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Myanmar – The Second Growth Wave

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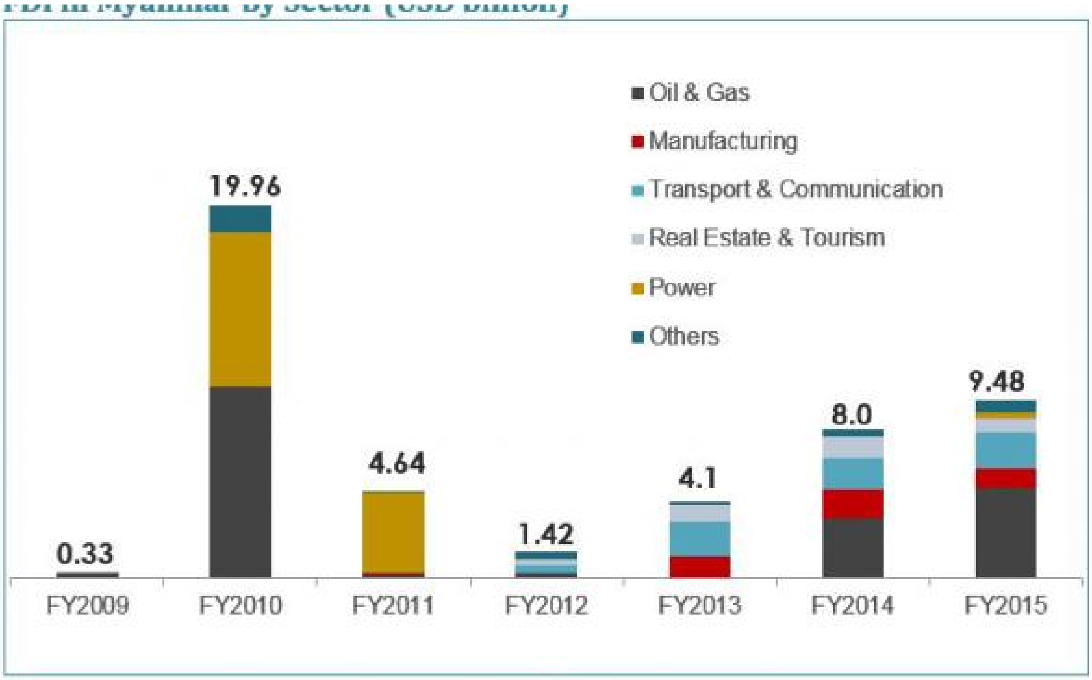


*Others include agriculture, livestock and fisheries, construction, mining, etc.

October 7 was a historic day for Myanmar with President Obama officially lifting remaining economic and financial sanctions, acknowledging the successful transition from a military-led pariah nation to a democratic country with a civilian-led government at the helm of affairs. The previous quasi-civilian government that came into power in March 2011 under the leadership of President Thein Sein, surpassed expectations by successfully implementing political and economic reforms, raising foreign direct investment (FDI) to $8 billion in FY2014 from a mere $3 billion in FY2009.

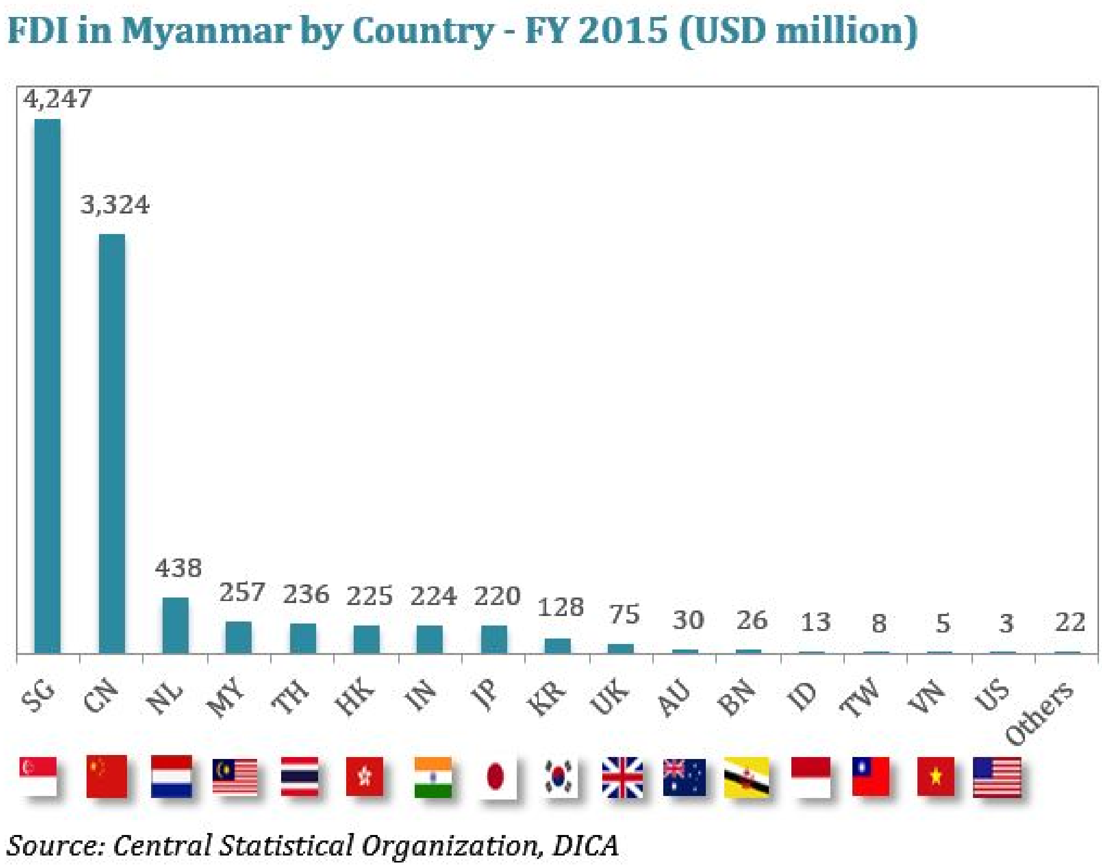
Special Economic Zones, export-oriented policies and tax benefits also encouraged diversification of investment to sectors such as manufacturing and real estate. While some investors adopted a 'wait and watch' approach, others placed their bets early on the historic November 2015 elections further boosting investments, riding on the promise of a new era of growth under the democratic government, with Myanmar expected to be the fastest growing economy in Southeast Asia in 2016 with an 8.4 percent GDP growth rate forecast.

Uncertain economic policy, but optimism prevails

The promise seemed far-fetched few uncertain months later, when the much-anticipated economic policy announcement in July was limited to a three-page list of 12 bullet points, leaving businesses and executives wanting more, especially the "how" factor. However, investors remain optimistic and senior executives from Fortune 500 companies and other multinational companies ranging from the food and beverage sector to automotive and building materials industries, who recently participated at the Solidiance Executive Breakfast Roundtable in Bangkok last month expressed a general consensus that Myanmar is on the right track, albeit marred by challenges, offering a perfect testing ground for the survival of the fittest companies. Senior Executives spearheading existing manufacturing operations in Myanmar cited significant growth potential driven not only from the untapped local demand but also the possibility of catering to demand from neighbouring countries through exports by leveraging on Myanmar's unique geographical location.

Asian firms dominate

The risk takers that firmly established themselves as the early entrants in Myanmar through representative offices or local partnerships will find that leap of faith rewarding as the recent lifting of all sanctions ushers in the second growth wave. Given the US sanctions, most of these early entrants are dominated by Asian and European companies who will benefit from the head start primarily relating to local market knowledge, relations, distribution networks and access to reputable Burmese companies and individuals, including their especially prized assets - land.



The Burmese companies, on the other hand, have also been able to adapt to the business requirements and processes of these early entrants, while relying on the international investors for their technical expertise with many Burmese executives receiving training at their headquarters or regional offices.

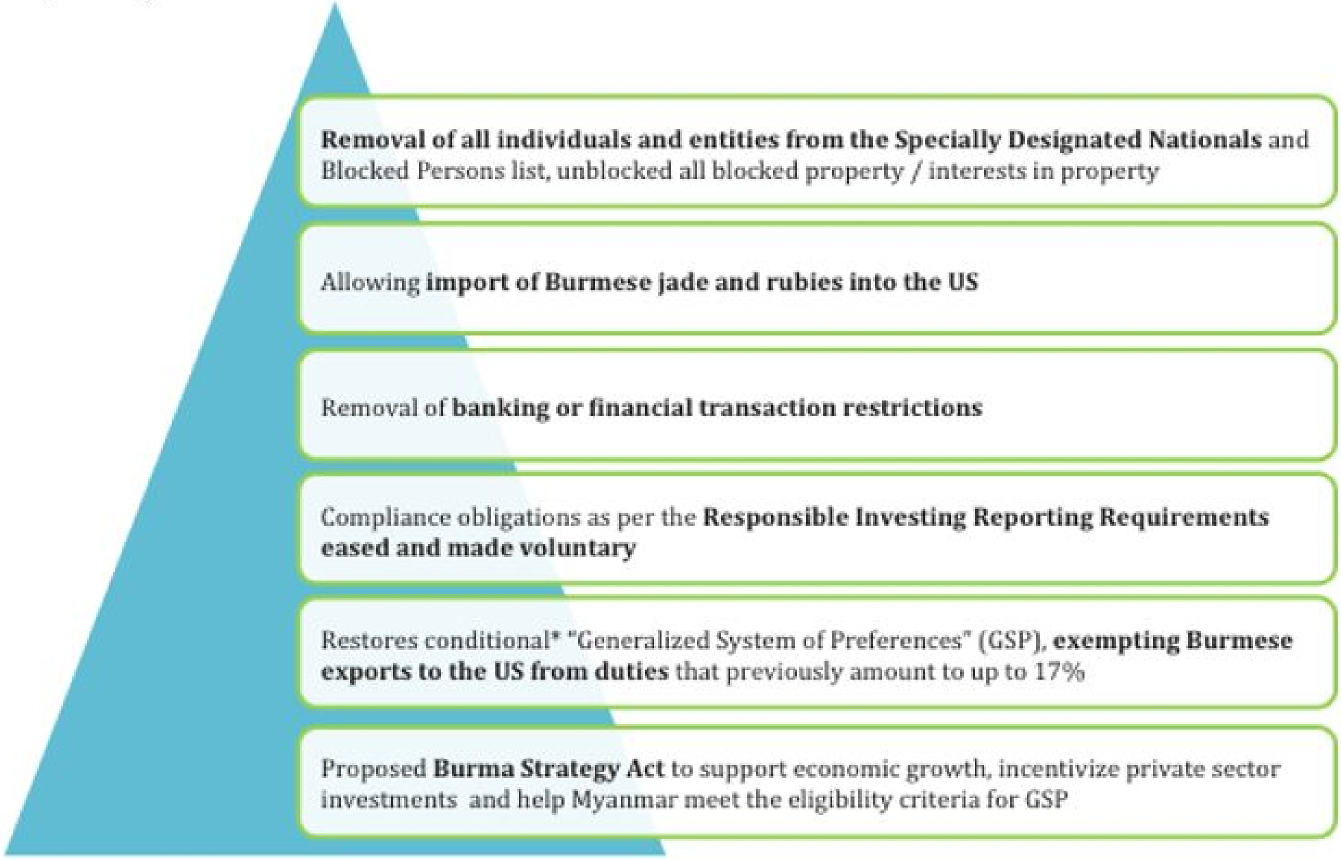
The US accounted for a mere 0.03 percent of all FDI in FY2015 compared to the leading investor Singapore at 44.8 percent followed by China at 35.1 percent. Some of the leading US companies with operations in Myanmar include Coca-Cola and Ball Corporation; both of which have factories in Myanmar, as well as GE and Chevron. However, the sanctions limited banking and financial transactions as well as imposed significant compliance requirements to be followed as part of the State Department's Responsible Investment Reporting.

The "Second Growth Wave"

The October 7 Executive Order lifting sanctions on Myanmar received mixed reactions, with some hailing the move as an accelerator for economic growth in Myanmar while others criticised the loss of leverage on the removal of former generals, military associates and companies from the sanctioned list.

While the removal of sanctions came as a surprise to many, the general sentiment remains positive with the anticipated rise in international investment, especially from the US expected to benefit the masses, although only in the long run, as favourable domestic economic policies, infrastructural improvements, increased transparency and effective measures to address ethnic conflicts will continue to be the key drivers of growth and transformation in the post sanctions Myanmar.

Impact of the 7 October 2016 Executive Order at a Glance



Source: US Treasury

The removal of financial transactions restrictions is expected to be the driving force of the second wave of growth in Myanmar, providing significant growth opportunities not just for US companies but also multinational firms relying on US banks to process transactions in US dollars. Given the collaborative economic investment approach adopted successfully by the Japanese so far, the Burma Strategy Act by the US also aims to support and work together with Myanmar to help meet the conditions for gaining the EU's Generalised Scheme of Preferences (GSP) eligibility which include implementing effective IP protection measures, observing internationally recognized workers' rights, and implementing any commitments to eliminate the worst forms of child labour, amongst others. Steps undertaken to achieve these conditions will be beneficial for all current and potential investors looking at establishing sustainable growth operations in Myanmar, especially as Myanmar seeks to position itself as a competitive destination as part of the ASEAN Economic Community (AEC).

As China's era of low cost manufacturing is drawing to a close, investors have actively explored ASEAN as an attractive destination to diversify their manufacturing footprint with countries such as Vietnam benefiting from the trend. With the lowest labour costs in ASEAN, Myanmar had initially attracted traditional low cost manufacturing industries such as garments, however high logistic costs, insufficient quality of supporting infrastructure and lack of skilled workers had been the key deterrents for Myanmar to achieve its full potential as a manufacturing hub. With potential eligibility for GSP, manufacturing is expected to bounce back to take advantage of duty free exports to the US further supporting the country's favourable export – oriented policies, especially in the special economic zones.

The nascent but fast expanding manufacturing sector in Myanmar, which has already seen investments across other sectors such as Automotive (Nissan, Suzuki, Koyorad, Komatsu) as well as Building Materials (SCG, Yojin) and Chemicals (Sika), offers attractive growth opportunities. However, rigorous due diligence and support from foreign investors in terms of improving operational management, quality control, transparency and accountability as well as human resource training in Myanmar will be crucial to ensure that local production and processes meet international standards.

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