, Thailand and Singapore. Growth in the Asia Pacific region has been attributed to the rising levels of disposable income in the region's economies resulting in increased tourism within the region. The UNWTO forecasts that international tourism arrivals in the Asian Pacific will increase roughly 4.9% annually, reaching 535 million annual visitors by 2030.

In 2012, China became the world largest spender on tourism with US\$ 102 billion spent by Chinese tourists that year, up by 37% from the previous year. In terms of total spending, China is followed by Germany (\$US 84 Billion), the U.S. (\$US 83 Billion), the U.K. (\$US 52 Billion), and Russia (\$US 42 Billion). According to the UNWTO, Holiday and Recreation travel account for over half (52%) of the annual international tourist arrivals, 14% travel for business or professional purposes and 27% for family, health or religious reasons.

Today, the tourism industry is a major source of income for many countries and it can have significant impacts on a country's balance of payments. The industry can bring in large amounts of income to an economy and can be a key driver of socio-economic development in the form of payment for local goods and services by tourists, stimulating job growth in services sectors associated with tourism and pushing for infrastructure development. In 2013 the tourism industry's contribution equaled 9.5% of total worldwide GDP, 1 in 11 of the world's total jobs, 4.4% of total investment and 5.4% of world exports (World Travel & Tourism Council, 2014).

The United Nations World Tourism Organization (UNWTO) predicts that the industry will continue to grow at roughly 4% annually and is expected to attract 1.4 billion international tourists annually by 2020 and 1.8 billion annually by 2030. In regards to emerging destinations the UNWTO predicts that between 2010 and 2030 there will be an average growth rate of +4.4% annually, double that of advanced economies. Their market share is expected to reach 57% by 2030, representing over a billion tourists annually.

Overview of the Tourism Sector in Myanmar

In 2013, the Myanmar Ministry of Hotels and Tourism reported that the country had received 2.04 million tourist arrivals representing an increase of almost 90% from the previous year. However, the projection may be inflated as the government defines incoming tourists as any visitors who enter Myanmar without a work visa. In reality, the number of tourists is estimated to be approximately half of the official projection, however no other definite measurements exist at this time.

Hence, statistics gathered by the World Travel and Tourism Council were utilized to determine an accurate overview of the tourism sector in Myanmar. In 2013, the total contribution of the tourism sector to the country's GDP was US\$20 million or 3.7% of the total GDP. It is estimated to rise to 9.2% in 2014 and roughly 7% annually from 2014-2024 to reach US\$44 million or 4.1% of total GDP by 2024. As a result, Myanmar's tourism sector is currently the seventh fastest growing in the world and second fastest growing tourism sector in the South East Asian region (after Cambodia which is estimated to grow 9.7% in 2014).

In 2013, the Myanmar tourism sector's contribution to GDP was comprised of 62% Leisure spending (US\$12 million) and 38% Business spending (US\$8 million). However, most

spending was primarily by domestic travelers who made up 69% of total spending, whereas spending by foreign travelers made up 31% of total spending.

Key markets for tourists were Thailand and China, accounting for 16% and 12% respectively, followed by Japan (8%), the U.S. (6.3%) and South Korea (6%). France, Malaysia, Singapore, the U.K. and Germany each comprised approximately 4-5%.

The total contribution of Tourism to employment was 823,500 jobs or 3.0% of total employment. It is estimated to rise by 6.5% in 2014 and is estimated increase an average of 4.2% annually between 2014-2024 to reach 1,323,000 jobs by 2024 or 4.0% of total employment. As a result, growth in employment in Myanmar's tourism sector is currently the second fastest in the world.

Investment in the tourism sector was a total of US\$1.1million or 1.0% of total investment. As a result, tourism is now the fifth largest source of foreign direct income in Myanmar. Investment is expected to increase by 4.3% in 2014 and increase an average of 7.7% annually between 2014-2024 to reach US\$2.4million by 2024.

Framework Analysis of the Tourism Sector

In the following section, the emerging market sector analysis framework will be applied to the tourism sector of Myanmar to analyze the major opportunities and threats that exist for foreign investors. Whitleys Business system, Porters diamond, the Resource based view and analysis of social and economic impacts are all applied to the tourism sector to provide a comprehensive overview recommendations for foreign investment in the region.

Myanmar's Business System

Firstly, Whitleys Business System theory will be applied in the context of Myanmar, to determine the business system of the country. The following business system characteristics will be examined: ownership coordination, non-ownership coordination, and employment relations.

Ownership Coordination

The first dimension in this category is ownership control. This refers to the degree of control by firm owners. There are three major types of ownership control; Direct Control, Alliance Ownership & Market Control. In Myanmar, firm owners tend to have a high level of

control over their companies' management decision making processes. Due to years of stagnant economic growth and exclusion from international trade, Myanmar's private sector is still relatively small. Most companies are small to medium enterprises (SME) and are state owned enterprises (SOE) or family owned enterprises (FOE). (Rieffel, 2012) Information regarding the characteristics or operations of these companies is limited as the government does not publish detailed information regarding its enterprises. Since the 1980's the military government has undertaken initiatives to gradually privatize most sectors that had been previously nationalized, in order to boost their efficiency and competitiveness. Many of the FOEs and large enterprises in the country are the result of these privatization initiatives by the government. FOEs and large enterprises with direct ties to the military are given priority to take control of SOEs. The favorable relationship of such firms has resulted in the formation of large private conglomerates that control an extensive portfolio of former SOEs. Due their close ties to the government, these conglomerates often appoint former members of the military as executives and top managers and the military is guaranteed to maintain a strong influence on the company. (Min & Kudo, 2013)

In general, it can be said that both FOEs and SOEs in Myanmar tend to have concentrated ownership structures in which government officials or patriarchs of the family control most of the financial assets of the firm. In these firms the owners tend to have in depth knowledge regarding the business and exert high involvement in the management of the company. The level of risk sharing and commitment to the company is also high in the case of FOEs as families rely solely on the profitability of their firms operations (Min & Kudo, 2013). Hence, due to the fact that a majority of firms in Myanmar are still SOEs or FOEs, the general ownership control structure can be considered direct.

However, in regards to the tourism industry, tour operators have experienced varying ownership control structures. Tourism is an industry in which domestic competence is considered high and is foreign investment is restricted in the industry. Hence, to enter the market, foreign tour operators often enter joint venture alliances with local FOE. The foreign firms provide capital and expertise for managing the joint ventures operations whilst the local partner provides domestic assets. As a result foreign tour operators describing a gradual shift from direct control to alliance control as local partner FOE are willing to relinquish control of joint ventures to the more experienced foreign partner.

“In our company we (the foreign partner) have almost full control of the companies’ daily operations, our local partner only checks up on us occasionally. They have realized that we are fully competent at managing the operation ourselves and embraced it” – Anonymous, Tour operator owner, April 28th 2014

Alliance control is characterized by moderate/considerable levels of involvement in management, moderate concentration of ownership, moderate knowledge of the business & moderate levels commitment. Some of the operators even described a shift towards a more market controlled ownership structure in their joint venture with a local firm. Market control is characterized by low levels of involvement in management, low concentration of ownership, limited knowledge of the business and low commitment. In these cases, the local joint venture partner approached the tour operator as a portfolio investment and their role in the alliance was limited to providing capital and local assistance.

“In our case, this tour business is just a way for our partners to diversify and they contribute only capital and share a percentage of the profits, the actual business is fully in our hands” – Anonymous, Tour operator owner, May 7th 2014

In summary, traditional SOE and FOE firms in Myanmar exert direct control ownership however in the tourism sector varying ownership control structures have been utilized when operating in a joint venture with a foreign tour operator.

The second dimension and third dimensions of ownership co-ordination assesses the extent of ownership integration across production chains i.e. the extent to which vertical integration in supply chains takes place through common ownership and the extent of ownership integration across sectors i.e. the degree to which horizontal diversification takes place through common ownership.

SOEs and FOEs in Myanmar tend to fully integrate their supply chains. This can be attributed the direct control ownership as firms aim maintain complete control of their operations. In addition, due to decades of isolation and poor economic growth, the markets for specialized suppliers is limited in Myanmar, hence large firms cannot effectively rely on the market for their supplies and develop or acquire the capabilities themselves. (Min & Kudo, 2013)

Diversification has also been taken by large family owned conglomerates that were formed through the government's privatization initiatives. These large private firms and FOEs have diversified their business over a number of sectors due to their favorable relations with the government. The conglomerates tend to operate under a parent-child model. The parent company is the FOE or private firm and it controls its portfolio of firms through a combination of full ownership and majority share holdings. (Min & Kudo, 2013) However, no accurate information is available on exact size of these conglomerates.

However, in regards to SMEs in Myanmar, vertically integration and horizontally diversification has traditionally been limited. This has primarily attributed to the turbulent business environment in the country, limited opportunities for growth and lack of capabilities such innovativeness and competitiveness. (Cooper, 2010)

But as the countries reform process continues the institutional, regulatory and investment reforms being made are expected to increase opportunity for local firms to integrate and diversify. The rapid expansion of foreign direct investment into the country is also generating opportunities to create linkages with local firms. Simultaneously, the increasing number foreign firms in Myanmar will lead to greater competition in the domestic market and create pressure to diversify (KPMG, 2014).

It can be concluded that, as of now, both vertical integration and horizontal diversification are relatively limited in Myanmar and only carried out by large SOEs, FOES and private conglomerates.

Non-ownership Coordination

The second category, Non-ownership Co-ordination, refers to relationships between ownership units/ inter-firm relationship. The category aims to establish if firms in a country undertake zero-sum, adversarial contracting and competition or establish more cooperative, long-term and mutually committed relationships. In general, non-ownership collaboration is perceived to be low in Myanmar. Large SOEs and FOEs tend to control most of the stages in their value chains and hence they rarely establish alliances to coordinate across production chains. As the operations of most FOE and SOE are directly controlled by their owners, collaboration between competitors is also limited. Firm owners are often reluctant to share resources or future profits limiting collaboration with competitors. (Min & Kudo, 2013) Furthermore, firms are often reluctant to collaborate due

to the poor institutional and legal frameworks in the country. Alliances coordination across sectors is also limited due to the same lines of reasoning. However, competition in the domestic economic is expected to grow fiercely in the coming years due to the countries reform process. To compete and survive the competitive pressure of new entrants, cooperation especially among smaller SME firms will become more important. (Bruce, 2013)

In summary, non-ownership coordination in Myanmar is perceived to be low in regards to alliance coordination of production chains, collaboration between competitors, and alliance coordination of sectors.

Employment Relations

Employment Relations, refers to the relationship between employers and employees in a business system. The first dimension is Employer-Employee Interdependence which refers to the commitment and duration of employment in a business system. Due to the lack of transparency and available information regarding SOEs in Myanmar, limited information regarding their employment practices were obtain. However, traditionally, SOEs in Myanmar have offered better working conditions than SMEs. Salaries in SOEs tend to be higher, SOEs offers better job security and employees gain access to benefits such as state funded health care and education. As a result of these conditions, SOEs encourage mutual investment and long term employment and this leads to a high level of commitment and high employer-employee interdependence. FOEs tend to also have high employer-employee interdependence because recruitment in such firms often takes places within the extended family or personal network of the firms owners. Due to the personal ties that these employees had with the company they were generally expected to be more committed and stay with the company. (Suarez, 2009)

However, due to the growing demand for employment and in particular skilled employment the labor market in Myanmar is becoming more flexible and mobile. New job opportunities are emerging constantly as investment in the country grows and firms are fiercely competing over skilled labor. This growing competition for labor is leading to high employee turnover and low commitment as skilled employees are not hesitant to transfer to firms offering better pay and working conditions. This is a particular concern for SMEs in Myanmar which cannot retain employees with the same type of linkages or resources as SOEs or FOEs. (Fuller, 2012)

The interviewed tour operators described a mix of experiences regarding employee commitment and turnover. The tour operators that were more directly controlled by the local joint venture partner tended to hire more employees internally from the extended family of the owners of the local firm. However, other tour operators in which the local joint venture partner did not exert direct control, all hiring was done through the labor market and employees were generally perceived to have low commitment and turnover was a major concern.

“Our local partner has hired several members of their extended family to work for us, we don’t particularly like it because their motivations for staying at the company are not what we want, instead of being motivated by the work, they are motivated by the obligation to the family” – Anonymous, Tour Operator Owner, April 27th 2014

“We hire all of our employees through the employment office or referrals, however it is a major problem for us to hold on to our people, once they get enough training here they move on to bigger and better things at companies that pay more, it’s a huge challenge” – Anonymous, Tour Operator Owner, April 28th 2014

As a result, there is employer-employee interdependence to some degree in Myanmar. SOE benefit from strong interdependence however SMEs have to deal with an increasingly mobile and independent labor force.

The second dimension is Delegation to Employees and refers to level of discretion and trust employers grant to their employees in organizing and carrying out tasks. Due to increasing mobility and low commitment of labor in SMEs the level of discretion and trust tends to be low. The interviewed tour operators explained that it requires a long period of time to fully trust an employee with a high degree of responsibility. In addition, due to the high turnover that many firms face, only a limited number of employees earn a strong level of trust within the firm.

“It takes a long time to fully trust your workers, you need understand their motivations and aspirations and know that they are committed, but they keep leaving so quickly that it has become hard to fully trust or rely on anybody” – Anonymous, Head of Operations, May 5th 2014

Table 5. Myanmar’s Business System

Business System Characteristic	Myanmar	Business Systems					
		Fragmented	Coordinated Industrial District	Compartmentalized	State Organized	Collaborative	Highly Coordinated
Ownership Co-ordination							
Owner Control	Direct	Direct	Direct	Market	Direct	Alliance	Alliance
Ownership Integration of production chains	Some	Low	Low	High	High	High	Some
Ownership Integration of sectors	Some	Low	Low	High	Some/High	Limited	Limited
Non-Ownership Co-ordination							
Alliance Co-ordination of production chains	Low	Low	Limited	Low	Low	Limited	High
Collaboration between Competitors	Low	Low	Some	Low	Low	High	High
Alliance Coordination of Sectors	Low	Low	Low	Low	Low	Low	Some
Employment Relations							
Employer – Employee Interdependence	Some	Low	Some	Low	Low	Some	High
Delegation to Employees	Low	Low	Some	Low	Low	High	Very High

In the table above the eight business characteristics of Myanmar are highlighted. Six of the categories match the description of a State organized business system whilst five categories match the description of a Fragmented business system. Both systems have very similar characteristics whilst the primary difference is the level of ownership integration across production chains and sectors. The economy of the country is still primarily dominated by SOE and FOE firms and their behavior corresponds with the state organized business system whereas private firms tend to exhibit the characteristics of the fragmented business system. However, generally non-ownership coordination is low in all firms, employer-employee interdependence is limited and delegation to employees is low. Therefore, Myanmar can be considered to have a combination of a fragmented and state organized business system.

Applying Porters Diamond to the Tourism Sector

In the following section Porters diamond is applied to the tourism sector in Myanmar to provide a meso level analysis of the primary characteristics of the sector. The purpose of this section was to address the second research question '*What are the major characteristics of the tourism sector in Myanmar?*' Information regarding the characteristics of the sector was acquired through a process of triangulation, combining interviews with key figures in the Myanmar tourism sector with extensive secondary research in the form of reports, news articles and documents.

Factor Conditions

Attractions - Myanmar's key assets in attracting tourists are its abundance of cultural and natural attractions. Due to the countries large size, Myanmar offers a wide variety of natural landscapes including snowcapped Himalayan mountains in the far North, large inland lakes in central regions, tropical rainforests, major river channels that extend across the sub region, and 36 protected areas covering about 6% of the country. In addition, the countries 2,800 km of coastlines offer pristine beaches, diving sites and over four thousand islands, most of which remains unspoiled. In regards to culture the country has youthful population of over 60 million and over 100 different ethnic groups offering tourists a wide variety of distinct cultures to experience. The country has a strong historic legacy of kingdoms dating over one thousand years and this can be witnessed at the countries ancient archeological sites and temple cities, most of which are UNESCO World Heritage sites. The countries history of colonial British rule and World War II can also be experienced through the wealth of colonial architecture in cities such as Yangon, the former capital, where most of city center is made up of old colonial buildings that have remained untouched for decades. Myanmar also has a wide range of Buddhist religious sites and monuments, many of which are of significant importance in the religion and attract tourist on pilgrimage holidays to the country. (Ministry of Hotels & Tourism, 2013)

Geography – The country is strategically located between China, India and Thailand. In 2012, China became the largest spender on tourism with US\$ 102 billion spent by Chinese tourists that year, up by 37% from the previous year. China is currently one of the primary sources of incoming tourists to Myanmar making up 12% of annual tourist visits in 2013. As the country's infrastructure and tourism services improve and visa application

processes are streamlined, tourism from China will be expected to increase and remain a significant market. West of Myanmar, neighboring India also represents a substantial untapped market. Tourism from India almost doubled in the last years, with approximately 18,000 tourists in 2013, up from approximately 10,000 tourists in 2010. As with China, tourism from the country will be expected to increase rapidly as the tourism infrastructure in Myanmar improves. (Bookbinder, 2014)

Thailand is also an important neighboring country for Myanmar. In 2013, there were roughly 9000 inbound scheduled flights to Myanmar from South East Asia. A majority of these flights were from Thailand and more specifically Bangkok, the capital. Thailand has a well-established tourist industry and it's a major economic factor in country. The countries international airports serve as major hubs for international air traffic and therefore the country is often a gateway to South East Asia for tourists from Europe and North America. Therefore, Thailand will continue to be a major access point to Myanmar for tourists arriving from Western nations. (Silp, 2007)

As a South East Asian country and member of ASEAN, Myanmar will also be expected to hugely benefit from the growth of tourism in the region as a whole. The UNWTO forecasts that international tourism arrivals in the Asian Pacific will increase roughly 4.9% annually, reaching 535 million annual visitors by 2030. This growth is primarily attributed to increasing disposable income in the region's economies. In addition, ASEAN is working towards implementing visa free travel to the entire region for citizens of all ASEAN member states, which will likely have a strong effect on regional tourism.

Labor – The largest concern for the tourism sector as of now is the lack of sufficient human resources. ASEAN has stated that the skilled labor shortage in Myanmar was the biggest threat to sustainable tourism development in the country. Due to decades of isolation and underinvestment in the education sector and a wide scale brain drain that took place during the last decade of military control, Myanmar has a very poorly educated and unskilled work force with limited knowledge of the requirements of the tourism industry. (Fuller, 2012) Major barriers to developing adequate tourism human resources include lack of training facilities, high costs associated with training, insufficient academic preparedness as a result of poor basic education, poor language proficiency and cultural factors (Ministry of Hotels & Tourism, 2013). As of 2013, tourism contributed a total of 823,500 jobs or 3.0% of total employment. However, in order to meet demand for the

growing industry, tourism related employment needs to grow by roughly 6.5% in 2014 (World Travel & Tourism Council, 2014). Hence, several hundred new skilled laborers will be required to meet the growth of the industry in coming years.

Skilled and experienced workers are very rare and the labor shortage poses a threat across all industries. With increasing numbers of foreign firms investing into the country and establishing operations, the competition for skilled labor will continue to grow. A major concern is that the growing competition is resulting in high employee turnover. Skilled labor is becoming harder to retain as competitors try to offer higher salaries or more attractive job packages to gain employees. (Tephaval, 2014) For foreign tour operators in Yangon, the skilled labor shortage has posed a major threat for their operations.

“This is a huge problem for most us, we just cannot find enough capable people to work for us and as soon as we find someone it is difficult to keep them here for the long term because other firms will be looking to attract them with a better offer” – Anonymous, Head of Operations, May 8th 2014

“We are not just competing with others in the tourism industry, we are competing with everyone who needs capable and skilled workers at the moment, this is a problem that will last for a long time and will surely limit entry for a lot of new companies” – Anonymous, Tour Operator Owner, April 28th 2014

Infrastructure – Another major concern for the sector is antiquated and inadequate infrastructure. A direct threat to tour operators and their operations is the limited availability and high cost of commercial office space. In Yangon, Myanmar’s commercial capital, demand for office space is growing rapidly as foreign firms establish representative offices and bases of operation in the country. It is estimated that roughly 810,000 square meters of office space are need to meet the influx and currently there are only about 55000 square meters of office space available in Yangon (Tun & Ferrie, 2013). Hence, the current demand is outstripping supply and new building projects are not being completed quickly enough. As a result, rent prices for office space in Yangon has risen tremendously and are major cost burden for SME tour operators. In addition, most of the cheaper commercial space does not have the required features and amenities that foreign firms need to operate a business. Often, these commercial spaces do not have minimal safety features such as fire exits or vital facilities such as broadband access or electricity generators (Thakur, 2014).

“Paying for office space is the highest cost in our operation, the rents have spiked up tremendously in the past few years and are still going up quickly as more companies are coming here, at this rate we may have to relocate out of Yangon in a few years” – Anonymous, Head of Operations, 25th April 2014

Poor infrastructure includes underdeveloped road networks. Myanmar currently has only 130,000Km of road which is equivalent to 2Km of road per 1,000 people. Only 20% of the road network is paved to meet all weather standards. In comparison, road networks in other ASEAN countries are on average five times larger. As a result, road travel between tourism destinations is time consuming and certain areas are exceedingly difficult to reach, restricting tourist movement and spending in the most of the country. (Ministry of Hotels & Tourism, 2013)

There is also a low degree of electrification and lack of industrial development in the energy sector which have resulted in inadequate and inconsistent access to electrical power. As of 2013, the percentage of households with access to electricity was 26%. Acquiring commercial office space with sufficient access to electricity is challenging due to rising competition. In addition, due to the lack of development in electricity infrastructure power outages are frequent. Hence, businesses are required to operate a generator in order to maintain consistent power. (The World Bank, 2013)

In addition, there is a lack of access to adequate information and communication technology. As of 2013, the mobile penetration rate was less than 10% and only about 0.03% of the population was connected to the internet, making Myanmar one of the world’s least connected countries. Internet and mobile networks are accessible in major urban areas but service standards are relatively low and inconsistent. However, the telecommunications sector is beginning to see rapid development with foreign investment in the sector expected to improve service accessibility and reliability in the coming years. (Ministry of Hotels & Tourism, 2013) For tour operators this presents a major inconvenience when communicating with foreign clients or partners and hinders their ability to effectively control their operations in the country.

“The poor quality of the internet and instable mobile networks make it very difficult at times to keep in touch with our clients, you can only hope that the connection is good when you are trying to do something important like book a tour for a client over the phone or conduct an online bank transaction.” –Anonymous, Head of Operations, 7th May 2014

Demand Conditions

International and domestic demand for tourism in Myanmar is rising strongly and Myanmar currently has one of the fastest growing tourism sectors in the world. In 2013, the total contribution of the tourism sector to the country's GDP was US\$2 billion or 3.7% of the total GDP. It is estimated to rise to 9.2% in 2014 and roughly 7% annually from 2014-2024 to reach US\$4.2Billion or 4.1% of total GDP by 2024. (World Travel & Tourism Council, 2014) The growth in demand is primarily attributable to the reform process and the shift towards a democratic government and improved foreign relations with the international community have mended perceptions of the country among foreigners. This includes the improving human rights situation as the government has released political prisoners, increased press freedom, reduced ethnic conflicts and taken steps to tackle corruption. The governments wide scale initiatives to reform foreign investment, infrastructure, finance and the tourism sector as whole are also major factors in improving demand. (Mandalay Capital, 2013)

Easing Visa Applications – Previously, visa application processes to Myanmar were time consuming and costly. As a result, applying for entry to Myanmar was a discouraging process for regular travelers. However, as part of the government reform process entry requirements for tourists are gradually being streamlined. Since 2011, tourist visas can be issued within a single day at any Myanmar embassy or Consular General Office abroad. A Visa on arrival scheme has also been introduced to accommodate business travelers, tour groups and chartered airlines. Currently, tourists are granted a visa with a maximum stay of 28 days that can be extended for longer periods once in the country. Further streamlining of the visa procedures are expected shortly and the government has already announced that it will introduce an electronic visa application system in 2014, allowing tourists to apply for their visa online, significantly reducing the time and cost associated with gaining the visa. In addition, as a member of ASEAN, Myanmar will also be expected to grant Visa exemption to citizens of all the ASEAN member countries and the government is planning to implement this agreement within the year. As a result of these streamlining initiatives, access to Myanmar is expected to ease significantly and will be a major contributor to growing tourism demand in the coming years. (Ministry of Hotels & Tourism, 2013)

Land border crossings– Previously, Myanmar was only accessible to foreigners via air travel to one of the countries international airports. This was means for the military to more effectively control inflows of tourism and to restrict tourism movement in ethnic areas. However, as of 2013, tourists are allowed to enter Myanmar through four newly opened border crossings with Thailand and new border crossings are being planned for India and China. These developments are expected to be a major boost for tourism demand in coming years. (Weng, 2013)

“The eased visa application process and recent opening of land borders are making the country a lot more accessible and we experienced a rise in bookings immediately after the changes came into effect.” – Anonymous, Head of Operations, April 25th 2014

A 2012 study conducted by the Myanmar Ministry of Hotels and Tourism aimed to determine the customer profile of tourists arriving in the country. The survey found that the typical tourist was older than 35 years of age and had university level education. They stayed an average length of 14 nights in Myanmar, daily expenditure was roughly US\$100 (excluding accommodation) and average spending on accommodation was \$US129 per night. The primary purpose of visit was to learn about Myanmar’s culture and history, followed by visiting protected areas and sampling cuisine. In summary, the typical international visitor is middle aged, educated, travelling with a substantial budget and is interested in culture and history. This profile was verified through the interviews with tour operators. (Ministry of Hotels & Tourism, 2013)

Due the educated background and interest in the local culture and history, most foreign tourists tend to exhibit responsible behavior and genuine respect for the local people and environment. Tourists are interested in cultural exchanges, supporting local communities and taking part in sustainable tourism. In addition, due to the substantial budget of the average tourist, most expect personalized and high quality service from tour operators when travelling in the country.

“There is no mass market tourism here yet, most of the tourists like the ones that we cater to are top end, and they want high quality service and tours that are tailor made for them. Usually they are educated and conscious people, the kind you would want visiting your country” – Anonymous, Head of Operations, April 25th 2014

However, as the countries reform process continues and international relations, tourism infrastructure and foreign investment improve, the market is expected expand its customer profile and begin to gradually attract greater mass market tourism. This will represent a major source of new demand in the tourism sector in years to come.

“Budget tourists, backpackers, volunteering tourists and so on will definitely start coming to the country once the tourism infrastructure has been improved and costs go down, we have to keep a close look out for these trends as there may be potential there for us” – Anonymous, Tour Operator Owner, May 5th 2014

Related and Supporting Industry

Airline Industry – Currently Myanmar has a network of 44 airports including 3 international airports in Yangon, Mandalay and Naypyidaw. Domestic air travel is still limited due to antiquated and underfunded regional airports. In addition, the domestic airline industry is highly fragmented and inefficient. As a result, domestic air travel is expensive and planes are often in poor condition. As of 2013, there were eight national airlines (Air Bagan, Air KBZ, Air Mandalay, Asian Wings, Golden Myanmar, Myanmar Airways and Yangon Airways) with 32,106 scheduled domestic departures annually. Air KBZ operates the largest share of domestic flights (31%), followed by Air Bagan (24%), Yangon Airways (23%), and Air Mandalay (21%). These eight carriers operate a total of only 40 aircrafts and only two carriers, Myanmar Airways and Air KBZ, operate more than five planes. In addition, the carriers operate mostly the same domestic routes. Hence, there is intensive competition for domestic flight routes that still have very limited demand. This has resulted in high inefficiency and poor low profitability for domestic airlines, which has led to high ticket prices and poor quality of service. Due to low profitability, many of the airlines have fallen behind in modernizing their fleets and as a result, many of the domestic planes are in poor condition. As a result, the local airlines have a relatively poor safety record with four crashes in 2013 alone. Analysts believe that consolidation is inevitable in order for the airlines to be able to compete. (CAPA, 2013)

In 2013, eight new international airlines launched flights to Myanmar. Currently, a total of 23 foreign airlines operated flights to the country. The Yangon international airport handles 94% of all international air traffic to and from Myanmar. International air travel is expected to grow significantly in the coming years as more foreign airlines launch flights to the country. The Yangon international airport is already operating above its current designed

capacity. To facilitate the expected growth in air traffic, authorities are planning to expand operating capacity at Yangon international airport from 3 million passengers a year to 5.4 million passengers a year. Furthermore, a fourth international airport is scheduled to open in 2016 at Hanthawaddy, 80 km from Yangon, with an operating capacity of approximately 10 million passengers per year. By 2017, Myanmar's international airports will have an estimated total operating capacity of at least 20 million passengers per year and authorities state that it will be sufficient to meet the expected growth in demand. (Ministry of Hotels & Tourism, 2013)

Hotels and Accommodation – Myanmar currently has 787 hotels, motels, and guesthouses with a total of 28,291 rooms, spread across 48 locations in the country. Eighteen hotels are classified as four star or five star hotels. The majority of the hotels and accommodation is concentrated in Yangon, Nay Pyi Taw, and Mandalay. (Ministry of Hotels & Tourism, 2013)

On account of the high growth of the tourism sector in recent years, hotel shortages have become a rising concern for tour operators. Myanmar's Ministry of hotels and tourism estimates there are 8,000 hotel rooms in Yangon and only about 25% of the accommodation meets international standards. Current hotel capacity cannot meet the influx in demand and has resulted in a sharp inflation in hotel prices. Prices are estimated to have risen as much as 85% in the last year. Currently, the average tourist spends a substantial \$130 per night on accommodation. Demand has vastly outstripped supply and during the high season visitors face the risk of not having any accommodation in tourist centers such as Yangon and Mandalay. (Maw, 2013) The current lack of supply and sudden spikes in prices are a major frustration for tour operators.

“The current inflation of hotel prices is an enormous challenge for the tour industry in Myanmar, a lot of people do not want to come here simply because it is just too expensive, they can similar holiday experiences in neighboring Thailand for a significantly lower price, and so the industry is being held back and only attracts the top end customers who are willing to pay the price”. – Anonymous, Tour Operator Owner, 25th April 2014

However, since the introduction of the new foreign investment law, several major international hotel chains have applied for investment permits and have begun construction on new hotel projects. As of 2013, the Myanmar hotel industry had a total of 36 new foreign investment projects valued at a total US\$1.41 billion. Once completed,

these hotels are expected to add over 1,600 new rooms. But, hotel projects require an average of three years to complete and most international brand hotels will not be operational until at least 2016. Hence, the hotel shortage is expected to be a major burden for the long run and prices are not going to decrease for several years. In addition, Myanmar's foreign investment laws stipulate that only hotels classified as three stars or higher can be fully foreign owned. Hotels and accommodation with classified as below three stars will continue to require a joint venture. This implies that, in the coming years, investment in budget hotels and cheaper forms of accommodation will not grow at the same rate as high end brand hotels. (Ministry of Hotels & Tourism, 2013)

Firm Strategy, Structure and Rivalry

Structure - Tour operators in the country are primarily privately owned SME's. Tourism is one of the industries excluded from the new Myanmar foreign investment law because domestic competence in the industry is considered high. As a result, foreigners still cannot fully own a tour operation in the country. In order to establish a tour operation foreigner investors have two alternatives:

- The foreign firm can enter a joint venture with a local partner firm and mutually agree on the division of ownership.
- The foreign firm can enter as a minority partner in the operations of a local tour operator

Most foreign tour operators have opted to enter joint ventures with local partners in order to maintain majority control of their operations. Local partners can be highly useful in providing knowledge and expertise regarding the local business environment and bureaucratic procedures. In some cases, the local partner is merely registered in the venture but plays no role in controlling the operations of the tour operator. These partners register in a joint venture with a foreign tour operator to allow the foreign tour operator to operate in the country and in return agree on a percentage of profit. In such cases, the tour operation is a way for the local partners to diversity their business portfolios. Such agreements are common as described in several of the interviews.

"In our company we fully control the daily operations, our local partners are only interested in the revenues, this partnership is one of many businesses that they are involving themselves in." – Anonymous, Head of Operations, April 25th 2014

However, seeking out a local partner that is reliable and trustworthy is a major concern for new investors. Without an established network of local contacts or personal connections in Myanmar, seeking out a willing and dependable partner is a challenge. Local law firms and consultancy agencies can aid in setting up meetings between potential domestic firms and foreign investors. But without prior history or personal relationships with local firms, entering joint ventures with these firms can still pose major risks. The foreign firm will have to rely on knowledge and expertise of their local partner to navigate the local business environment and bureaucratic processes such as company registration and contractual agreements. Due to the countries relatively poor judicial system and lack of a sound institutional framework, opportunistic behavior can pose a risk. This was stressed by many of the interviewees.

“You absolutely must have full trust in your local partner because they can make or break your company in this country. For new companies it may be really difficult to find a partner if they don’t have connections here and it is a long process to establish yourself.” – Anonymous, Tour Operator Owner, May 5th 2014

One of the interviewees described his experiences in a previous joint venture alliance in which the local partner displayed opportunistic behavior by terminating the partnership without prior notice while the foreign partner in the tour operator was abroad. (It should be noted that this was partnership agreement in which the foreign partner had minority ownership)

“I was away at a tourism convention in Europe and received an email from my Myanmar partners that our partnership had been terminated, they had blocked me from our companies’ online server and database, emptied out the companies’ mutual accounts and even changed the locks on the office door. As a minority partner there was nothing we could do and the agreement had included an ambiguous clause that made the actions legal. The move was completely unexpected, we thought we had a mutual understanding and trust” – Anonymous, Tour Operator Owner, 25th April, 2014

Rivalry – Competition in tourism industry is considered intense by many operators. As of 2014 there were approximately a thousand tour operators in the country. However, only seventeen of these are major joint ventures with foreign and local partners and cater to international high end tourists. (Ministry of Hotels & Tourism, 2013).

“The competition has been tough in this market for years, because of the high costs tourism has been primarily limited to the high end and so all of the major international operators are focusing on the high end customers.” – Anonymous, Head of Operations, April 25th 2014

Strategy – The countries primary assets are its cultural heritage and natural diversity. Most tour operators focus on promoting the country as cultural destination. Due to the high costs of hotels and domestic travel, the Myanmar tourism market is still primarily limited to high end tourists. These tourists tend to be demanding and require personalized and high quality service. Hence, tour operators are primarily focused on attracting high end tourist interested in cultural experiences. To differentiate themselves, tour operators focus on offering niche services such as tailor made tours, cultural exchanges and eco-tourism.

A big challenge for new entrants will be to determine their STP, segment, target and position, competition is growing and firms have to focus on finding new niches that have not been taken by established tour operators –Chairman of the Myanmar Tourism Federation, May 12th 2014

Furthermore, as the government continues its reform process, it is allowing foreigners access to more remote and emerging destinations. In combination with improvements being made to transportation infrastructure, new tourism destinations are opening up throughout the country. Tour operators are observing the reform processes closely and are eager to seize the opportunity to offer tours to new destinations.

“New destinations are coming up as the government is gradually relaxing restrictions on more remote destinations, investors have seized these opportunity, construction projects are being fast tracked and they represent major opportunities to create new tourism packages” - Chairman of the Myanmar Tourism Federation, May 12th 2014

Furthermore, as tourism infrastructure improves and accommodation and travel costs begin to gradually settle, the tourism market will start to expand. Budget tourists and young travelers are major groups that will be expected to grow significantly once travel costs begin to decrease throughout country. This will represent a key opportunity for tour operators to cater to a new market of tourists.

“As the market grows, new opportunities will start to emerge, opportunities to serve different types of tourists, different types of destinations and different types of tours. Those

who monitor the changes in Myanmar and react quickly can definitely find a good position for themselves” – Anonymous, Head of Operations, May 5th 2014

In regards to employment, tour operators focus on predominantly hiring local staff. Under the new Myanmar Foreign Investment Law (MFIL), foreign investors are required to hire only local employees for jobs that do not require specialized skills. New foreign investment funded enterprises must have Myanmar citizens comprise 25% of their total skilled employees/workforce by the first two years of operating, 50% by the subsequent two years, and 75% by the third two-year period (PRS Group, 2013). Due to the current nationwide shortage of skilled labor, these requirements pose a major challenge for many tour operators. Certain tour operators focus on hiring directly from human resources training centers but these training centers are limited and well established tour operators often have made partnerships with such centers for exclusive rights to employ their graduates.

“We have a good relationship with one of the top hospitality training centers in the country. Most of our hires come straight from their after their graduation so hiring good workers hasn’t been a problem for us. But we understand that we are lucky in this regard, it is a major problem for a lot of others, not just in the tourism business but across most industries” – Anonymous, Head of Operations, 5th May 2014

Role of the Government

Corruption and Bureaucracy – Wide scale corruption is still endemic and continues to be a major barrier for conducting business in Myanmar. A recent survey conducted by the UN Organization for Economic Co-operation and development, which surveyed over 3000 firms operating Myanmar found that for a majority of foreign firms corruption is a major obstacle to conducting business (Ferrie, 2014). The country still lacks sound democratic institutions, effective systems of checks and balances, and explicit up to date institutional frameworks to deal with corruption (Chene, 2012). In the 2013, Myanmar was ranked as one of the most highly corrupt countries in the world according to the Corruption perception index (CPI) with a ranking of 157 out of 177 countries. The index measures the perceived level of corruption in the public sector of a country (Transparency International, 2013). The World Bank’s Worldwide Governance Indicators corroborates the country’s poor performance in terms of control of corruption (11.5 on a scale from 0 to 100) (World Bank, 2013). There are very limited independent sources of data regarding government

activities and no explicit information on which sectors are most affected by corruption; hence information regarding the specific forms and patterns of corruption in the country are limited. During the interviews, the topic of corruption was very sensitive and most interviewees were hesitant to discuss the matter in detail or denied having had any experience with corruption. One tour owner was willing to describe their experiences briefly.

“On rare occasions, we have been asked by government officials to give them gifts like a bottle of expensive whiskey, they call it tea money here. In return, we have been invited to private gatherings and networking events, other than that we haven’t experienced any problems with corruption.” – Anonymous, Tour Operator Owner, April 25th 2014

Furthermore, the country has a very complex regulatory environment and lacks transparency. On average, starting a business involves 11 procedures, takes 72 days and costs approximately US\$1,500, with up to US\$58,000 required in additional fees (The World Bank, 2013). The World Bank’s Worldwide Governance Indicators found the regulatory quality in Myanmar to be extremely low (1.9 on scale from 0 to 100) (World Bank, 2013). As a result, it is widely reported that low paid government employees often take advantage of businesses trying to acquire permits or licenses by charging illegal payments or what is locally referred to as ‘tea money’. It is often difficult to acquire permits or navigate regulatory processes without resorting to such payments. (Ferrie, 2014) Personal relationships also play a very important role in the countries public sector. Bribes and illegal payments can be foregone if a firm has personal connections with government agencies (Chene, 2012). The previously mentioned survey conducted by the UN Organization for Economic Co-operation and Development found that 60% of all firms had to pay bribes for registration, licenses or permits. A majority of the firms had to pay an average of US\$500 in extra fees for registration and some firms reported paying up to US\$10,000.

The establishment of a new anti-corruption commission was officially declared in January 2014 and is expected to be formed some time during the year. The anti-corruption commission will act as an independent legislative body to tackle corruption in the public sector (Nyein, 2013). In addition, as a result of increased press freedom and public awareness, pressure to eliminate corruption has also begun to rise. Government agencies are increasingly discouraged to take part in illegal activities and take bribes due to the risk

of public exposure in the media. However, it is difficult to evaluate how successful, the governments initiatives to combat corruption will be (Ferrie, 2014).

The government has also taken steps to improve the regulatory environment. The introduction of the Myanmar Foreign Investment law includes clarifications and explicit guidelines in regards to permits, land use, transfer of shares, tax incentives, remittance of foreign exchange and leasing land or property (PWC, 2014).

The Tourism Master Plan – Due to the tourism sectors importance to the economy and the rapid growth the sector is experiencing, the Myanmar government has taken a strong stance to enhance its tourism industry. The government has begun to support regional cooperation in tourism related activities and is an active participant in ASEANS tourism initiatives. The country is currently a signatory of ASEANS Tourism Agreement and supports the ASEAN Tourism Strategic Plan which aims to develop the regional tourism industry. As part of the plan, Myanmar is expected to collaborate with other member states in enhancing and accelerating travel facilitation and connectivity in the coming years.

In June 2013, the Myanmar Ministry of Hotels and Tourism unveiled its Tourism Master Plan for 2013-2020. The report states the following:

“The goal of this Master Plan is to maximize tourism's contribution to national employment and income generation while ensuring the social and economic benefits of tourism are distributed equitably.” - Myanmar Ministry of Hotels and Tourism, Tourism Master Plan 2013 – 2020, June, 2013.

The report presents an extensive roadmap for the development of the tourism sector for the coming eight years. The Master Plan includes thirty eight tourism related projects with an estimated total cost of US\$ 486 million. The plan and the projects are divided into six strategic programs. (See appendix 5 for a detailed description of the programs)

Chance

Global Warming and Natural Disasters – Myanmar has a history of natural disasters and extreme weather conditions. The most recent tragedy occurred in 2008, when Cyclone Nargis caused a massive storm surge in densely populated coastal regions near Yangon resulting in catastrophic destruction and over 140,000 fatalities. The government was heavily criticized for its poor relief efforts and it temporarily stopped granting tourist visas to

the country to prevent foreigners from witnessing or reporting on the extent of the damage. As a result, tourism to the country was almost completely halted after the disaster and it took over a year to begin recovering once again. The country is prone to such a disaster again at any time in the future and it would cause long term damage to the tourism sector. (The Guardian, 2013)

“After cyclone Nargis hit Myanmar, tourism became almost nonexistent, nobody wanted to come here, many operators had to exit the market, only the ones who could afford it stayed and endured until tourism started to recover again.” – Anonymous, Head of Operations, May 5th 2014

Ethnic Conflicts – There are ongoing conflicts with the Shan guerilla ethnic group and it represents a major security concern for the government. Most of the conflicts are taking place in remote ethnic regions, however there is a persistent risk that the violence can spread across the country. (PRS Group, 2013)

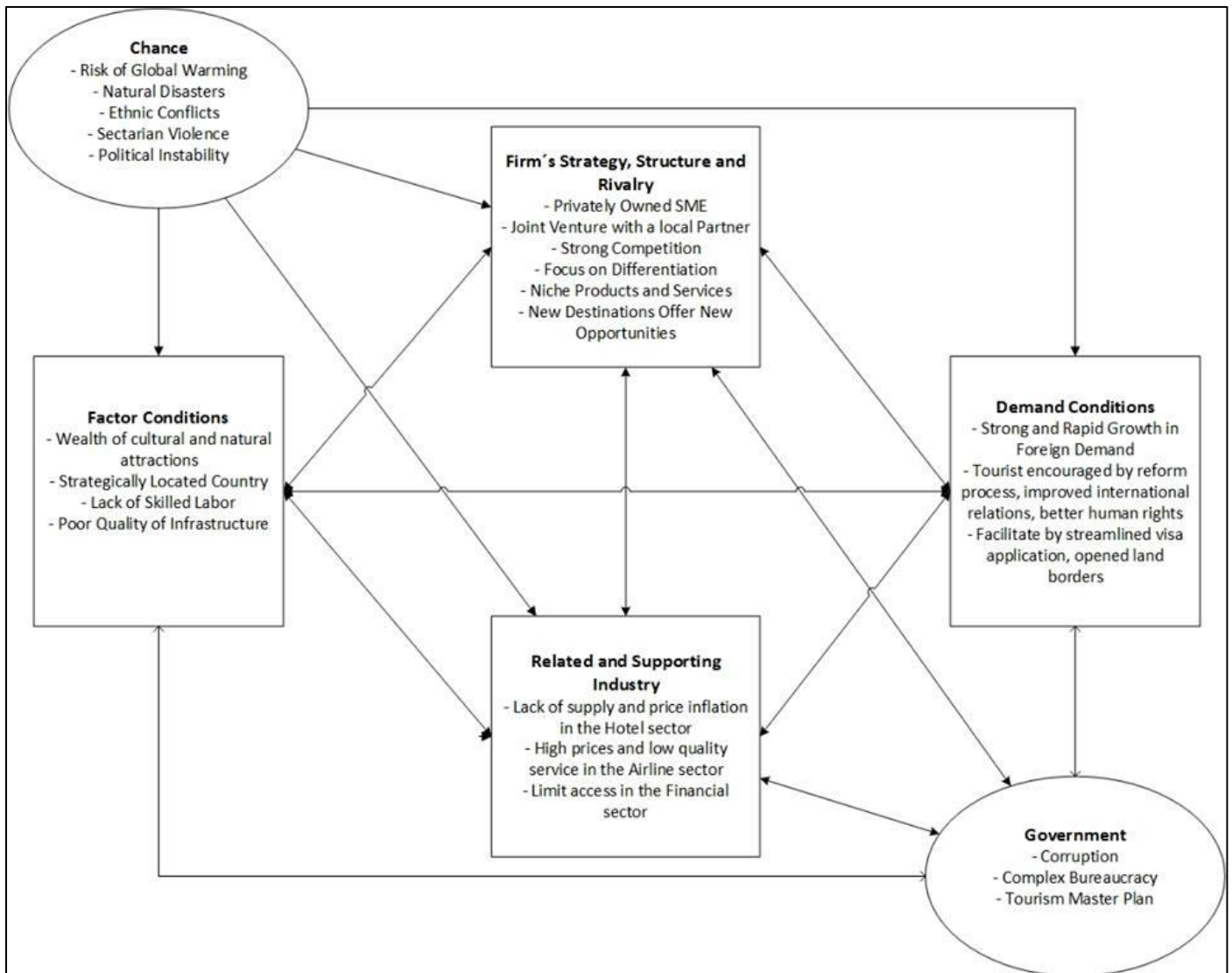
Sectarian Violence – Sectarian violence between Buddhists and Muslims in the Western state of Rhakine has been a persistent concern in recent years. In 2012 riots broke out between the groups resulting in dozens of people being killed and thousands of homes being burned. The incident prompted the government to declare a state of emergency. Since then violence has broken out on several occasions and over 100,000 people have been displaced by the conflict. The conflict is a major security concern for the government and a potential threat to the stability of the reform process. (Thandwe, 2013)

Political Instability – New elections are scheduled to be held in 2015 and government backed parliament is facing pressure from the opposition NLD party to reform the constitution. For example, the NLD wants to have a clause removed that guarantees 25% of the parliamentary seats to the military. If the constitution is not reformed, the NLD has stated that it will boycott the elections. As a result, the political future of Myanmar remains uncertain and future conditions for business in the country are difficult to predict. (PRS Group, 2013)

Summary for Porters Diamond

In the diagram below a summary of the Porters Diamond analysis of the Myanmar tourism sector is presented.

Diagram 2. Summary of Porters Diamond Analysis



In summary, major opportunities exist for the tourism sector in Myanmar primarily due to the countries demand conditions. It is evident that the tourism industry will grow at a rapid pace in the coming years and the government is taking major steps to facilitate this growth through its master plan. The country offers a wealth of attractions and tourism products and as tourism infrastructure continues to improve new locations will become available

offering significant new opportunities for operators. As tourism infrastructure improves and the countries reputation grows, the tourism profile of the country is also expected to grow, attracting groups such as budget tourists and young travelers to the country. Hence, demand is growing tremendously and will present major opportunities for tour operators as the country develops.

However, challenges and barriers to entry are prevalent. Major supporting industries including the hotel industry and the airline industry are experiencing wide spread problems. Lack of accommodation and the resulting inflation in hotel prices are a major burden for tour operators and limit the tourism profile of the country. Inefficiency and limit profitability in the airline industry result in high ticket costs and low quality of service. Poor infrastructure also poses major challenges for new entrants. Tour operators must be flexible and able to cope with limited access to information technology, electricity and office space. Key sectors such as financial services are only beginning to be reformed and will continue to pose a challenge for foreign firms operating in the country. New entrants to the tourism sector still need to enter partnerships with local firms which can be a discouraging and risky process if the operator lacks reliable local contacts. Corruption and complex bureaucracy are widespread and tour operators must be willing and able to deal with these challenges, although major reforms are being put in place and the overall state of the public sector is likely to improve due to international and local pressure. Competition in sector is also strong and tour operators must have a focused strategy to offer differentiated products to demanding and sophisticated customers. However, as demand is growing, new destinations are being opened and the country is becoming attractive for new types of customers, new opportunities will continue to rise and tour operators must be actively evaluating these opportunities to find new niches and product offerings.

Identifying Critical Resources for the Tourism Sector

Based on the analysis of the external characteristics of tourism sector in Myanmar through the Whitleys Business system analysis and Porters Diamond analysis, critical capabilities were detected that all foreign tour operators planning to invest in Myanmar should possess. The purpose of this section is to answer the third research question '*What are the resources and capabilities required by foreign firms to enter the tourism sector in Myanmar?*'

The findings of the analysis were corroborated by the results of the interviews with tour operators who provided their own insights into the capabilities that were vital to succeed in Myanmar's business environment.

Strategic Flexibility

Due to the dynamic nature of the business environment in Myanmar and the multitude of challenges to establishing a business in the country, strategic flexibility is a key managerial capability for firms to possess. Strategic flexibility is defined as the capability of a firm to respond quickly to changing competitive conditions and environmental changes and thereby develop and/or maintain competitive advantage (Hitt, 1998). The term organizational flexibility offers a similar conceptualization. It is defined as the ability of a firm to adapt to substantial, uncertain, and fast occurring environment changes that have a meaningful impact on the organizations performance (Aaker & Mascarenhas, 1984). In dynamically changing environments strategic flexibility helps firms identify environmental changes, overcome organizational inertia, relocate resources effectively, stimulate creativity and innovation, and explore new business opportunities (Hai Guo, 2014). Strategic flexibility is also useful in less munificent environments, where firms may lack access to resources such as financing or government support. In such environments, firms need to be able to adapt their strategies according to the limits of the business environment. Thus, strategic flexibility has been found to be more valuable in the context of emerging economies (Hai Guo, 2014).

In Myanmar, new entrants must be able to cope with the poor conditions of infrastructure, complex bureaucratic processes, potential corruption and the current challenges associated with supporting industries. These factors result in an unstable and complex business environment and firms in country must be to adapt their strategy and

management accordingly. Furthermore, as the reform process progresses and the government continues to implement new laws and regulations on short notice, competitive conditions in the country can change rapidly and firms must be able to respond to these changes swiftly in order to maintain a competitive edge. As the country's tourism infrastructure begins to improve and tourism is expected to grow strongly in coming years, tour operators need to anticipate new opportunities. Strategically flexible firms will be able to respond advantageously to market developments by anticipating changes and being prepared to introduce new products and services. Therefore, strategic or organizational flexibility can be an important source of firm competitive advantage in an unstable economy like Myanmar.

Recruiting and Retaining Employees

The current lack of skilled labor in Myanmar is a major barrier to entry for both foreign and domestic tour operators. The issue is prevalent across all labor intensive industries and is creating stiff competition for labor. Hence, firms need to acquire skills in recruiting, training and retaining local labor. Valuable skilled labor can be acquired through well-developed human resources capabilities and can result in a strong competitive advantage (Barney, 1991).

In regards to recruitment, personal contacts are the most common channel through which employees are acquired. In Myanmar it is generally perceived that recruiting an employee through a mutual contact ensures that the employee is trustworthy and dependable. However, if firms lack sufficient contacts through which to acquire employees, an alternative method is to seek out workers from training centers. There are currently a limited number of training centers in Myanmar that prepare workers for employment in service industry including tourism. Competition for workers from these centers is also growing and many established tour operators have exclusive partnerships with such centers to hire new employees immediately after they complete their training. There is currently no specific or optimal strategy for recruitment in the labor market. Many firms have chosen to raise salaries and offer more attractive contracts to hire new recruits whereas others chose to stress the valuable training and personal development their firms can offer. (Kenneally, 2014)

In regards to employee retention, due to the growing competition for labor, retaining employees is a major concern for tour operators. Firms need to be committed to their

workforce and to maintain employee satisfaction. Sufficient pay is essential but career development and training are needed to keep employees engaged and motivated. Through such actions firm can strive to establish mutual trust and commitment with their employees. If employees feel invested in a company and meaningful to its operation, they tend to be less inclined to leave for other opportunities.

“To tackle high turnover, as a business owner in Myanmar you need to fully realize the motivations of your staff. Continuous communication and interactions are necessary to facilitate their aspirations and to assure that they are satisfied with their role in the company.” – Anonymous, Tour Operator Owner, May 12th 2014

Recommendations for Entry Mode

Entry mode in the tourism sector is strictly regulated by the Myanmar government. Tourism is one of the industries excluded from the new Myanmar foreign investment law because domestic competence in the industry is considered high. As a result, foreigners still cannot fully own a tour operation in the country. In order to establish a tour operation foreigner investors have two alternatives:

- The foreign firm can enter a joint venture with a local partner firm and mutually agree on the division of ownership.
- The foreign firm can enter as a minority partner in the operations of a local tour operator

In a joint venture two or more firms combine their resources and competencies to create a legally independent company in which they share risks and profits. According to Myanmar’s foreign investment law, although foreign tour operators must enter a joint venture with a local partner to enter the market, the foreign and local partners can mutually agree on the terms of ownership. This allows foreign partners to take majority ownership and maintain primary control of the tour operator.

A major advantage in regards to entering emerging markets through a joint venture is that foreign firms can leverage their strengths by allying with domestic firms with different unique competencies such as advantageous local market knowledge and insight (Hitt, 2000). Often in emerging countries, the benefits of a joint venture include gaining faster approval and entry into the domestic market, more support and better relations with local government agencies, a strong foundation for networking and reducing the risk of market

uncertainties as the domestic partner can provide the appropriate market knowledge (Ling, 2005). As a result, firms are able to reduce their risks and improve their knowledge of the Myanmar market by learning from their domestic joint venture partner.

In Myanmar specifically, a local joint venture partner can aid a foreign operator in tackling corruption, navigating complex bureaucratic processes, establishing local networks and hiring employees. Due to high risk of corruption and complex bureaucratic procedures firms should seek to form direct relationships with local authorities. Contacts with local authorities can ease bureaucratic processes and reduce uncertainty. Joint ventures with local firms can facilitate interactions with the authorities and reduce uncertainty for the foreign firm. A local joint venture partner may also have available human resources or aid in the process of acquiring human resources. Due to the current competition for skilled labor, access to human resources from a local joint venture partner may provide a strong competitive advantage.

“Our local partner has definitely been of major assistance to us, with their help we have been able to acquire permits, cope with regulation, find employees and established good relationships with other businesses here.” – Anonymous, Tour Operator Owner, May 12th 2014

Joint ventures can also be beneficial due to the strong level of competition in the Myanmar tourism sector. When there is a lot of competition a firm’s strategic position is more vulnerable. Profits are stressed, resources utilized to their fullest and market share is fought over. Joint ventures can improve strategic positions in highly competitive markets by providing a firm with additional resources and sharing the costs and risks involved in the competitive market. Firms that entering alliances in competitive markets also increase their legitimacy decrease their profit pressure and may allow them to differentiate. Market power can also be improved and they can gain an edge over competitors due to additional resources and knowledge. (Eisenhardt & Schoonhoven, 1996)

In addition, when facing high market uncertainty and risks foreign firms should maximize their ability to exit the market without facing substantial losses (Huang, 2000). The lower level of resource commitment that is involved in a joint venture is ideal when operating in an uncertain market such as Myanmar. In a joint venture risk is partially shifted to the domestic partners who have the ability to manage the operations of the venture according to the domestic laws and regulations.

However, joint ventures may be difficult to manage due to potential cultural differences or a lack of synergy between domestic and foreign partners. Hence, it is important that adequate cultural integration takes place between the firms in the joint venture in order to harmonize the cultures of the domestic and foreign partners. Cultural misunderstandings are one of the most important factors that undermine the effectiveness of a joint venture. Cultural integration can take place through cultural sensitivity and awareness courses or by developing systems of compromise and collaboration (Ahmed & Li, 1996). Opportunistic behavior is also a risk in alliances due to the lack of a sound institutional framework in Myanmar. Other issues that may arise are learning races, moral hazards and goal divergence which can lead to distrust and inefficiency in the partnership (Child, 2003)

The other accepted form of entry is as a minority partner in the operations of local tour operator. Through such an entry mode the foreign partner can only provide financial capital to an existing local tour operator and have no strategic control of the firm. This would not be a recommended entry mode for tour operators that desire to control an operation in the country.

Hence, at the current time the only entry mode for foreign investors in the tourism sector of Myanmar is through a joint venture with a local partner firm. But a joint venture can be highly advantageous and allow the potential for firms to obtain a competitive advantage. A local partner can facilitate complex bureaucracy and interactions with local authorities, aid in establishing local networks and increase accessibility to market knowledge and human resources.

Societal & Economic Benefits of the Tourism Sector

In the following section the sector analysis framework is extended to include an analysis of the social and economic benefits that investment in the Myanmar tourism sector can provide. Emerging countries generally face widespread social and economic challenges and foreign investment can be a vital tool for alleviating such problems. It is essential for investors to comprehend the potential external impact of their actions in an emerging country context. Hence, the purpose of this section is to answer the fourth research question '*What are the social and economic benefits of foreign firm entry into the tourism sector in Myanmar?*'

Promoting Responsible Tourism

Tour operators can be directly involved in improving social or economic conditions of host communities in Myanmar by promoting responsible tourism. Responsible tourism can be defined as striving to achieve sustainable development through tourism by identifying and tackling economic, social and environmental issues which matter locally (Goodwin, 2011). Tour operators that practice responsible tourism will aim to help local communities achieve sustainable development by maximizing the social and economic benefits of tourism and minimizing the costs.

There are a multitude of approaches for tour operators to practice responsible tourism. Operators can take part in assessing and monitoring the environmental, social and economic impact of tourism development and their own operations in the host country. Operators can generate economic benefits and enhance the wellbeing of local communities. Economic benefits can be generated by improving the working conditions and access to the tourism industry to create decent employment. They can actively involve local communities in planning and decision making in their operations to create strategies and products that maximize the benefit to the community. Tour operators can establish meaningful economic linkages through activities such as local sourcing. They can take measures to improve and protect and social rights and conditions of people in host communities. Tour operators can also contribute to the conservation of cultural heritage and diversity. This can be done by developing and implementing culture specific codes of conduct for interacting with local communities. Such codes of conduct would aim to be culturally sensitive and respect and maintain the cultural heritage of host communities.

Hence, operators can develop strategies and services that allow for meaningful interactions between tourists and locals and generate greater awareness of local cultural and environmental issues. (Spenceley, 2007)

Operators should also adopt policies to educate and raise the awareness of their customers. Tourists should be made aware of their responsibilities including the responsibility to obey local laws and regulations, to avoid deliberately offending local religious beliefs or cultural norms, to avoid deliberately harming the local environment, to minimize use of scarce local resources, to meet and interact with local people, to contribute to the local economy and to behave in respectful and mindful manner (Swarbrooke, 1999).

Efforts to reduce poverty should be a major consideration for any responsible tour operator in Myanmar due to the country's extreme poverty levels. The UNDP has published a list of mechanisms through which tourism can alleviate poverty in local communities (Luke & Riva, 2011). They include the following:

-Employing the poor in tourism enterprises: Targeting education and training towards poor communities, strengthening their knowledge and skills and eliminating social or cultural barriers.

-Supply goods and services to tourism enterprises by the poor or by enterprises employing the poor: Ensuring that as many goods and services in the tourism supply chain come from local sources. The aim is to maximize the amount of tourism spending retained in local communities. This can also help support and preserve traditional activities and skills, improve their quality and establish viable sources of business.

-Establishment and running of tourism enterprises by the poor: Aiding the poor to establish and manage formal tourism enterprises at an individual or community level.

-Voluntary support by tourism enterprises: Support or financial aid can be an influential driver for local poverty reduction. Tour operators can commit to providing sponsorship in development initiatives in rural and poor areas in which they operate.

In addition, it can be crucial for the sustainability of tourism in the long term that a progressive and beneficial relationship is formed between host communities and tourism. Doxey's Index of Irritation illustrates that when a sustainable relationship cannot be formed a host community's attitude towards tourists initially begins with euphoria, develops to

apathy, then turns to annoyance and finally leads to antagonism (Shaw & Williams, 1998). In the euphoria state, tourism development begins in an area with little control or planning mechanisms. This develops to apathy when contacts between investors and the community become more formal and tourism is often taken for granted. However, this can turn to annoyance if tourism starts to become saturated and local communities have doubts about the benefits of the industry. If relationships are not mended annoyance can finally lead to antagonism and the local communities openly express their irritation and tourism is seen as a source of problems. If the attitude towards tourists becomes negative, host communities may potentially refuse further tourism development in their areas and potential tourists will be discouraged from visiting.

In the context of Myanmar, to maximize their social and economic benefit to local communities, tour operators should develop tour packages and services that apply principles of responsible tourism. All of the operators that were interviewed had adopted varying forms of responsible tourism in their operations. Responsible tourism practices that had been adopted by the interviewed operators included homestay vacations in which tourists stay in local villages for several days to experience rural life in Myanmar, travel packages to remote and impoverished locations with largely underdeveloped tourism industries and educational tours raising awareness of social and economic conditions in rural areas.

Green Tourism

A specific form of responsible tourism that focuses on environmental protection and conservation is commonly referred to as green tourism. Tour operators practicing green tourism aim to minimize waste production and over consumption in their operations and promote the sustainable use of local resources (Thett, 2012). Green tourism focuses on promoting nature-based destinations, learning based interactions with the local environment and enforcing environmental sustainability. Tour operators must respect zoning and environmental protection laws and avoid introducing tourism to ecologically fragile and vulnerable areas. They should also take into account the stress that tourism creates on the natural environment in popular tourist destinations, and develop tours to alternative regions to increase the spread of tourism (Ministry of Hotels & Tourism, 2013).

Employment and Training

Foreign tour operators that invest in the region can create new opportunities for local workers. The lack of skilled labor in Myanmar is a major constraint for the growth of the domestic tourism industry. Tour operators investing in the region can facilitate the growth of the skilled labor market and ease their own labor constraints through several approaches. The interviewed operators described a variety of initiatives they had undertaken to ease the shortage of skilled labor. All of the operators had developed internal training programs through which local employees would receive on-the-job training, training which would take place during normal daily work situations. Initially the responsibilities of employees receiving such training would be limited to semiskilled work; however, as they progressed the employee would gradually receive more responsibilities and demanding tasks. The issue with such internal training programs is that there is a minimum level of skill and education expected from new recruits, primarily essential skills such as reading and writing and use of basic information technology. These are skills that a majority of unskilled labor, especially rural workers, may not necessarily possess. Most operators do not have the resources, capacity and time to train new employees internally who do not possess this basic skill set. Hence, the potential of internal training is limited to semi-skilled workers.

However, the tour operators described examples of minor initiatives and projects that had incorporate low skilled labor. These examples included biking tours in which local young workers would aid a tour guide in guiding a group of foreign tourists on a bike tour through rural areas. The local workers required only minimal skills in navigating with bikes and coordinating the tour with the tour guide. Another initiative included homestays in which tour operators had made agreements with rural families to allow foreign tourists to visit the family with a tour guide. The initiative was a source of income for the families and required minimal training on how to interact with the foreign tourists.

But due to limited potential of internal recruitment for low skilled labor, operators have also established partnerships with existing service training organizations and aided in their funding. Such organizations specialize in training new workers for the tourism industry and often focus on training workers from rural and impoverished areas. Through the training programs workers acquire a vital skill set that prepares them for entry into the service industry. However, such organizations are still limited in their capacity and funding and the

competition for labor from these organizations is increasing. Well established tour operators have entered partnerships with some organizations and directly hire new employees once they complete their training.

Conclusion and Discussion

In the following section the findings of the four sub questions are summarized and an answer to the main research question is derived from the findings. The main research question was as followed; *What are the main opportunities and threats to foreign firms entering the tourism sector in Myanmar?*

To consolidate the wealth of information regarding the economy and tourism sector of Myanmar the sector analysis framework of Van Den (2009) was adopted as foundation for the analysis. The framework provided a comprehensive step by step analysis on a macro, meso and micro level of the major characteristics in a particular sector. The framework was also extended to include an analysis of the potential social and economic impacts of investment in a particular sector. The extension was perceived to be necessary as the original framework had no on analysis of external stakeholders and in the context of emerging countries foreign investment can have a significant impact on social and economic change.

A triangulation method was adopted to conduct the research. Combining information from an extensive range of sources improved the reliability and validity of the research. Secondary information regarding the economy and tourism sector was gathered through literature and article reviews. This literature included articles from newspapers, magazines, business websites, government and organization reports, commercial firm reports and case studies. Primary research was conducted on location in Yangon, Myanmar, in the form of qualitative semi structured interviews. The interviewees were primarily owners or heads of operations for foreign tour operators in Myanmar. Interviews were also conducted with representatives and heads of government organizations and professors from several universities in the region.

Before applying the framework, a comprehensive overview of Myanmar was presented. A brief background of Myanmar's political and economic context was given to establish the circumstances in the country. Then an overview of macroeconomic issues, major reforms and political issues was presented to determine the status quo of the Myanmar economy.

Overall, Myanmar is currently in a state of rapid transition from a centrally planned economy to a free market system. After decades of military rule and isolation, the country is now emerging as a region with huge potential for business. The current estimated nominal GDP of Myanmar is US\$52 Billion (The World Bank, 2014) and GDP growth is expected to rise to 7.1% annually between 2014-2018 (PRS Group, 2013). Major institutional, judicial and economic reforms are being introduced to further facilitate this growth and more reforms are expected in the years to come. However, major issues such as insufficient infrastructure, lack of education and continuing corruption hinder the growth of the economy. In addition, uncertainty still persists regarding how far the military is willing to allow the transition process to go and can a stable democratic system be implemented.

With a summary of the political and economic context in Myanmar, an overview of the global tourism industry and specifically the tourism industry in Myanmar were presented. The global tourism industry has for decades experienced strong growth and diversification to become one of the fastest growing economic sectors in the world. Currently, international tourism accounts for about 29% of the world's exports of services and 6% of overall exports of goods and services (UNWTO, 2014). As the biggest service industry in Myanmar, the tourism sector is a major contributor to the economy. In 2013, the total contribution of the tourism sector to the country's GDP was US\$2 Billion or 3.7% of the total GDP. It is estimated to rise to 9.2% in 2014 and roughly 7% annually from 2014-2024 to reach US\$4.2Billion or 4.1% of total GDP by 2024. As a result, Myanmar's tourism sector is currently the seventh fastest growing in the world and second fastest growing tourism sector in the South East Asian region.

In the first step of the framework, Myanmar was analyzed in the framework of Whitley's Business System Theory. It was determined that Myanmar is a combination of state organized and a fragmented business system. There is a combination of dominating and influential SOE and FOE firms and private owner controlled firms. Firms tend not to undertake any forms of non-ownership coordination such as collaboration with competitors, or coordination across production chains or sectors. Employer-employee relations tend to be short term and based on low commitment and trust.

In the second step of the framework, the characteristics of the Myanmar tourism sector were analyzed through the application of Porters Diamond. Major opportunities exist for the tourism sector in Myanmar primarily due to the countries favorable demand conditions.

The country offers a wealth of natural and cultural attractions and as tourism infrastructure continues to improve new locations will become available offering opportunities to develop more tourism products. As tourism infrastructure improves and the countries reputation grows, the tourism profile of the country is also expected to grow.

However, challenges and barriers to entry are prevalent. Lack of hotel capacity and inflation in hotel prices are a major burden for tour operators and limit the tourism profile of the country. Inefficiency and limit profitability in the airline industry result in high ticket costs and low quality of service. Lack of skilled labor is leading to fierce competition for workers and high turnover. Poor infrastructure also poses major challenges for new entrants. Tour operators must be flexible and able to cope with limited access to information technology, electricity and office space. Corruption and complex bureaucracy are widespread and tour operators must be willing and able to deal with these challenges, although major reforms are being put in place and the overall state of the public sector is likely to improve due to international and local pressure. Competition in sector is also strong and tour operators must have a focused strategy to offer differentiated products to demanding and sophisticated customers. However, as demand is growing, new destinations are becoming accessible and the country is becoming attractive for new types of customers, new opportunities will continue to rise and tour operators must be actively evaluating these opportunities to find new niches and product offerings.

In the third step of the framework, the RBV was applied to determine firm specific resources and capabilities required to succeed in the Myanmar tourism sector. Due to the current skilled labor shortage firms can achieve a competitive advantage by developing an appropriate human resources strategy for recruiting, training and retaining skilled workers. In addition, due to the dynamic and complex nature of the business environment in Myanmar and the multitude of challenges in establishing a business in the country, strategic flexibility is a key managerial capability for firms to possess. In dynamic environments strategic flexibility helps firms identify environmental changes, overcome organizational inertia, relocate resources effectively, stimulate creativity and innovation, and explore new business opportunities.

In addition, recommendations on entry mode strategy were to be derived from the RBV analysis. However, due to the protected status of the tourism sector, foreign investment in the sector is limited to joint venture alliances with local firms. The condition poses both

opportunities and threats. Joint venture alliances can improve a firm's strategic position in Myanmar by providing the firm with additional resources and sharing the costs and risks involved in the competitive market. Firms also increase their legitimacy, decrease their profit pressure and may allow them to differentiate. However, joint ventures may be difficult to manage and pose a risk due to potential cultural differences or lack of synergy between the partners. Other issues that may arise are learning races, moral hazards and goal divergence which can lead to distrust and inefficiency in the partnership.

In the fourth step of the framework, the social and economic impacts of foreign investment in the Myanmar tourism industry were analyzed. To maximize the benefits of tourism to local communities, tour operators should adopt responsible tourism practices. These practices aim to help local communities achieve sustainable development by maximizing the social and economic benefits of tourism and minimizing the adverse costs. Tour operators investing in the region can also facilitate the growth of the skilled labor market and ease their own labor constraints through several approaches including internal on-the-job training programs, initiatives that incorporate low skilled labor and establishing partnerships with training organizations and aid in their funding.

Limitations and Recommendations for Future Research

Several limitations existed due to broad and exploratory nature of the study and the complex environment in which it was conducted. Firstly, the study explicitly focused on the Myanmar tour sector and in particular foreign tour operators in sector and therefore, the generalizability of the results is limited to that context. However, many of the findings are relevant to the service industry as a whole and the findings offer valuable insight to any foreign investors interested in the business climate in the country.

Secondly, this was a cross sectional study and due to the rapid pace of change in the Myanmar economy any conclusions or findings drawn from this research may have changes or be invalidated in a short period of time. Hence, this investigation was primarily exploratory in nature and aimed to provide a snapshot of the complex and dynamic economic circumstances taking place in Myanmar.

Thirdly, due to time limits, the primary research was only conducted in Yangon, Myanmar. As the research is aiming to investigate the tourism sector of the whole country, investigating firms solely based in Yangon may have led to geographic bias in its findings.

However, Yangon is the country's commercial center and the primary headquarters for a majority of foreign firms and so the study describes the circumstances most foreign firms experience.

In addition, the sample size for the semi-structured interviews was relatively small. Interviews were difficult to organize due to the limited time frame and challenging conditions in Yangon. However, for the purpose of this study, the sample is believed to be representative, and the primary purpose of the interview findings was to compliment the findings of the extensive secondary research.

Furthermore, subjectivity was inherent in study, because the researcher had to assign characteristics of Whitley's framework to the business system in Myanmar. The researcher aimed to stay objective when assigning the characteristics by logically deriving conclusions from both primary and secondary sources of data.

Lastly, the results of study may be seen as too general by some readers. However, this study merely aimed to present an overview of the current situation in the sector and inform readers of the key issues that must be considered.

For future research, other key sectors in Myanmar could be analyzed within the same framework. Due to the contemporary nature of the country's economy, Myanmar offers a unique and fascinating business environment to study and all future research on the country is encouraged. In addition, due to the rapid pace of the reform process, many of the conclusions drawn from this study will likely become outdated at some period in time. Therefore, further research and monitoring of these changes in the sector are also encouraged.

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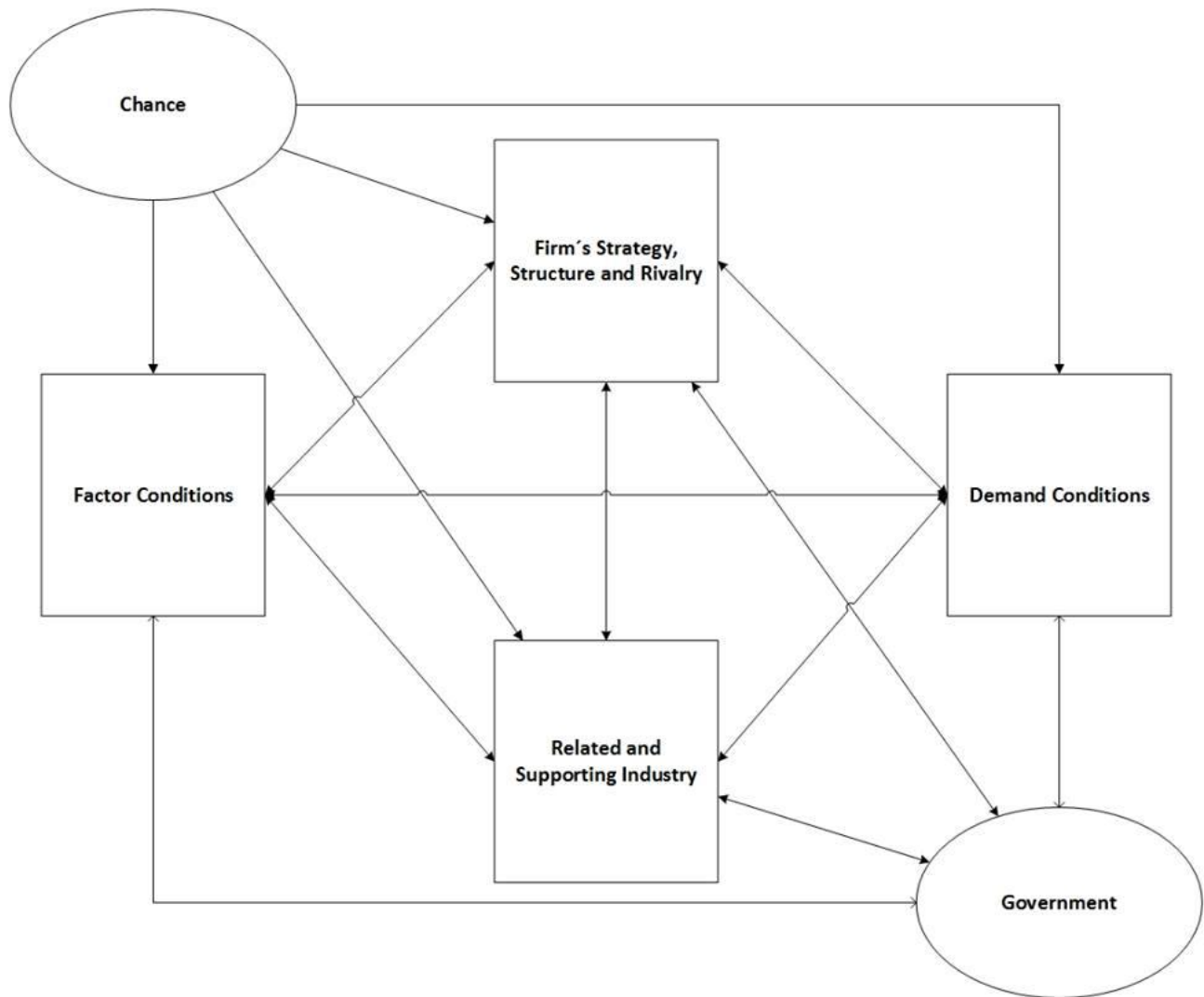
Appendix

Appendix 1. Whitley's Business System Theory

Business System Characteristic	Business Systems					
	<u>Fragmented</u>	<u>Coordinated Industrial District</u>	<u>Compartmentalized</u>	<u>State Organized</u>	<u>Collaborative</u>	<u>Highly Coordinated</u>
Ownership Co-ordination						
Owner Control	Direct	Direct	Market	Direct	Alliance	Alliance
Ownership Integration of production chains	Low	Low	High	High	High	Some
Ownership Integration of sectors	Low	Low	High	Some/High	Limited	Limited
Non-Ownership Co-ordination						
Alliance Co-ordination of production chains	Low	Limited	Low	Low	Limited	High
Collaboration between Competitors	Low	Some	Low	Low	High	High
Alliance Coordination of Sectors	Low	Low	Low	Low	Low	Some
Employment Relations						
Employer – Employee Interdependence	Low	Some	Low	Low	Some	High
Delegation to Employees	Low	Some	Low	Low	High	Very High

Source: (Whitley, 1999)

Appendix 2. Porters National Diamond of Competitiveness



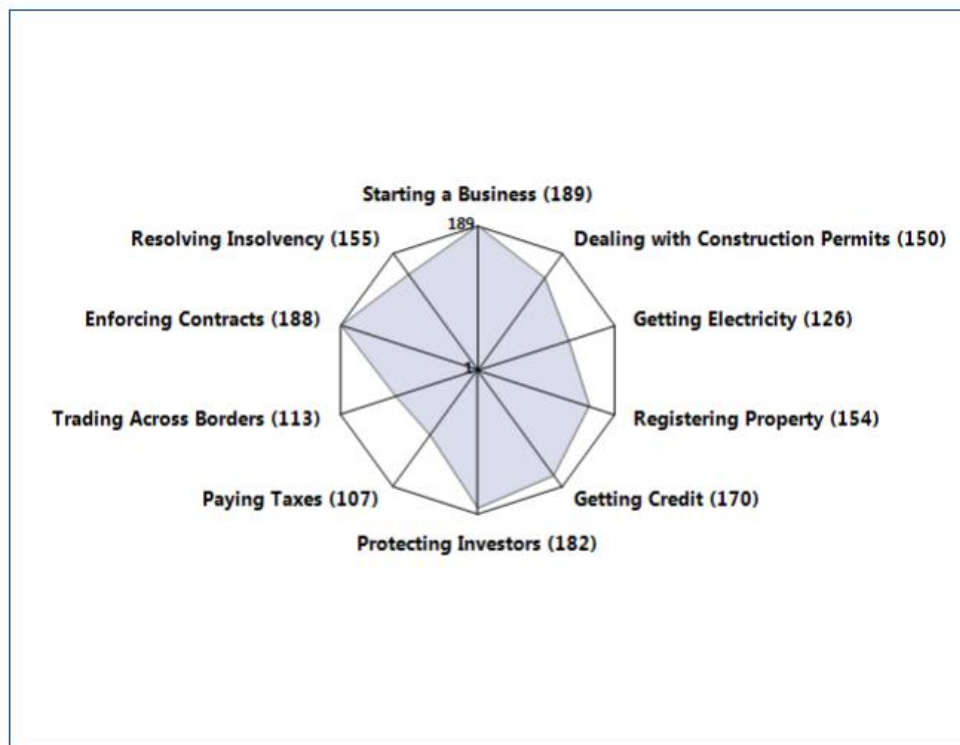
Source: (Porter, 1990)

Appendix 3. Map of Myanmar



Source: (CIA, 2014)

Appendix 4. Myanmar ranking in Doing Business Survey



Source: (The World Bank, 2013)

Appendix 5. Summary of the Six Strategic Programs – Myanmar Tourism Master Plan

1. Strengthening the Institutional Environment – The Myanmar government will begin to take measures to strengthen its institutional environment and to improve the coordination of its tourism planning and development. To initiate institutional reform a 'Tourism Executive Coordination board' will be formed. The board will provide policy guidance and aim to effectively coordinate the development of the tourism sector. It will be comprised of representatives from all tourism related ministries including Hotels and Tourism, Finance and Revenue, Transport etc. An advisory board will also be formed, comprised of representatives from international organizations with tourism expertise including the United Nations World Tourism Organization (UNWTO) and the World Travel and Tourism Council (WTTC). The Tourism Executive Coordination board will establish and coordinate frameworks for the development of the Myanmar tourism sector. This will include the strengthening of tourism information systems and metrics. Improved information systems will be utilized to generate accurate and up-to-date market information and produce regular reports regarding tourism performance to inform policy making.

The government also aims to develop national policies and codes of conduct to promote visitor safety and satisfaction. The government and other related agencies will develop systems and protocols to manage and recover from emergency situations such as natural disasters, disease outbreaks or life threatening injuries. In addition, tourist police departments will be established in all main tourist destinations.

Furthermore, tourism's legal and regulatory environment will be strengthened. These measures will emphasize the creation of an environment that enables growth and investment in responsible tourism. To generate funds for responsible tourism, the government will strengthen systems for collecting tourism taxes and fees. To promote entrepreneurship and employment growth, the government will also streamline licensing procedures for tour operators, accommodations, restaurants and other tourism related enterprises. To address concerns regarding laws and regulation in the tourism sector, the government will initiate reviews of the current tourism law. As part of the reviews, the government will revise regulation regarding tourism related investment projects. This suggests that in coming years there may be a possibility for foreigner investors to fully own a tour operator in the country.

2. Build Human Resources Capacity – To address the current lack of skilled labor in the tourism sector the government aims to introduce short term programs to fill the immediate gap and develop long term programs that in line with the needs of the sector. As part of its strategy, the government will establish an Education and Training Department (ETD). The ETD will oversee the design and implementation of a human resources development (HRD) strategy for the tourism sector. The HRD strategy will include plans for training institutions and programs, the content of these programs and the development of certification, oversight and quality control mechanisms. For those who are unable to access tourism training due to unaffordability or inability to spend extended time from family or work, the HRD strategy will promote distance learning and online education. As the government continues to improve infrastructure and access to electricity and the internet, such means of providing tourism related training will become more effective and common. The HRD strategy will also expand access to tourism education through the creation of mobile training units and travelling teams of trainers, the introduction of tourism

courses in secondary schools and partnerships with international universities and institutes.

3. Strengthen Procedures for Destination Planning and Management – Many of Myanmar's most popular destinations are facing growing challenges in tackling the negative impacts of rapid tourism growth whereas other destinations that have strong tourism potential cannot attract sufficient visitors due to inaccessibility, low awareness and lack of investment. The country lacks the human and financial resources to apply social and environment safeguards and to improve tourism infrastructure and investment. The government aims to support corporate social responsibility and strengthen partnerships between the government, private sector and local communities to promote the protection of natural and cultural assets. Processes and guidelines will be developed to clarify the requirements for tourism infrastructure projects, establish social and environmental standards tourism enterprises and to safeguard cultural heritage.

In order for tourism infrastructure projects to have minimal impacts on the physical environment and to the respect cultural heritage of tourism destinations extensive mapping and zoning of tourism sites will also take place. The government will also promote the use of green technology in tourism services and infrastructure through a mix of financial and other incentives. Green technology use aims to reduce energy use, increase supply of renewable energy and improve waste and water management. Furthermore, initiatives will be introduced to strength community involvement in planning and managing tourism.

4. Develop Quality Tourist products and services – Cultural tourism and sightseeing are the primary attractions in Myanmar for most tourists, however the government plans to diversify the product base and introduce a wider range of services and activities. The government aims to continue to improve the quality of high-end luxury tour products and services whilst promoting the development of new forms of tourism including adventure tourism, eco-tourism and volunteer and educational vacations. An eco-tourism management strategy will be developed to ensure that tourism supports conservation, community level income generation and management of protected areas. Tourism related supply chains will also be strengthened by assessing the opportunities to deepen and expand existing and potential linkages that benefit local communities.

5. Improve connectivity and Tourism related infrastructure – The government aims to incorporate tourism considerations into national infrastructure planning. Improvements to road, rail, air and water transport will be made in major tourism destinations. Infrastructure will be improved to expand the coverage and access to water, electricity and mobile networks. Road networks will be improved to provide greater access to rural and more distant tourist destinations. Aviation infrastructure and services will be continuously expanded to meet the growing demand. To improve the domestic airline situation the government is considering permitting direct international flights to more domestic locations.

6. Build the Brand of Tourism in Myanmar – To strengthen the marketing of Myanmar as a tourism destination the government will focus on enhancing the image and brand of the country. The campaigns or strategies that will be developed are not described in detail.