

Analysis of the Influencing Factors of Neighboring Countries' Direct Investment in Myanmar

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Abstract. Myanmar, as an emerging economy in Southeast Asia, has been a focal point for neighboring countries' foreign direct investment (FDI). This study delves into the complex web of factors influencing FDI inflows from neighboring countries into Myanmar. Employing a comprehensive research framework encompassing various analytical methods, including Factor Correlation Analysis, Causal Effects Analysis, and Factor Cross-Loading Analysis, the study seeks to shed light on the key determinants of FDI patterns. The research identifies several critical findings. Inflation emerges as a significant driver of FDI, highlighting its role as an indicator of economic opportunity. Additionally, market size proves to be a potent attractor for FDI, suggesting avenues for policy interventions aimed at capitalizing on this correlation. Infrastructure quality, while correlating positively with FDI, warrants further investigation into its causal relationship. Surprisingly, tax and policies did not exhibit a direct influence on FDI, emphasizing the need for deeper research in this area. Lastly, labor availability and skill levels are confirmed as influential factors in attracting FDI. This study advances our understanding of the intricate dynamics between Myanmar and its neighboring countries in the context of FDI, offering valuable insights for policymakers, investors, and researchers.

Keywords: FDI, Myanmar, Neighboring Countries.

1. Introduction

Neighboring countries' direct investment so called Foreign Direct Investment (FDI) is a cornerstone of global economic integration, fostering growth, job creation, and technology transfer. The flow of FDI is influenced by several interrelated global factors, including inflation, market size, infrastructure, tax policies, and labor conditions. This discussion explores how these factors impact FDI and their implications for the global investment landscape, drawing insights from recent research and reports.

FDI serves as a key driver of economic growth, innovation, and globalization in the contemporary world. As multinational corporations and investors navigate the complexities of the global marketplace, their investment decisions are significantly influenced by a spectrum of factors. In this multifaceted research endeavor, we delve into the intricate interplay of five pivotal factors - inflation, market size, infrastructure, tax & policies, and labor - and their impact on FDI across various contexts, encompassing the global, regional, and local dimensions.

From 2010 to 2023, Myanmar experienced a remarkable and multifaceted economic transformation marked by significant political developments, trade liberalization, and infrastructural growth. One of the key drivers of economic change during this period was the liberalization of the investment environment. Myanmar government also placed significant emphasis on infrastructure development to improve connectivity within the country and with international markets.

Economically, Myanmar enjoyed robust growth during this period, with GDP growth rates consistently exceeding 7% according to the report of World Bank. Rebuilding the attractiveness of Myanmar as an investment destination would require addressing the perspective of local people regarding underlying political issues, economic issues, social issues, reestablishing a stable and predictable economic environment.

2. Research Motivation

This research aims to investigate the collective opinions of Myanmar people about FDI currently settling down in the country and identify the factors that hindered FDI such as inflation, market size, infrastructure, tax & policies, and labor conditions. High and volatile inflation rates have eroded the real value of investments and have created an environment of uncertainty for foreign investors.

Despite of sizable population in Myanmar, the country's political and economic instability has deterred foreign investors. Infrastructure development in Myanmar has been a focal point for attracting FDI. However, the problem lies in understanding the extent to which economic and political instability-related infrastructure setbacks have hindered investment.

Moreover, Myanmar's tax policies and regulatory frameworks significantly influence FDI decisions, but the country's political situation has created uncertainty. Labor force in Myanmar, with its size and cost-effectiveness, is a potential draw for foreign investors. However, concerns regarding labor conditions and regulations pose challenges. Therefore, above problem statements lead to the following research questions:

RQ1. What are the significant factors that influence FDI in Myanmar?

RQ2. How does the interaction between inflation, market size, infrastructure, tax & policies, and labor affect Foreign Direct Investment patterns?

3. Literature Review

Inflation plays a pivotal role in shaping FDI patterns globally. High and volatile inflation rates erode the real value of investments and create uncertainty for foreign investors. A predictable inflation environment is essential for investor confidence, making it a critical factor in investment decisions. The implications of inflation on FDI are multifaceted, encompassing heightened uncertainty and the potential loss of purchasing power, particularly in the context of elevated inflation rates (Levine, 2016). In practical terms, inflation can significantly perturb foreign investment considerations by augmenting the relative costs of production, thereby undermining the competitiveness of goods and services in foreign markets (Warburton, 2001).

Market size is a significant driver of FDI, especially for multinational corporations seeking opportunities to expand their operations and access large consumer bases. Larger markets offer greater profit potential, and multinational corporations seek opportunities to access substantial consumer bases. Market size emerges as a pivotal determinant that exerts a profound impact on foreign direct investment (FDI) decisions, primarily by offering a broad customer base for the supply of goods and services. In essence, market size represents the aggregate demand within a particular country or region, and its significance in shaping FDI flows cannot be overstated (Rugman & Verbeke, 2001).

Infrastructure, a multifaceted concept, encapsulates the physical and technological underpinnings essential for the effective functioning of human activities (Baker & Brooks, 2017). It constitutes the linchpin of a society and its economy, encompassing both public and private physical structures and networks, ranging from the likes of roads, bridges, ports, and airports to intricate communication networks and technological systems (Tucker, 2020). Infrastructure quality is a crucial determinant of FDI attractiveness. A well-developed infrastructure network, including transportation, energy supply, and digital connectivity, reduces operational risks and costs for investors.

Tax policies and regulatory frameworks are significant factors in FDI decisions. Multinational corporations consider factors like tax rates, incentives, and the ease of doing business when selecting investment locations. Taxation is a fundamental process by which governments raise revenue to fund their operations, as defined by the World Bank. A progressive taxation is employed to mitigate income inequality and ensure a more equitable distribution of wealth by applying higher tax rates to individuals and entities with higher incomes, as expounded by (Rosen, 2018). A distinctive tax system, the flat tax, as outlined by (Forbes, 2021), applies a uniform tax rate to all income levels, eschewing distinctions based on income brackets while often eliminating deductions, credits, or exemptions.

Labor is a fundamental component of economic activity, representing the physical and mental exertion exerted by individuals in the production of goods and services, encompassing both skilled and unskilled work, as defined by Encyclopedia Britannica in 2021. Labor conditions, including the availability of skilled workers, wage levels, and labor market regulations, significantly affect FDI. However, labor conditions and compliance with international labor standards also impact investment decisions, especially in terms of ethical and human rights considerations. Labor market dynamics can vary within regions, influencing investor decisions on the location of labor-intensive industries.

4. Research Model and Hypotheses Development

Inflation can wield significant influence on FDI in host countries. Higher inflation rates are often associated with increased uncertainty and risk in the eyes of foreign investors, potentially leading to a decrease in FDI inflows. This is exacerbated by the fact that inflation can augment production costs for foreign investors, subsequently squeezing their profit margins and further deterring FDI. Furthermore, inflation's role in driving exchange rate fluctuations can indirectly affect FDI flows, given the sensitivity of FDI to currency variations (Ismail, 2016). Thus, following hypotheses is proposed:

H1: Inflation has significant negative affect FDI in Myanmar.

Market size, on the other hand, emerges as a potent driver of FDI. There exists a robust positive relationship between market size and the magnitude of FDI inflows, as larger markets inherently offer higher potential for profits and revenue generation for foreign investors (Jamolovich et al., 2016). Such attractiveness is underpinned by foreign investors' predilection for expansive markets, particularly those housing burgeoning middle-class populations, signifying augmented purchasing power (Amini & Kirkpatrick, 2017). Above argument leads to following hypothesis:

H2: Market size has significant positive affect FDI in Myanmar.

Infrastructure stands out as a pivotal factor influencing FDI, with well-developed infrastructure, encompassing transportation, communication, and energy, being critical for the seamless execution of FDI activities and the consequent enhancement of FDI inflows (Biyi, Afolabi, & Falana, 2020). Inadequate infrastructure and services, conversely, elevate production costs for foreign investors, invariably diminishing the level of FDI inflows. Notably, developed infrastructure serves as a magnet for FDI inflows, as it reflects the potential for heightened efficiency and productivity. Thus, following hypothesis is formulated:

H3: Infrastructure has significant positive affect FDI in Myanmar.

Taxation policies and governmental regulations are significant determinants of FDI inflows. Favorable tax policies, including tax reductions, exemptions, and holidays, are known to draw in FDI by alleviating production costs for foreign investors (Egger, Pfaffermayr, & Winner, 2004). Additionally, policies related to intellectual property rights protection and regulatory frameworks can stimulate FDI inflows. Conversely, high taxes and complex bureaucratic tax systems can act as barriers, increasing the operating costs for foreign investors and deterring FDI.

H4: Tax & Policies has significant positive affect FDI in Myanmar.

Labor considerations also play a pivotal role in FDI decisions. Foreign investors routinely assess the skill level and availability of labor within host countries before committing to investments (Friedman, 2017). A low labor cost coupled with a plentiful pool of skilled and specialized labor can significantly enhance a country's attractiveness for FDI. Investments in human capital, including education and training, further raise labor productivity, bolstering a country's allure for FDI. Therefore, following hypotheses is developed:

H5: Labor has significant positive affect FDI in Myanmar.

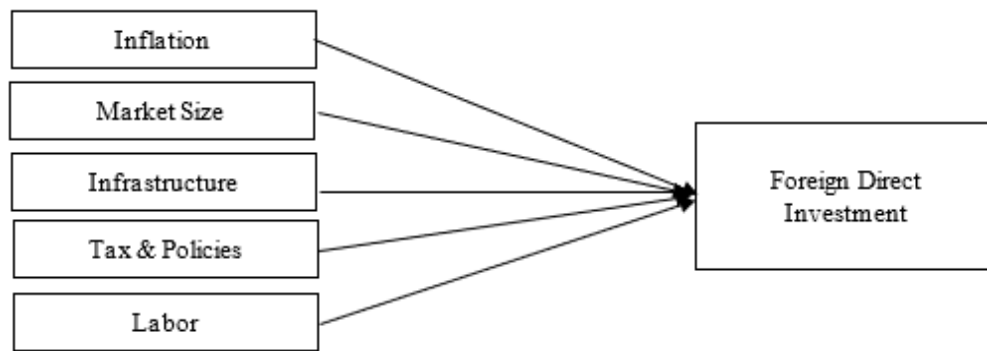


Figure 1. Proposed Research Model.

5. Research Design

Quantitative research is a research method that involves the collection and analysis of numerical data. It is used to uncover trends, patterns, and relationships between variables (Creswell, 2014). Surveys and questionnaires are commonly used data collection methods in quantitative research. In this section, the researcher will discuss how surveys and questionnaires are used in quantitative research. The Likert scale, in its final form, is has five-point scale that allows people to express how strongly they agree or disagree with a given proposition. In this study, the researcher aims to collect data on the public's perception of the FDI's response to climate change through a Google Docs survey (Table 1). The Google Docs survey is designed to ask participants to rate their perception of FDI response to climate change on a 5-point scale. Based on the study design, the minimum sample size for this research is 250 participants. However, the collected sample size exceeds the minimum required, with a total of 254 participants. Increasing the sample size above the minimum required can improve the generalizability and representativeness of the results (Nadić & Kalogianni, 2017). The data analysis process will include several steps, which are as follows:

Descriptive statistics: This step is carried out in SPSS to get an overview of the data collected. Descriptive statistics help to calculate the mean, median, mode, and standard deviation for each variable.

Exploratory Factor Analysis (EFA): EFA is used to examine the factor structure of the measured variables. This step is also performed using SPSS. It helps in identifying the underlying factors that explain the correlations between the measured variables.

Confirmatory Factor Analysis (CFA): In this step, AMOS is used to test the fit of the hypothesized model and to confirm the factor structure identified in EFA. The CFA helps to confirm the scale validity and reliability of the measured variables.

The final step is to test the hypotheses using Maximum Likelihood (ML) Estimation. Hypotheses are formulated based on the research questions and objectives, and tested using SEM. ML estimation calculates the likelihood of obtaining the observed data given the proposed model.

Table 1. The summary of variables in questionnaire.

Section Name	Variables	No. of Questions
Demographics	Gender, Age, Educational, Occupation	4
	Inflation (Infl)	3
Perception	Market size (Mkts)	3
	Infrastructure (Infs)	3
	Tax & Policies (Tapo)	3
	Labor (Lab)	3
	FDI	3

6. Data Analysis and Results

6.1. Demographic Profile Analysis

The majority of the respondents are female, comprising 56.7% of the total sample, while males make up 43.3% of the sample. The age distribution shows that the largest group falls in the age range of 31-35 years, making up 24.4% of the respondents. The other age groups are relatively evenly distributed, with the smallest group being those aged 18-20 years at 6.3%. The majority of respondents hold a Bachelor's degree (62.6%), followed by Master's degree holders (22.0%). A smaller percentage of respondents have either a Diploma (5.5%) or a Ph.D. (9.8%). The largest occupational group among the respondents is employees, comprising 53.1% of the sample. Other groups include self-employed individuals (22.4%), civil servants (13.8%), and students (10.6%). These findings provide an overview of the demographic profile of the 254 respondents (Table 2), highlighting key characteristics such as gender, age, education, and occupation.

Table 2. Summary of Respondents' Demographic Profile.

Demographic Profile		Frequency (n = 254)	Percent
Gender	Male	110	43.3
	Female	144	56.7
Age	18-20 years	16	6.3
	21-25 years	50	19.7
	26-30 years	50	19.7
	31-35 years	62	24.4
	36-40 years	44	17.3
	over 41 years	32	12.6
	Diploma	14	5.5
Education	Bachelor	159	62.6
	Master	56	22.0
	Ph.D	25	9.8
	Civil Servant	35	13.8
Occupation	Employee	135	53.1
	Self-employed	57	22.4
	Student	27	10.6

6.2. Factor Cross-Loading Analysis

To validate the observed variables within the proposed research model in this paper, an exploratory factor analysis (EFA) was employed. This analysis utilized the Principal Components Analysis (PCA) method with Varimax rotation in SPSS software. The Kaiser-Meyer-Olkin (KMO) value, which stands at 0.863, indicates that the data's adequacy for factor loading analysis is very good. Any indicator with a loading coefficient equal to or greater than 0.5 was considered to represent its respective construct. The factor loading values for all the questionnaire items ranged from 0.896 to 0.554. Consequently, the cross-factor loading analysis confirmed the presence of six factors associated with eighteen indicators. The analysis results are presented in Table 3.

Table 3. Analysis Result of Factor-Cross Loading.

Factors	Indicators	Component					
		Lab	Tapo	Mkts	Infl	FDI	Infs
Labor	Lab2	.867	.261	.154	.120	.144	.123
	Lab1	.834	.230	.178	.071	.159	.124
	Lab3	.784	.209	.172	.122	.315	.153
Tax & Policies	Tapo2	.190	.896	.125	.092	.123	.084
	Tapo1	.197	.860	.166	.043	.132	.095
	Tapo3	.300	.767	.212	.144	.151	.187
Market Size	Mkts2	.195	.196	.858	.180	.137	.179
	Mkts1	.084	.121	.840	.249	.184	.139
	Mkts3	.290	.243	.728	.251	.156	.115
Inflation	Infl3	.160	.138	.189	.801	.111	.232
	Infl2	.099	.138	.277	.788	.202	.141
	Infl1	.040	-.013	.177	.787	.344	.178
FDI	FDI2	.170	.164	.234	.291	.812	.083
	FDI1	.331	.159	.111	.212	.793	.106
	FDI3	.250	.234	.255	.322	.554	.267
Infrastructure	Infs3	.091	.130	.072	.121	-.108	.809
	Infs2	.119	.080	.181	.214	.232	.803
	Infs1	.176	.121	.162	.199	.338	.689

6.3. Convergent Validity and Construct Reliability Analysis

As part of the confirmatory factor analysis (CFA) process, we initially constructed the measurement model for the proposed research model by using AMOS software. This was done to assess both convergent and discriminant validity. The standardized regression weights for all the indicators were found to be greater than 0.5, ranging from 0.575 to 0.921. Additionally, the average variance extracted (AVE) values exceeded the minimum threshold of 0.5, ranging from 0.771 to 0.570. Moreover, the composite reliability (CR) values exceeded the minimum acceptable level of 0.7, with a range from 0.910 to 0.795. Therefore, based on the results presented in Table 4, we can conclude that convergent validity has been established. Furthermore, the Cronbach's Alpha values for all the constructs fell within the range of 0.778 to 0.906, surpassing the acceptable threshold of 0.7. Consequently, all the questionnaire items were deemed suitable for further examination.

Table 4. Analysis Result of Convergent Validity and Construct Reliability.

Factors	Indicators	Standardized Regression Weights	AVE	CR	CA
Inflation	Infl1	0.830	0.661	0.854	0.852
	Infl2	0.819			
	Infl3	0.790			
Market Size	Mkts1	0.843	0.749	0.899	0.894
	Mkts2	0.930			
	Mkts3	0.819			
Infrastructure	Infs1	0.790	0.570	0.795	0.778
	Infs2	0.869			
	Infs3	0.575			
Tax & Policies	Tapo1	0.852	0.754	0.902	0.898
	Tapo2	0.907			
	Tapo3	0.844			
Labor	Lab1	0.853	0.771	0.910	0.906
	Lab2	0.921			
	Lab3	0.858			
FDI	FDI1	0.824	0.681	0.864	0.850
	FDI2	0.885			
	FDI3	0.762			

6.4. Discriminant Validity Analysis

In order to establish discriminant validity, it is necessary for the square root of the average variance extracted (AVE) for each factor to be greater than the correlation between that factor and any other factors. In Table 5, the square root of AVE values, as obtained from the convergent validity analysis, are emphasized by being bolded and highlighted. The analysis reveals that all of these squared AVE values exceed the correlations among the respective sets of factors. Consequently, the analysis confirms that the measurement model exhibits adequate discriminant validity, supporting its suitability for further data analysis.

Table 5. Analysis Result of Discriminant Validity Analysis.

Factors	Infl	Mkts	Infs	Tapo	Lab	FDI
Inflation	0.813					
Market Size	0.611	0.865				
Infrastructure	0.613	0.516	0.755			
Tax & Policies	0.352	0.504	0.397	0.868		
Labor	0.399	0.521	0.461	0.602	0.878	
FDI	0.712	0.590	0.564	0.506	0.623	0.825

6.5. Goodness-Fit Indices Analysis

Table 6 presents an assessment of the model-fit indices for the research model, which includes the Chi-Square per degree of freedom ratio (χ^2/df), Goodness of Fit (GFI), Adjusted Goodness of Fit (AGFI), Comparative Fit Index (CFI), Normed Fit Index (NFI), and Root Mean Square Error of Approximation (RMSEA). The χ^2/df , AGFI, NFI, and RMSEA values fall within the range of marginal fit. However, the GFI value indicates an acceptable fit, and the CFI value suggests a good fit. Therefore, based on these results, the research model is deemed to provide a satisfactory fit for the collected data.

Table 6. Analysis Result of Model Fit Indices.

Fit Indices	Research Model	Result
χ^2/DF	3.395	Marginal Fit
GFI	0.855	Acceptable Fit
AGFI	0.793	Marginal Fit
NFI	0.880	Marginal Fit
CFI	0.911	Good Fit
RMSEA	0.097	Marginal Fit

6.6. Casual Effects Analysis

The hypotheses were validated according to the proposed research model. The results of the hypotheses testing are presented in Table 7. Inflation ($\beta=0.488$, $p<0.001$, $t=5.840$) and Labor ($\beta=0.319$, $p<0.001$, $t=4.514$) with regard to FDI, all evidenced a positive effect on FDI. Therefore, H1 and H5 were supported. However, the results indicated that Market Size, Infrastructure, and Tax & Policies do not significantly affect FDI, thus, H2, H3 and H4 were not accepted.

Table 7. Analysis Result of Casual Effects.

Hypotheses	Std. Effect (β)	t-Value	p-Value	Result
H1 Infl $\rightarrow$ FDI	0.488	5.840	***	Support
H2 Mkts $\rightarrow$ FDI	0.049	0.672	0.502	Reject
H3 Infs $\rightarrow$ FDI	0.054	0.727	0.467	Reject
H4 Tapo $\rightarrow$ FDI	0.096	1.437	0.151	Reject
H5 Lab $\rightarrow$ FDI	0.319	4.514	***	Support

7. Discussion

The analysis reveals a substantial and statistically significant positive effect of inflation on FDI, strongly supporting the hypothesis. This result implies that as inflation rates rise in Myanmar, there is a notable increase in the flow of Foreign Direct Investment (Han & Wang, 2021). High inflation can sometimes indicate economic growth and activity. Foreign investors may interpret rising inflation rates as a sign of economic opportunity, prompting them to invest in Myanmar in anticipation of potential returns. Inflation can impact exchange rates. If a country's currency is depreciating due to inflation, it can make assets in that country more attractive to foreign investors, as they can acquire assets at a lower cost. Moderate inflation rates can signify a stable and growing economy (Hosseini & Mahmoodi, 2013). This can boost investor confidence and lead to increased FDI. Investors may see Myanmar as an attractive destination for diversifying their portfolios in response to inflation in their home countries. The positive relationship between inflation and FDI observed in this analysis suggests that policymakers and businesses in Myanmar should carefully monitor and manage inflation rates to maintain a favorable environment for foreign investment (Klinger & Sjö, 2005).

Based on the research question the researcher conducted Factor Correlation Analysis and the results provide valuable insights into the relationship between these key economic factors. The most significant result of this analysis is the strong and statistically significant correlation between market size (Mkts) and FDI. This finding indicates that the size of Myanmar's market plays a crucial role in attracting or deterring Foreign Direct Investment. A larger market size can be an attractive factor for foreign investors, as it potentially represents more significant business opportunities. Thus, when the market size of a country expands, it tends to attract more FDI. The strong correlation between market size and FDI has significant implications for Myanmar's economic development and FDI attraction strategies. It underscores the importance of policies and efforts that aim at expanding and developing the domestic market to attract foreign investment (Zhang, Liu, Li, & Zhang, 2018). Additionally, it highlights the potential for market-oriented reforms and strategies to stimulate FDI inflows.

The positive associations between infrastructure quality and FDI have substantial implications for Myanmar's economic development and investment attractiveness. Adequate infrastructure, including transportation, energy, and telecommunications, is critical for creating a conducive environment for foreign investors (Sop Monteiro & Martins, 2020). A well-developed infrastructure can lower operational costs, reduce business risks, and enhance the overall investment climate. Although the analysis did not establish a significant relationship between tax and policies frameworks and FDI, it is important to emphasize that these factors remain critical considerations for multinational corporations. The lack of significance in this analysis might be attributed to various factors, including the specific context and scope of the study. It is essential for policymakers to formulate tax and policies frameworks that are conducive to attracting foreign investment (Ismail, 2016). This entails ensuring transparency, consistency, and fairness in these policies to create an environment that appeals to multinational corporations.

8. Conclusion and Recommendation

In summary, the Variable Analysis Result provides a comprehensive understanding of how these economic factors collectively influence FDI patterns in Myanmar. These findings can guide policymakers, investors, and researchers in formulating strategies and policies that promote FDI, enhance economic growth, and contribute to the development of the country. However, it is essential to acknowledge that FDI is a multifaceted phenomenon influenced by various factors, and further research is needed to uncover the full spectrum of dynamics at play in Myanmar's FDI landscape.

Acknowledging the significant positive effect of inflation on FDI, policymakers should adopt proactive measures for monitoring and managing inflation rates. This includes implementing policies to maintain a stable inflation environment while considering the potential impact on FDI attractiveness. Furthermore, there should be endeavors to promote Myanmar as an investment

destination, emphasizing its economic potential, and leveraging the positive influence of inflation on FDI.

Given the robust correlation between Myanmar's market size and FDI inflows, businesses and policymakers should explore strategies to harness this potential. This may involve tailored marketing campaigns, product localization, and efforts to expand market reach. Creating an environment conducive to domestic business growth can further bolster FDI by attracting companies seeking to tap into the local consumer base.

The observed positive association between infrastructure quality and FDI underscores the importance of infrastructure development. Policymakers should prioritize infrastructure projects aimed at improving transportation, logistics, and communication networks. Collaborative partnerships with international organizations and private sector investors may provide avenues for funding and implementing these critical initiatives.

While the direct impact of tax and policies on FDI was not established in this research, it remains essential to the overall investment environment. Policymakers should engage in comprehensive evaluations of existing tax incentives and regulatory reforms to ensure they align with FDI objectives. Dialogue with multinational corporations and investors can help identify areas for improvement, thus enhancing Myanmar's attractiveness for FDI.

The research strongly supports the role of labor availability and skill levels in attracting FDI. To capitalize on this, policymakers should invest in education and workforce development programs. Aligning education and training with industry needs, fostering collaborations between educational institutions and businesses, and addressing skill gaps can create a competitive labor market that appeals to foreign investors.

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