



The Knowledge to Decide

www.spiresearch.com

Myanmar: A New Beginning?

With its recent opening up to the US, will
Myanmar join the ranks of emerging
markets?

Myanmar: A New Beginning?

Myanmar has been largely excluded from the global economy since a military coup thwarted an elected government from taking office in 1989. However, in recent weeks, the country has seen dramatic changes, from the political Opposition's decision to contest elections for the first time in 21 years, to the historic visit of US Secretary of State, Hillary Clinton in December 2011. Is Myanmar poised to become the next emerging market?

Something is changing in Myanmar. The military remains very much involved in government, as has been the case since the military coup that prevented the democratically elected National League for Democracy (NLD) from taking power in 1989. However, in 2011, fresh elections produced a new government with seemingly less military involvement. This new government has signalled its willingness to open up to the West and to liberalize politics and economics at home.

That change is in the wind has been acknowledged abroad. The Association of Southeast Asian Nations (ASEAN) has endorsed Myanmar as the rotating chair of the regional grouping in 2014. This is a highly a significant move, considering how Myanmar's government was forced to give up its chairmanship a little over five years ago¹.

In December 2011, US Secretary of State Hillary Clinton visited Myanmar, making her the first US Secretary of State to visit in 50 years. US officials had made it clear that the Clinton trip was to gauge how serious the Myanmar government was towards reform, and that an immediate easing of US sanctions was not on the

¹ Myanmar pledges to continue working for ASEAN community building, PhilStar, 21 November 2011

cards.² However, sources indicate that the US delegation was warmly received by the Myanmar authorities, some of whom wished to return to normal trading relations.³

Background to the Current Changes

Myanmar's post-war political history has been dominated by the military. In the 1960s, the military first seized power and ended a period of constitutional democracy after the Second World War. Myanmar's military rulers, led by the late General Ne Win, imposed an autarkic economic model on the country – avoiding imports and relying on domestic companies and state investments. Consequently, the living standards of the people suffered and the economy stagnated.

Mass popular protests erupted in August 1988 – what is popularly known in Myanmar as the “8-8-8” event (after 8 August 1988). While these protests were violently repressed, they ultimately forced the military to concede democratic elections in 1989. Daw Aung San Suu Kyi's National League for Democracy (NLD) won a landslide victory. However, a military coup by the generals of the State Law and Order Restoration Committee (SLORC) in 1989 prevented the NLD from taking power and placed Aung San Suu Kyi under house arrest. The military presided over an ever-worsening economic and social situation, leading to another wave of public protests led by Myanmar's Buddhist clergy in 2007 – which was also suppressed with violence.

By some accounts, the recent changes in Myanmar's political complexion do amount to a credible liberalization. In elections last year, the military-dominated

² Hillary Clinton prepared for Burma trip, The Sydney Morning Herald, Shaun Tandon, 28 November 2011

³ Non-public sources available to Spire Research and Consulting

government was replaced by civilian rulers, though the new Cabinet still includes some former military officials.

The post-election period saw creeping changes, ranging from the release of political prisoners to the government's approval of peaceful public protests in November 2011. As a result of this political thaw, the NLD, still being led by Nobel Peace Prize winner Aung San Suu Kyi, decided to re-enter the official political realm and contest elections for the first time in 21 years.

In an interview with the *Wall Street Journal*, Myanmar's Minister for Information and Culture, U Kyaw Hsan, stated: "In order to implement the desire of the people, we are now undertaking a transformation, the establishment of democracy [...] a market economy, as well as social, economic development for all."⁴

What about companies who are thinking about turning their attention, resources and workforces to Myanmar? What are the implications, especially in view of the complicated situation regarding sanctions?

Myanmar's Trade Relations with the World

Several Western countries, including Canada, Australia and the USA, have enacted economic sanctions against Myanmar. For example, under the Burmese Freedom and Democracy Act (BFDA) of 2003, and subsequent executive orders from the President of the United States, Burmese goods may not be imported into the US, with a few exceptions. A raft of US laws specifically

⁴ 'No Intention to Retract' Reforms, Myanmar Official Interview Transcript, Wall Street Journal, 16 November 2011

prohibits business dealings with companies linked to individual Myanmar government figures.

Sanctions by the US in particular had a devastating effect on Myanmar's garment industry. They also drove up the cost of doing business with Myanmar companies in general, particularly those with links to regime leaders.⁵ Mr Kyaw Hsan has argued that "the sanctions that have been held against Myanmar... are having adverse effects on the majority of Myanmar people, their social, economic development. We believe that these sanctions are not fair or just."⁶

India and China have filled the void created by the virtual US ban on imports from Myanmar.

However Myanmar's two giant neighbours – China and India – have both demonstrated no scruples about doing business in the country. China is Myanmar's biggest import partner at 38.9%⁷ of total imports, while Thailand is Myanmar's biggest export partner at 38.3%⁸ of exports. India and Vietnam are also major trading partners.

Sanjay Kirloskar, Chairman of the Confederation of Indian Industry, had this to say about trade possibilities between Myanmar and India: "I still have a lot to learn and understand because so many changes have taken place in Myanmar of late. [...] As far as Myanmar's businesses are concerned, we have plenty to offer because India went through a similar [opening up] process in 1991 and after that the economy boomed."⁹

⁵ CIA World Factbook

⁶ 'No Intention to Retract' Reforms, Myanmar Official Interview Transcript, Wall Street Journal, 16 November 2011

⁷ CIA World Factbook

⁸ CIA World Factbook

⁹ India trade show a chance to learn, says CII chairman, Myanmar Times, Myat May Zin, 14 November 2011

A thaw in economic ties between Myanmar and the West might erode the captive market that Chinese and other Asian exporters now have in supplying to Myanmar.

Myanmar at a Glance

Myanmar is approximately twice the size of Vietnam by land area. It is a resource-rich country, with agriculture, cattle breeding, fisheries and forestry products accounting for 50% of the country's GDP currently.¹⁰

The most productive sectors of Myanmar's economy are its extractive industries. The International Monetary Fund states that Myanmar's GDP per capita based on Purchasing Power Parity (PPP) in 2009 was USD1,197 and is expected to rise to USD1,573 by 2015.¹¹

The most productive sectors of Myanmar's economy are its extractive industries, especially oil and gas, mining and timber. More than half of the country is mountainous, ideal for quality timber export. In addition, Myanmar's explored mineral reserves are valued at 11th in the world, boasting resources such as gemstones, copper, nickel, granite, gold, silver and gemstones. This explains why the US passed a law in 2008 specifically blocking imports of jade and gemstones from Myanmar into the US.

On the other hand, other industry sectors such as tourism, manufacturing and services suffer from chronic under-development, due to inadequate infrastructure and unpredictable trade policies, among other things.¹² The

¹⁰ ASV Holdings

¹¹ Trading Economics

¹² CIA World Factbook

quality of goods and services in these industries are backward by the standards of the region. For example, refurbished, obsolete models of vehicles and capital equipment are widely used.

Myanmar's Private Sector

Private companies do exist within Myanmar, but the private sector as a whole is riddled with cronyism, with many companies being linked to leading government figures or their family members. For example, the Htoo Group of Companies, owned by Tay Za, is well-known to have close ties with the military. The group invests in everything from gold to hotels to machinery to even a football club¹³.

Challenges in Doing Business in Myanmar

In Myanmar, farmers – easily the majority of the population – are denied access to consumer credit. Large swathes of Myanmar's economic landscape are effectively dysfunctional. For instance in the banking industry, commercial banks are not allowed to lend for more than the period of a year and farmers (easily a majority of the population) are locked out of private credit markets¹⁴. Unpredictable inflation, distorted interest rates and unreliable statistics pose other barriers. The currency has also proved to be a major impediment to doing business in the country, due to the massive divergence between the official and "black market" rates for the Myanmar kyat against the US dollar.

However, these problems also present opportunities for suppliers of infrastructure and consulting services in the current climate of progressive change. Institutions such as the World Bank and the International Monetary Fund have received the

¹³ Cronyism: A Legacy of Military Rule in Burma, The Irrawaddy, Htet Aung, 6 July 2011

¹⁴ Myanmar's Good Deeds Are No Guarantee of Lasting Freedoms: View, Bloomberg Businessweek, 23 November 2011

green light to visit Myanmar and consult on the modernization of the country's exchange rate system – another significant step in bringing Myanmar closer to the global economy.¹⁵

Reputational Risk

One of the largest areas of risk for international companies operating in Myanmar remains to be reputational risk. Myanmar's chequered past has attracted attention from NGOs determined to penalize companies doing business in the country.

The Free Burma Coalition (FBC) of NGOs was formed in 1995. By 2002, the FBC famously brought an end to over 30 MNC's engagements with Myanmar, including Adidas, Costco and Wal-Mart. The poster child for FBC's work, PepsiCo, pulled out from Myanmar, first with its bottlers in early 1997 and then completely by mid-year, in response to NGO pressure.¹⁶

NGOs such as the Forest Resource Environment Development & Conservation Association and EcoDev warn that not only will deforestation from timber harvesting have devastating effects on the amount of forests left on Myanmar; it will also affect soil quality, erosion, water control, food supplies, and cattle stock¹⁷.

The extent to which the current political thaw will mitigate the reputational risk factor for companies doing business in Myanmar remains to be seen.

¹⁵ Detecting a Thaw in Myanmar, U.S. Aims to Encourage Change, The New York Times, Steven Lee Myers, 6 October 2011

¹⁶ PepsiCo to Pull Out of Burma; Firm Faced Pressure from Rights Groups, The Washington Post, Jay Mathews, 28 January 1997

¹⁷ Deforestation Threatens Burma's Breadbasket, Asian Sentinel 18, November 2011

Conclusion: Moving Forward

Change takes time. It took six years after the start of China's open door policy in 1978 for Vietnam's leadership to initiate the country's program of "doi moi" economic restructuring. In Cuba, the current leader Raul Castro (brother to founding father Fidel Castro) has initiated only gradual and tentative economic liberalization even after several years at the helm.

The political changes in Myanmar will probably take a few years to seriously affect the business calculus for entering Myanmar. By the end of this process, most nations would have lifted sanctions on Myanmar and the ease of doing business should have increased – assuming nothing happens to derail the process.

Companies entering Myanmar prematurely during this period will probably find themselves still having to grapple with many regulatory, financial and infrastructural difficulties, as the Myanmar authorities struggle to adapt to a globalized economy.

However, the greatest short-term opportunity lies in infrastructure development – roads, ports, airports, power generation, water treatment, industrial park building and the establishment of national financial and IT systems. It is in these areas that the Myanmar government will have to play catch-up with the world in the next few years. Given its need to avoid over-dependence on Chinese technology, these are the areas that the greatest short-term opportunity lies.