

# MYANMAR AT A CRITICAL JUNCTURE: GROWTH & INVESTMENT IN A NEW WORLD

## CHANGING GLOBAL ORDER & THE IMPACT ON MYANMAR

The world's political and economic order is shifting, and the National League of Democracy (NLD) administration faces an uncertain and unpredictable global investment climate compared to when Myanmar first opened its doors in 2011.

First, a return of geopolitical power play among the major powers, the US and China, have raised multiple political and security concerns. The resurgence of Japan and the presence of Russia and India as other major or emerging powers have also complicated the region's geopolitics. These complex security issues have casted doubt over the longevity of peace and stability in Asia, which formed the foundation for economic growth and prosperity in the region. Such conditions are especially important for emerging economies like Myanmar to develop and thrive.

Second, global economic growth, while on the mend, remains relatively weak. Besides geopolitical tensions, investors are more conservative due to policy ambiguity in key economies. It is against this backdrop that the World Bank forecasts a slowdown in investment, into emerging markets and developing economies.

Other global trends that are taking place at the social level that can disrupt the status quo are worth noting too. Anti-globalisation and protectionist sentiments have intensified and have the power to overturn the traditional political and economic order. The rise of populism, fueled by demands of the middle class, have raised overall expectations of how governments behave and perform. Populist sentiments are already rooted in Myanmar's society and helped sweep the NLD into power. However, public opinion can change quickly and the ability of governments to hang onto power, especially in democracies such as Myanmar, are no longer assured.

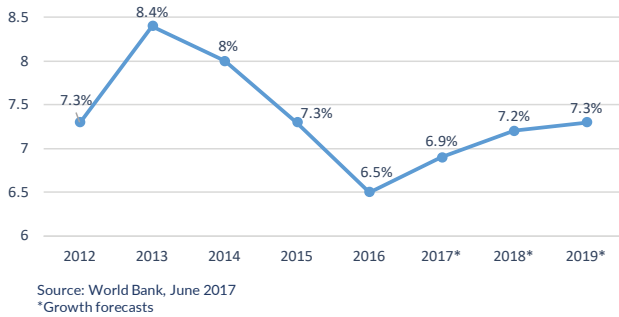
### ATTRACTING FOREIGN INVESTMENT

Competition for foreign investment has intensified, especially among Myanmar's Southeast Asian neighbours. Other emerging economies such as Vietnam and Indonesia have adopted aggressive reform plans in order to better attract foreign investors. This is especially important during a time when investors have grown more conservative due to global political and economic uncertainty, preferring markets that are politically stable and investor-friendly.

The world's political-economy and security landscape is changing rapidly. Myanmar is no longer insulated from global events, and cannot ignore the effects of globalisation on its own society and economy. Going forward, Myanmar will need to take a more proactive approach to develop its own competitive advantage and maintain its reputation as Southeast Asia's final frontier for investment. Otherwise, Myanmar may fall behind the rest of the region.

## MYANMAR IN TRANSITION TOWARDS GROWTH

Fig 1: GDP Growth in Myanmar



There has been much uncertainty over Myanmar's prospects ever since its watershed elections two years ago. The political transition process has been bumpy and the changes expected under the NLD have been slow to come.

Initial investor euphoria dissipated as a result, giving way to a more cautious sense of optimism. Many investors adopted a wait-and-see approach towards the market, hoping for greater assurance of the new government's policies. Investment numbers also took a hit. Approved foreign investment into Myanmar in the last fiscal year dipped for the first time in four years since the country's economic opening from US\$9.5 billion in FY2015/2016

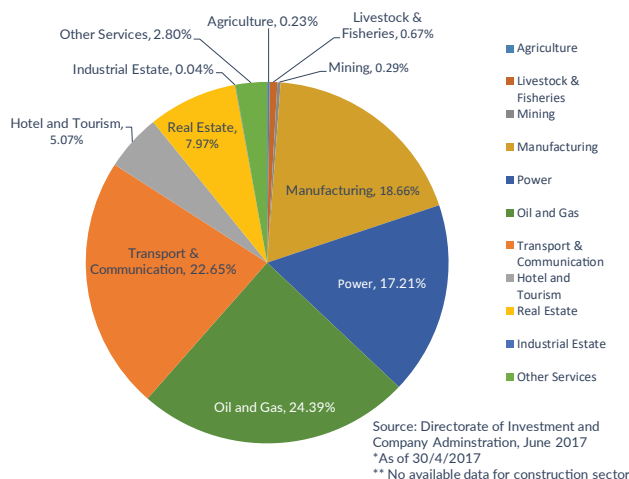
to US\$6.6 billion in FY2016/2017. Myanmar's GDP growth also slowed from 7.3 per cent in 2015 to 6.4 per cent in 2016.

However, business leaders that the SIIA interviewed continue to be positive about the country's investment prospects and many remained hopeful about the market's growth potential. According to the World Bank, Myanmar's economy is expected to rebound and grow at an average of 7.1 per cent per year in the next three years (Fig 1) – indicating the country's unrealised potential as one of the region's fastest-growing economies. Private and public investments in infrastructure, light manufacturing and hospitality are also forecasted to rise.

Investor interest, however, cannot be taken for granted, especially in a highly competitive global economic environment like today. Myanmar must make greater efforts to grow its investment potential. Engagement with the private sector – both foreign and local – is key and needs urgent attention. Open two-way communication between both the public and private sector will help narrow gaps between Myanmar's economic needs and foreign investor interests. Attention and priority must also be given to address choke points that prevent foreign investor interest from translating into real investment and economic growth.

## IMPORTANCE OF FOREIGN INVESTMENT TO MYANMAR'S LONG-TERM GROWTH

Fig 2: Breakdown of FDI by Sector (2011 - 2017\*)



Foreign investment accounts for about 26 per cent of Myanmar's GDP, and will continue to be a key source of economic growth for the country and its people.

Foreign investment is crucial to help the country develop its traditional strengths and needs. This is especially for infrastructure and power projects that are critical to

support Myanmar's economic development plans. The agricultural sector, which accounts for 40 per cent of Myanmar's GDP and 60 per cent of Myanmar's workforce also requires investment to modernise. The country enjoys one of the best conditions for agriculture in Asia, but much of its potential remains untapped due to the lack of access to finance, policy uncertainty and investment restrictions.

Opening Myanmar's economy further to foreign investments could also help to diversify its economy and promote development in other potential growth sectors. Myanmar's oil and gas (24.39 per cent), and power sectors (17.21 per cent) continue to draw the bulk of foreign investment into the country (Fig 2). Investments into the manufacturing sector and transport and communications sector – key to supporting long-term economic growth – are also growing year-on-year.

Further, foreign investors and multinational companies (MNCs) can make key investments to help develop the country's human capital. They can also assist by implementing inclusive policies for their Myanmar partners, especially the small and medium enterprises (SMEs), which form the backbone of Myanmar's economy.

## NEXT STEPS: MARKETING MYANMAR FOR INVESTMENT



### 1. Setting a Clear Growth Agenda and Development Priorities for Myanmar

Businesses need more details on Myanmar's long-term development priorities and investment parameters to help them strategise long-term investment plans for the country.



### 2. Encouraging an Open and Business Friendly Environment using "Champions" for Foreign Investments

There is an urgent need to manage Myanmar's image as an attractive investment destination that is welcoming of foreign businesses. Government-appointed high-level individuals such as special advisors or coordinating ministers can serve as the country's go-to spokespersons and "champions" for business and investment in Myanmar.



### 3. Establishing Global Partnerships to Attract Investment

Myanmar can establish strategic partnerships with selected foreign banks with head offices in key financial centres in Asia to help promote overseas investment into Myanmar.



### 4. Promoting Partnerships to Open Up Key Sectors

Protectionist and economic nationalist mindsets among the local elite need to be positively managed. Exposure to foreign firms and trade, especially with developed economies, can generate a high level of knowledge transfer and skills development, and play a critical role in addressing the skills and capacity gaps that Myanmar faces.



### 5. Redefining the Role of the Myanmar Investment Commission (MIC)

Foreign investors call for the MIC to become less of a gatekeeper and more of an investment promotion agency that better understands the needs of the foreign investor community. This is especially important now at a time of global economic uncertainty.



### 6. Engaging with Myanmar Conglomerates to Attract Foreign Investment

With foreign sanctions lifted, the government should systematically review the local conglomerates for their suitability and transparency, and alignment with government priorities, such as creating quality jobs for Myanmar people. Thereafter, these conglomerates should be endorsed for partnerships with foreign investors.



### 7. Improving the Capacity of Myanmar's Bureaucracy

Increasing wages and efficiency within the civil service can help to attract talent and instil an international and professional mindset among Myanmar's bureaucracy.



### 8. Addressing Land Issues

Potential negative publicity and legal complications that arise from the ambiguity of Myanmar's land laws have been identified by many foreign investors as key business risks.



### 9. Embarking on Judicial and Legal Reform

Judicial and legal reform in Myanmar will require long term efforts. To meet immediate needs, the government can seek to assure international investors of their commitment to the rule of law and willingness to adhere to international standards of dispute resolution.



### 10. Managing Myanmar's Public Image

While security issues are largely confined to the Rakhine State, concern has grown due to media reports that have tarnished Myanmar's international image. This could impede its ability to attract international businesses, especially Western MNCs in the long-term.

## CONCLUSION: MANAGING GREAT EXPECTATIONS

The business community can help Myanmar leapfrog in terms of development and economic growth. Besides engagement, Myanmar must also begin to court foreign investors. Many of the companies who will be keenest to invest are from Asia and Southeast Asia, and Myanmar must continue to deepen its engagement with its neighbours.

Realising Myanmar's potential will take time, and this is expected of any economy undergoing a major political transition. Foreign investor expectations need to be tempered as Myanmar sorts out its domestic problems and does its best to put in place strong institutions to support long-term economic development. The country still needs time to shake off the remnant effects of military dictatorship, and it would be a tall order to demand that any new government modernise its economy to international standards in such a short time.



### ABOUT THIS REPORT

The information and opinions in this report were sourced through interviews with Myanmar's foreign investors, and engagement with key representatives from the Myanmar Investment Commission (MIC).

### ABOUT SIIA'S ASEAN PROGRAMME

A core part of our work is to promote awareness of the Association of Southeast Asian Nations (ASEAN), the grouping's activities, and encourage processes of regional cooperation. Our research focuses on collective efforts to build connectivity in ASEAN, such as the ASEAN Economic Community established in 2015.

Our research and events explore the key priorities for ASEAN, especially as the grouping moves beyond 2015. The SIIA also conducts seminars, workshops, corporate briefings and conferences on ASEAN and countries within the ASEAN grouping.

### ABOUT THE SIIA

The Singapore Institute of International Affairs (SIIA) is a non-profit and independent organisation dedicated to the research, analysis, and discussion of regional and international issues. Founded in 1962, the SIIA is Singapore's oldest think tank. Through policy research and dialogue, we aim to bridge the gap between policymakers, private sector decision-makers and experts to shape the public influence as well as impact policy and social responses.

The SIIA is a membership-based organisation and our individual members are admitted from among the most prominent figures in our society who have made a positive contribution to their sector and profession. Our corporate members include leading Singaporean and multinational companies with regional businesses. The SIIA is also a founding member of the ASEAN-Institutes of Strategic and International Studies (ASEAN-ISIS) network.

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