

The Location Determinants of FDI in Developing Countries: A Case of Myanmar

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ABSTRACT

The aim of this study is to empirically examine fundamental factors that drive FDI to a particular location. This study further explores operating conditions of Korean firms in Myanmar. A survey methodology and then a regression analysis are employed. The study finds that the factors such as transportation, production factor, market, and cost play an important role for the location of FDI. However, the Korean investment in Myanmar decreases from 2013. The decrease of Korean investment implies that investing in Myanmar has not been profitable. The empirical study finds a complicated pattern of FDI. Large Korean firms are located far from the consumer market, thus, bear an increased transport cost to reach the consumer market. They are rather located in a place where they can access to a transport means and raw materials with low cost to export final products. They place FDI into a host country to serve as a production platform for exports to neighboring countries.

Key Words : Myanmar, FDI, Korean Firm, Location

JEL classifications: F2, F3

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I. Introduction

Foreign investors are interested in investing in a country which offers advantages in terms of proximities to the market, costs, resources, and institutional conditions. Foreign direct investment (FDI) is an important part of an open and effective international economic system. FDI can offer developing countries potential to create jobs, increase productivity, enhance exports, and benefit from technology transfer (UNCTAD, 2014). However, the benefit of FDI does not accrue automatically and evenly across sectors and local communities. National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI. The role of FDI for economic growth and development of regions and cities has been widely investigated recently (Bevan and Estrin, 2004; Dunning, 1981; Mayer and Nguyen, 2005).

There are various environmental factors which can impact the business. These environmental factors can be categorized into external and internal environment of the business. The internal factors include such factors as leadership, manufacturing quality, human resource. On the other hand, the external factors include environment, supplier, competitors, government regulations and policies, transportation.

When firms decide to invest in a foreign country, they should take local conditions into account. Local conditions include location, resources, competitors, customers, government support for start-up business, loans, taxation, inflation, employment, and exchange rate etc.

Investors are attracted by the host country's market size, its income per capita, market growth and consumer demand. Transportation, communication networks, logistics connections and industrial infrastructure have also proved to play an important role in attracting foreign investors (Bevan and Estrin, 2004). Market specific aspects including income level, size of population, market facilities, consumer characteristics, and future growth potential are taken into account by foreign investors when entering new markets.

Myanmar is one of the developing nations in the Southeast. Myanmar has an untapped markets in Asia. Foreign Investment in Myanmar rapidly increased from USD 8 billion between 1988 and 2010 to USD 40 billion in 2011 and reached USD 49.9 billion up to the end of September 2014 (Central Statistics Organization Myanmar, 2015). Korea stands as the 6th top FDI country in

Myanmar. The mining industry accounts for 76.6% followed by the transport industry as of 2016(Korea Exim Bank, 2016). However, the investment in the mining and manufacturing industries in Myanmar has decreased since 2013. Firms, especially multinational enterprises are the control centers for a large proportion of international transaction. The aim of the study is to empirically examine the fundamental factors that drive FDI to a particular location. This study further explores operating conditions of Korean firms in Myanmar.

The paper is organized as follows. The next section presents inward FDI to Myanmar. Section III explains literature review on the location of FDI. Section IV conducts an empirical study. Finally, Section V provides concluding remarks.

II. Inward FDI to Myanmar

Myanmar's Foreign Investment Law allowed 100% foreign equity ownership with a minimum amount of foreign capital USD 500,000 for an industry and USD 300,000 for services. The key sectors for foreign investment are the extractive industry and the power sector followed by manufacturing, transport & communication mining, and real estate developments. The first two sectors have captured 68% of the total FDI flow to Myanmar on August 2015. The FDI is concentrated in the extractive and power sectors.

<Table 1> Foreign Investments in Myanmar by Sector as of August 2015

No	Industry	USD in million	%
1	Oil and gas	19,641	34.39
2	Power	19,324	33.83
3	Manufacturing	5,949	10.42
4	Transport & communication	3,274	5.73
5	Mining	2,868	5.02
6	Real estate	2,430	4.26
7	Hotel and tourism	2,208	3.87
8	Livestock & fisheries	452	0.79
9	Agriculture	242	0.42

No	Industry	USD in million	%
10	Industrial estate	193	0.34
11	Construction	37	0.07
12	Other services	494	0.86
	Total	57,118	100

Source: The Directorate of Investment and Company Administration, Ministry of National Planning Economic Development, Myanmar.

The extractive and power sector attracts large but infrequent investments, while others such as manufacturing sector attract small but more numerous investments (Bissinger, 2012). Manufacturing has attracted the most individual investment, though the average size is smaller than either the power or oil and gas sectors.

Myanmar has diplomatic relations with Korea since May 1975. The political and economic relations between Korea and Myanmar have been stable for a long time. Korean entrepreneurs have invested in Myanmar since 1991, Korea has been assisting Myanmar's economic development through ODA (Kim, 2009). Korea did not have any significant amount of investments in Myanmar before 2008. There were dramatically increasing amount of investment in Myanmar in 2009. <Table 2> shows the Korean direct investment in Myanmar from 1990 and it can be seen the investment increased significantly after 2008. The investment in Myanmar was quasi nonexistent before 2008.

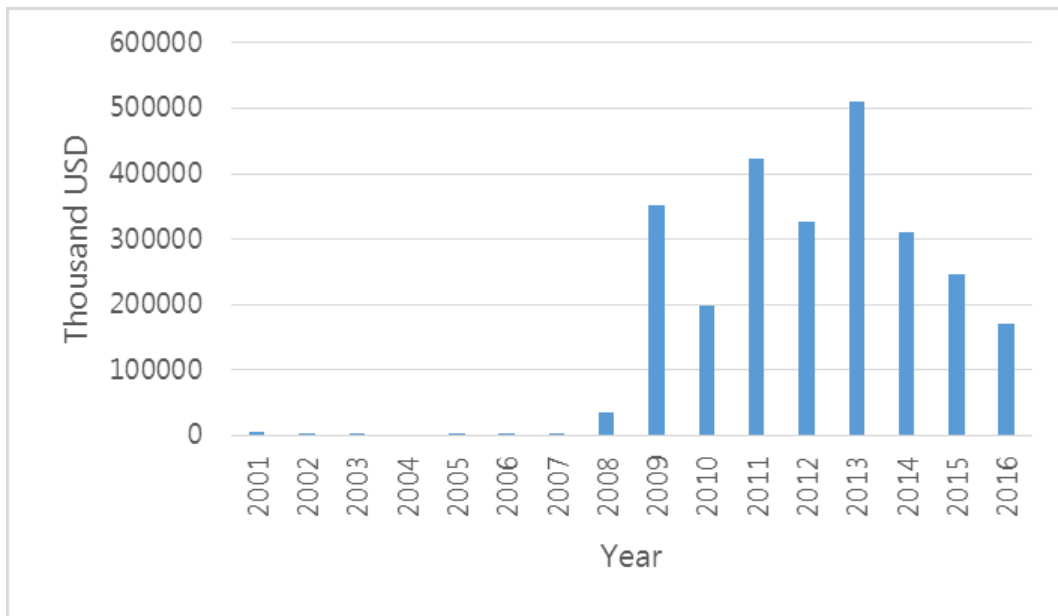
<Table 2> Korea Investment in Myanmar by Year

Year	Direct Investment in Myanmar			
	Number of new firms declared	Number of new firms established	Declaration Amount (thousand dollars)	Actual Investment (thousand dollars)
1990~2001	95	48	182,216	57,712
2002	6	1	2,400	2,815
2003	4	1	2,997	891
2004	1	0	455	0
2005	2	0	830	649
2006	5	1	471	465
2007	6	3	17,868	1,168
2008	1	0	49,746	35,800

Year	Direct Investment in Myanmar			
	Number of new firms declared	Number of new firms established	Declaration Amount (thousand dollars)	Actual Investment (thousand dollars)
2009	8	3	3,533,271	350,894
2010	10	2	233,038	197,341
2011	20	7	108,679	423,102
2012	20	10	42,130	327,642
2013	85	39	153,755	511,142
2014	102	53	461,574	311,124
2015	149	52	70,863	246,650
2016	126	41	158,996	171,439
Total	640	260	5,019,289	2,640,040

Source: Korea Exim Bank (Sept. 2016).

<Fig. 1> Actual Investment in Myanmar by Korean Firm



Source: the amount of actual investment in Myanmar from Table 1

<Table 2> shows differences between declared and actual investment in the number and the amount. The manufacturing sector has around 40 percent of their declared investments fulfilled. Investors in the manufacturing sector tend to not complete their investments. This may due to

reasons including the scarcity of productive resources and lack of linkages with the rest of the economy and the high political, institutional and economic risks perceived by investors in the sector. <Figure 1> presents that the investment in Myanmar has decreased since 2013. The decreasing number of investments in the manufacturing industry implies that the industry is risk sensitive.

III. Literature review

Williamson's transaction cost theory and the development of the ownership-location-internalization (OLI) or eclectic paradigm conceptualize FDI activity. A firm with firm specific intangible assets chooses to serve a foreign market. The OLI or eclectic paradigm embrace the internalization theory and traditional trade theories (Dunning, 2002). Location is important when a firm gains from its presence in a given market by benefiting from conditions such as lower production and transport costs, market size, access to protected markets, and lower risk (Assunção et al., 2011). FDI determinants associated with the location dimension of the OLI paradigm are infrastructure, human capital, economic stability, and production costs.

Firms can increase their competitiveness by investing in certain locations that offer access to natural resources of better quality and for a lower real cost than in the country of origin (Dunning and Lundan, 2008). This motivation is especially important in the case of manufacturing firms since this FDI decision can ensure the minimization of production costs and the security of sources of supply (Dunning and Lundan, 2008).

Location decision involves firms seeking to locate, relocate or expand their operations. The location of industries was based on minimization of the costs of raw materials and final products. Cost of manufacturing, cost of transporting, agglomeration of economies and labor cost are important factors for decision of location of firms.

Greenhut (1963) argued that location of any manufacturing establishment depends on different factors such as transportation and production cost, demand conditions and cost-reducing and revenue increasing factors. Blair and Premus (1987) found productivity, education, taxes, community attitudes toward business and other quality of life factors are important. Smith (1981) shows that total cost, land, labor raw materials, production facilities, and capital are the main

factors of location of a firm.

Schmenner (1982) found that favorable labor climate was the most important factor. His study also stressed the importance of proximity to markets for many firms, while quality of life and government incentives were found to be of relatively lesser importance. The traditional economic factors of location are, among others, labor costs, proximity to markets or raw materials, transport costs, infrastructure.

According to Goode and Hastings (1989), transportation cost, tax rates, labor and land costs, intermediate inputs, and agglomeration effect must be considered in location choice of firm. Morton and Deborah (1996) formulated a theory which deals with optimum location for agricultural crops in relation to a city. They assumed that a city is located in homogeneous plain having uniform resources, and price is uniform, rent decreases, and transportation cost increases with distance from the city, thus land rents and transportation costs are the determinants.

Kieschnick (1981) conducted a mail survey to firms that made interstate locational choices to determine the factors important to them in choosing a location. His study encompassed new firms and firms seeking sites for expansion. New firms were most influenced by access to the customers market and growing markets. Thus, market factors were very important to new firms.

Oum and Park (2004) surveyed 83 foreign companies of location factors. In their survey, geographical factors such as proximity to market, size of market, transportation, skilled labor and quality, tax and environmental factors were important for the location decision of firms. <Table 3> presents a summary of factors which are likely to affect the choice of firm's decision for FDI location country.

<Table 3> Summary of literature on FDI location factors

Factor	Measure	Literature Reference
Transportation	Airway facilities, highway facilities, railroad facilities, trucking services, waterway transportation	Greenhut (1963), Schmenner (1982)
Labor	Low cost labor, attitude of workers, skilled labor, wage rates, worker stability	Greenhut (1963), McMillan (1965), Biswas (2002), Botrić and Škuflić (2006)
Production factor	Proximity to supplies, availability of raw materials, nearness to component parts, availability of storage facilities for raw materials and components, location of suppliers, freight cost	Krugman (1983), Helpman (1984, 1985), Markusen (1984), Ethier (1986)

Factor	Measure	Literature Reference
Market	Existing consumer market, existing producer market, shipping cost to market area, population trends, location of competitors, size of market	Ekholm (1998), Markusen and Venables (2000), Zhang and Markusen (1999)
Cost	Transport cost, labor cost, taxes, shipping cost of raw materials, cost of finished goods transportation	Clark(2003), Park and Lim (2005)
Infrastructure	Water supply, cost and quality, availability of electronic power, cost of electronic power	Mohamed and Sidiropoulos (2010), Cleeve (2008), Schmenner(1982)
Cluster	Colleges and research institutions, medical facilities, shopping centers, hotels and motels, banks and credit institutions	Greenhut(1963), McMillan(1965), Schmenner(1982)

IV. Empirical study

1. Survey methodology

There are about 150 Korean companies registered at KOTRA (Korea Trade Investment Promotion Agency) in Myanmar in 2014, mostly in the Yangon region. Yangon, the political capital up to 2005, continues to be the country's commercial and logistics hub for international trade. It has the highest concentration of production facilities. Yangon also has the largest metropolitan population, and therefore, the biggest number of public transport facilities in the country. The ports and harbors in the Yangon area ensure almost the entire international overseas container and cargo trade.

In this study, we used a survey questionnaire method to collect data. The survey questions were designed and written in English and Korean languages. The survey period is from the 1st of May to the 31st of May, 2015. We interviewed personnel of firms located in the Yangon region. 84 out of 150 firms replied to the survey questionnaire. <Table 4> shows a summary of survey questionnaire.

〈Table 4〉 Category and the Measurements of Questionnaire

Category	Measurement
Labor	Getting labor
	Getting high skilled labor
	Getting low cost labor
Transportation	Distance from the airport
	Distance from the highway road
	Distance from the bus terminal
	Distance from the port
Production factor	Location of suppliers
	Distance from the raw materials
	Distance from the component parts
	Distance from the warehouse
	Distance from the distribution centre
Market	Distance from the customer's market
	Population of the city
Cost	The average salary of the employees
	Cost for transporting raw materials
	Cost for transporting products
	Rent of company
	Cost for electricity charge
Facility	Water supply
	Electricity supply
	Internet connection
Cluster	Number of similar company
	Getting labor information
	Getting business information

2. General Characteristics of the Firms

We can see 64 Korean companies are located in industrial zones in <Table 5>. The government of Myanmar has built 18 regional industrial zones and 34 district level industrial zones to create a designated area for manufacturing facilities and a base of operations for investors in and around

the major cities in Myanmar in the 1990s (Toshihiro, 2009).

<Table 5> presents 77% of the firms were in the manufacturing industry. 82% of the firms decided to enter into Myanmar in a form of green field investment.¹⁾ This kind of foreign direct investments presents the highest degree of control for the Korean company. Benefits of this kind of investment are that the company's plant construction is done to its own specifications, and fabrication processes can be tightly controlled. 76.2% of Korean firms had the annual sales less than 100 million US dollars. Subsidiaries of a Chaebol, a shipping company, and banks had the annual sales more than 1 billion USD.

<Table 5> General Characters of Firms

Factors	Contents	Frequency	Percentage
Industrial zone	In industrial zone	64	76.2
	not in industrial zone	20	23.8
	Total	84	100
Type of firm	Manufacturing	65	77.4
	Service	19	22.6
	Total	84	100
Company's annual sales	Less than 100 million US Dollars	61	72.6
	100 million~1 billion US Dollars	15	17.9
	1~3 billion US Dollars	5	6
	4~6 billion US Dollars	1	1.2
	more than 6 billion US Dollars	2	2.4
	Total	84	100
Ownership	100%	69	82.1
	more than 80%	2	2.4
	more than 60%	6	7.1
	more than 40%	4	4.8
	more than 20%	3	3.6
	Total	84	100
Motive of investment	Sales in Myanmar	13	15.5
	To increase production center	3	3.6
	Produce in Myanmar and export to another country	54	64.3
	Others	14	16.7
	Total	84	100

1) A green field investment is a form of foreign direct investment where a parent company builds the entirety of operations in a foreign country from the ground up.

With respect to the motives of investment, 64.3% of Korean companies invested in Myanmar to produce manufacturing goods and then export to other countries. There were just 13 companies that produced goods to sell in Myanmar.

3. Labor

One of the most obvious advantages of Myanmar is the availability of abundant, low-wage, and relatively well-educated labor. Labor in Myanmar is plentiful, and the rate of compensation is among the lowest in the ASEAN. The competitive advantage gives Myanmar the opportunity to attract labor-intensive manufacturing sectors such as textiles, apparel, leather, furniture, and toys. The level of wage represents the quality of labor in the company, productivity. The low wage is a critical factor for companies going abroad. However, the labor productivity is also a principal concern in business location decisions (Herzog and Schlottman, 1991).

<Table 6> presents that around 37% of companies had more than 900 employees. These companies were manufacturing companies, especially labor intensive garment companies. 27% of companies employed less than 100 employees. These companies were in the service industry. Firms can get the large number of labor and high skilled labor from the city. 64% of respondents recognized that their firms payed higher wages than other firms.

<Table 6> Labor Characteristics

Factors	Contents	Frequency	Percentage
Number of employees	Less than 100	23	27.4
	100~300	10	11.9
	300~500	13	15.5
	500~700	5	6
	700~900	2	2.4
	more than 900	31	36.9
	Total	84	100
Average salary	50~100 US dollars	12	14.3
	100~200 US dollars	56	66.7
	200~300 US dollars	8	9.5
	300~500 US dollars	4	4.8

Factors	Contents	Frequency	Percentage
	over 500 US dollars	4	4.8
	Total	84	100
Getting labor	near city	76	90.5
	the capital of the country	3	3.6
	job vacancy agency	5	6
	Total	84	100
Getting high skilled labor	near city	74	88.1
	the capital of the country	5	6
	foreign country	1	1.2
	job vacancy agency	4	4.8
	Total	84	100
Getting low cost labor	near city	79	94
	the capital of the country	1	1.2
	job vacancy agency	4	4.8
	Total	84	100
Higher wages	yes	54	64.3
	no	30	35.7
	Total	84	100

4. Transportation

In Yangon, industrial zones are located in the outside of the city, and the international airport of Yangon is not too far from the industrial zones. <Table 7> shows that 61% of the companies are located in 10 miles away from the airport. Interstate highway connections are associated with greater selection likelihood in firms' location (Bartik, 1991). 45% of Korean companies are situated at about 20 miles from the highway road. 70% of the companies have the access to the bus terminal about 10 or 20 miles far from their company. The railway station is located at the downtown. The high level of missing value, 56% of response implies that more than the majority of companies have the railway station farther than 20 miles. 54% of the companies are situated at 20 miles from the port.

<Table 7> Transportation Factor

Factors	Contents	Frequency	Percentage
Distance from the airport	about 20 miles	24	28.6
	about 10 miles	52	61.9
	about 5 miles	7	8.3
	about 3 miles	1	1.2
	Total	84	100
Distance from the highway road	about 20 miles	38	45.2
	about 10 miles	31	36.9
	about 5 miles	4	4.8
	about 3 miles	5	6
	about 1 miles	6	7.1
	Total	84	100
Distance from the bus terminal	about 20 miles	23	27.4
	about 10 miles	37	44
	about 5 miles	8	9.5
	about 3 miles	11	13.1
	about 1 mile	5	6
	Total	84	100
Distance from the railway terminal	about 20 miles	9	10.7
	about 10 miles	1	1.2
	about 5 miles	13	15.5
	about 3 miles	6	7.1
	about 1 mile	8	9.5
	Missing value	47	56
	Total	84	100
Distance from the port	about 20 miles	54	64.3
	about 10 miles	16	19
	about 5 miles	4	4.8
	about 3 miles	2	2.4
	about 1 mile	8	9.5
	Total	84	100

5. Production Factor

In the production factor, it includes the distance to the suppliers, the distance to the raw materials, the distance to the components, the distance to the warehouse and the distance to the distribution center. The natural resources or raw materials play an important role for the processing operations of firms. Proximity to the suppliers of specific raw materials is also a prominent issue in choosing locations for foreign investments.

The Korean firms that invest in Myanmar are generally manufacturing firms that produce in Myanmar and then export to other countries. Moreover, 87% of the Korean companies are importing raw materials from foreign countries. 75% of suppliers are in foreign countries. This implies that at present the consumer spending in Myanmar is negligible.

<Table 8> Location of Production Factors

Factors	Contents	Frequency	Percentage
suppliers	near office/factory	16	19
	the capital of the country	3	3.6
	foreign country	63	75
	Missing value	2	2.4
	Total	84	100
Raw materials	near office/factory	6	7.1
	the capital of the country	2	2.4
	foreign country	73	86.9
	Missing value	3	3.6
	Total	84	100
Component parts	near office/factory	9	10.7
	near city	19	22.6
	the capital of the country	2	2.4
	foreign country	50	59.5
	Missing value	4	4.8
	Total	84	100
Warehouse	near office/factory	71	84.5
	near city	9	10.7
	the capital of the country	1	1.2

Factors	Contents	Frequency	Percentage
	Missing value	3	3.6
	Total	84	100
Distribution center	near office/factory	46	54.8
	near city	5	6
	the capital of the country	1	1.2
	foreign country	17	20.2
	Missing value	15	17.9
	Total	84	100

6. Cost

In the cost factor, it includes the cost for transporting raw materials to the company, the cost for transporting products to the port, the cost of rent and the cost for electricity. Respondents recognized that the cost of production was relatively high, especially they believed that the price of electricity was very expensive.

<Table 9> Cost Factors

Factors	Contents	Frequency	Percentage
Cost of transporting raw materials	very expensive	4	4.8
	expensive	39	46.4
	middle	31	36.9
	cheap	1	1.2
	Missing value	9	10.7
	Total	84	100
Cost of transporting products	very expensive	5	6
	expensive	38	45.2
	middle	32	38.1
	cheap	1	1.2
	Missing value	8	9.5
	Total	84	100
Cost of rent	very expensive	25	29.8
	expensive	16	19
	middle	40	47.6

Factors	Contents	Frequency	Percentage
	cheap	3	3.6
	Total	84	100
Cost of electricity	very expensive	9	10.7
	expensive	61	72.6
	middle	13	15.5
	cheap	1	1.2
	Total	84	100

7. Infrastructure

The <Table 10> shows the quality of infrastructure such as water supply, electricity supply and internet connection. Companies operating in Myanmar should prepare to work in a situation in which the electricity is supplied only for 12 hours, and the internet connection is difficult. It is evident that a massive investment in the infrastructure sector is needed in Myanmar.

<Table 10> Infrastructure Factors

Factors	Contents	Frequency	Percentage
Water supply	24 hours	51	60.7
	12~24 hours	6	7.1
	8~12 hours	3	3.6
	1~6 hours	24	28.6
	Total	84	100
Electricity supply	24 hours	15	17.9
	12~24 hours	12	14.3
	8~12 hours	49	58.3
	6~8 hours	7	8.3
	1~6 hours	1	1.2
	Total	84	100
Internet connection	very good	2	2.4
	good	2	2.4
	middle	42	50
	poor	2	2.4
	very poor	36	42.9
	Total	84	100

8. Cluster

The <Table 11> shows that more than the majority of companies are a member of a cluster with 20 ~ 50 companies. Companies forming a cluster benefit from getting labor information, getting business information factors.

<Table 11> Cluster Factor

Factors	Contents	Frequency	Percentage
Cluster members	more than 50	1	1.2
	30~50	20	23.8
	20~30	39	46.4
	10~20	16	19
	no similar industry	8	9.5
	Total	84	100
Getting labor information	very much	1	1.2
	much	28	33.3
	some	44	52.4
	very little	8	9.5
	none	3	3.6
	Total	84	100
Getting business information	much	29	34.5
	some	23	27.4
	very little	30	35.7
	none	2	2.4
	Total	84	100

9. Regression analysis

In this section we have conducted a Poisson regression analysis to examine factors influencing the investment of Korean firms with respect to their size. The amount of sales is measured by using the Likert 5-point scale. The dependent variable is a discrete random variable. The Poisson distribution can be derived as limiting form of the binomial distribution if the distribution is the number of successes in a large number of Bernoulli trials with a small probability of success in each trial. The Poisson distribution provides an approximation to the binomial for the analysis of rare events. In order to evaluate the relationship between a dependent variable and independent

variables, this study tests different model specifications. <Table 12> presents four models of the Poisson regression analysis. They are all statistically significant.

The Transportation variable such as Distance to highway is statistically significant. It means that small firms are less likely to be located near a highway. This implies that large firms can access to a highway easily. The production factor such as Distance to raw material is negatively related to the firm size. The market variable such as Distance to customer market is positively significant. Small firms are situated at the consumer market, and large firms are far from the city. Small firms can get their raw materials from another city or a foreign country, that is, far from their emplacement. The transport cost increases with the firm size. Among many costs, large Korean firms are more sensitive to the transport cost for locating their firm.

<Table 12> Poisson regression analyses

	Model 1	Model 2	Model 3	Model 4
Constant	0.4688 (0.7580)	0.4548 (0.7468)	0.7565 (0.7158)	1.2755** (0.5595)
<i>Transport</i> Distance to highway	0.2021** (0.0967)	0.2067** (0.0856)	0.1659** (0.0816)	0.1395* (0.0844)
<i>Production factor</i> Distance to raw material	0.1887** (0.0928)	0.1945*** (0.0730)	0.2146*** (0.0723)	0.1153 (0.0845)
<i>Market</i> Distance to Customer market	0.1745** (0.0745)	0.1753** (0.0741)	0.1381** (0.0698)	0.1483** (0.0751)
<i>Cost</i> Transport cost	0.2692 (0.1905)	0.2784* (0.1680)	0.2789* (0.1692)	
<i>Labor</i> Staff no.	0.0074 (0.0723)			0.0587 (0.0682)
<i>ownership</i> Shareholding	0.3841 (0.2578)	0.3799 (0.2546)		0.4307* (0.2578)
<i>Transport</i> Distance to port				0.0508 (0.0961)
Log likelihood	89.5791	89.5843	90.7548	92.9825
χ^2	16.93***	16.92***	14.58***	14.56**
Pseudo R ²	0.0864	0.0863	0.0744	0.0726

Dependent variable is sales volume. Standard errors are in parentheses. ***p<0.01, **p<0.05, *p<0.10

Transport and Production factors are measured by the 5 point Likert scale in which 1 means very close and 5 means very far.

This empirical study finds a complicated patterns of FDI. Large Korean firms are located far from a consumer market, thus, bear an increased transport cost to reach the consumer market. They are rather located in a place where they can access to a transport means and raw materials with low cost to export final products. They place FDI into a host country to serve as a production platform for exports to neighboring countries. This study supports an export-platform FDI theory suggested by Ekholm et al. (2003), and Bergstrand and Egger (2004). Coughlin and Segev (2000) estimated that FDI into neighboring provinces increases FDI into a Chinese province and assign this as evidence of agglomeration externalities. In contrast, Blonigen et al. (2004) estimate a negative effect of neighboring-country FDI on the amount of US FDI received by a European country, while finding that neighboring GDPs increase FDI.

V. Conclusion

This study examines the location determinants of the FDI of Korean firms in Myanmar. A survey methodology and then regression analysis were employed. The paper found that factors such as transportation, production factor, market, costs played an important role for the FDI location.

It seems that Myanmar presents a great opportunity for investment and growth. Rich in natural resources and with a youthful population of 60 million, the country seems ripe for investment. However, Korean investment in Myanmar decreases from 2013. The decrease of Korean investment implies that investing in most sectors in Myanmar has not been profitable. A poor business climate is the primary impediment to Korean investment. Most of Korean firms are located in industrial zones. However, the industrial zones lack of infrastructure. Any firms contemplating entering the market will need to carefully weigh up the possible long term benefits against the immediate difficulties facing the country. New investments would still entail risks for companies.

Korean investment activity into Myanmar remains in an exploratory state with most investors moving very cautiously as the business environment is still considered to be opaque. Myanmar needs foreign investments in labor-intensive and internationally competitive sectors such as manufacturing to create jobs and develop the economy. The improvements in the business climate are essential to attract Korean FDI in various industry.

Theoretically, an export-platform FDI decision by a Korean firm involves picking the best low-cost host at the expense of other potential host locations (Blonigen, 2005). More than majority of Korean companies invested in Myanmar produce manufacturing goods and then export to other countries. An export platform strategy implies choosing the best host country and leaving other neighboring countries in a low-FDI inflow. The interconnectedness of FDI locations and the motivation of firms complicates analysis. Further research should take into account these host-market interdependences between an individual firm's FDI decision-making and candidates for the host country.

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