

Investment boom in Myanmar

The Nation

October 20, 2013

More Thai companies are wooed to pursue business opportunities in Myanmar, amid expectation of smooth political transition

Thailand's total investment in Myanmar has nearly reached US\$10 billion, making the Kingdom the second-largest source of foreign direct investment (FDI) into the country after China, whose investment swelled past \$14 billion.

Pisanu Suvanajata, Thailand's ambassador to Myanmar, reckons the Thai ranking may not last too long as the Myanmar Investment Commission (MIC) has granted approvals recently to projects by investors from Japan, South Korea and Singapore.

"Myanmar is not our choice. Indeed, it is choosing who should be allowed to invest here," he said in an interview.

On the main road in Yangon, billboards flaunt the names of big Thai companies already making their

presence felt in the country - PTT, Charoen Pokphand Group, Siam Cement Group, Siam City Cement (Insee), Bangchak Petroleum, Boon Rawd Brewery, Bangkok Dusit Medical. Signs of Siam Commercial Bank, the main sponsor of the 2014 Asean Summit, are frequently spotted, though the bank was not among nine foreign banks awarded limited licences. They are side by side with billboards of other foreign companies like Ooredoo, Telenor, Coca-Cola, Pepsi and Samsung. Foreign companies have either opened offices in new high-rises or old houses.

According to Myanmar's Directorate of Investment and Company Administration (DICA), as of August 2014, 772 foreign companies have so far invested more than \$49.4 billion in 12 sectors, including oil and gas, manufacturing, mining, hotels and tourism, transport and logistics, real estate, livestock and fisheries, agriculture, construction and services. As of June, more than 700 foreign businesses had received permission to invest in Myanmar.

During July and August, the \$2.6 billion investments DICA approved came from companies in 13 countries - China, Thailand, Singapore, the United Kingdom, South Korea, Malaysia, the Netherlands, India, Japan, Canada, Luxembourg, the Philippines

and Libya.

There are 3,032 foreign companies/branch offices and 32 foreign-invested joint ventures in Myanmar. Companies from 36 countries have invested in Myanmar, with those from China topping the list with combined cumulative investment of \$14 billion.

Full-fledged inroads

Foreign companies are flocking to Myanmar, spurred by the rising wages in Thailand and other neighbours and the establishment of industrial estates there, aside from political and economic reforms introduced by the administration of President Thein Sein.

FDI rose from \$901 million in 2010 to \$2.62 billion in 2013, according to World Bank data.

The Myanmar Investment Commission (MIC), the FDI promoter, expected FDI in the 2014-15 fiscal year, starting April 1, to reach \$4 billion. In September, it revised up the target, expecting the FDI to reach \$5 billion when the fiscal year ends next March. The FDI is also expected to show 14 per cent annualised growth from now until 2030, to push the aggregate amount to \$100 billion in the next 15

years.

According to DICA data, not all foreign companies have fully invested the approved investment amount. While 51 Chinese companies have invested \$14.38 billion in the country, 44 Thai companies have invested only \$3.1 billion, making it the fourth largest in terms of existing enterprises. In contrast, the \$6.5-billion investment by 67 Singapore firms made Singapore the second-largest source of foreign investment, and the \$6.2 billion by 93 Hong Kong firms made Hong Kong the third-largest.

Myanmar is considered untapped as both a production base and a consumer market in Southeast Asia. For manufacturing companies, the low wage of about \$70 a month is the main attraction. Meanwhile, though the per-capita gross domestic product remains low at about \$900, the population of more than 50 million presents a huge untapped market for a variety of products.

Economic outlook

Economists have also been upbeat on the country's outlook.

After the 8.25 per cent growth in the 2013-14 fiscal year, Myanmar's economic growth is expected to average 8.25 per cent in the next few years, led by rising gas production and investment, according to the International Monetary Fund.

At the seminar on "Gateway to the new Construction Era" last week in Yangon hosted by Thailand-based Millcon Industry, Bangkok Bank executive vice president Kobsak Pootrakul was more upbeat on the GDP growth acceleration. As the country witnesses deeper trade integration and FDIs, he expects more than 10 per cent growth rate in the next 10 years.

"The IMF expects FDI to Myanmar to grow by \$5 billion per annum in the next 5 years. Personally, I expect it to be \$8 billion per year, judging from conversation with potential investors who have shown their interest in investing in the country," he told the audience.

The Thilawa Special Economic Zone (SEZ) will be the turning point for FDI in the country, Kobsak noted.

"Most investors are concerned about infrastructure and land difficulties. Once completed, Thilawa

should ease the concerns," he said.

Industrial estates

Located about 20 kilometres southeast of Yangon, Thilawa is one of three major SEZs planned by the Thein Sein government to boost foreign investment, aside from Dawei, south of Yangon, and Kyaukpyu, in Rakhine state. Among the three, Thilawa - covering 2,400 hectares - has shown the fastest development, with construction work for the second phase starting on October 1 this year for completion in the middle of 2016.

"The work is slow due to heavier rainfall than in Thailand," said Takashi Yanai, president and CEO of Myanmar Japan Thilawa Development Ltd which develops the zone.

In his presentation to Thai investors last week, he said that 23 companies from nine countries have signed contracts to construct factories in Thilawa, including two companies from Thailand and three from Taiwan. Two Myanmar companies are among them.

He acknowledged that the infrastructure is a major concern. Thilawa Port is being improved while a 50-

megawatt power plant will be constructed to ensure sufficient power supplies to all manufacturers. A new power substation will be built aside from an existing one, while the distribution grid will be improved. The road around the area is being expanded, while gas pipelines and water pipelines would be extended to the area.

"The infrastructure will be more like in Thailand and my intention is to have more companies from Thailand," Yanai said.

Sumitomo Corp, Marubeni Corp and Mitsubishi Corp are leading the Thilawa project in cooperation with the Japan International Cooperation Agency (JICA). It is designed to accommodate green manufacturing, while Kyaukpyu will be home to petrochemical industries.

According to Thai Ambassador Pisanu, Japan's role in Thilawa has provided assurance to potential investors. In the interview, he added that the Myanmar and Thai governments would resume joint operations on Dawei in November, after the project had been halted since last year because Italian-Thai Development decided to reduce its role from a 75-year concessionaire to a developer.

"Dawei is the most complicated project among the three, designed to house heavy industries," he said. "But it is among the three mega-sites strategically designed to support the radical changes in Myanmar's politics and economy."

Remaining risks

While infrastructure such as power supply and communications are still unstable in Myanmar, other risks of doing business there remain significant.

Toshikazu Gocho, a foreign investment adviser at the Japan External Trade Organisation's office in Yangon, told The Yomiuri Shimbun recently that the government is loosening restrictions on foreign funding of retail operations, but "there are many difficult cases". He referred to such problems as administration officials not acting in accordance with the law.

Another problem involves the lack of luxury hotels, even in Yangon, which business clients from overseas tend to use.

Bangkok Bank's Kobsak said at the seminar that Myanmar would sustain the economic growth only through the improvement of road and rail networks

as well as electricity supply. Meanwhile, the government must also follow the right policies, to balance infrastructure investment and long-term economic cost. Excessive investment could cause heavy fiscal burden, as Myanmar is witnessing fiscal deficit. Meanwhile, huge FDIs would encourage local companies to invest more, but excessive loan growth - over 20 per cent in the past few years - could weaken the financial sector. Authorities should also respond to the requirement for more skilled labour.

"Myanmar should get the economic foundation right and this must be done in 10 years, compared to 30 years in Thailand and 20 years in Vietnam," he said. "If this is achieved, Myanmar should see the next golden decade."

According to Pisanu, some laws are outdated but Myanmar has been acting fast. What is of greatest concern to Thai investors is political stability, as the country is attempting to seal a nationwide ceasefire deal ahead of the election next year. He is certain, however, that the country would see a smooth political transition.

He was referring to the rapid changes in the past few years, which clearly showed that it is not the

issue between the government and the opposition. The situation in the country is now the issue between pro-reform and anti-reform groups.

"Thein Sein and his Cabinet members are all for reforms, including opposition leader Aung San Suu Kyi and the Myanmar people. Those who stand in the way will be the losers. There is the political will that Myanmar should push forward with reforms," the ambassador said.