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Myanmar's Economy
～Foreign Assistance and Investment Kick in, Responding to the Easing of Sanctions～

【Summary】

- It has been two years since Myanmar's new administration led by President Thein Sein was sworn in in March 2011. The country has made steady progress with democratization. The National League for Democracy, led by Chairperson Aung San Suu Kyi, swept the by-elections on April 1, 2012, resulting in the opposition's inclusion in national politics.

- In recognition of the progress with democratization and reforms, Western countries have been cautiously easing sanctions against Myanmar. Clearing delinquent Government debt has paved the way for the resumption of international assistance to Myanmar.

- Business interest in Myanmar has been growing in response to the easing of sanctions against the country. With its abundant and low-cost labor, Myanmar is attractive not only as a manufacturing base but also as a potential consumer market. The overall infrastructure is underdeveloped and concerns are growing over sharp rises in office and residential rents due to the increased presence of foreign companies in the country. However, the Government has been hastening the pace of infrastructure improvement, including by unifying exchange rates, opening up foreign currency operations to private banks, and enacting the New Foreign Investment Law.

- Going forward, the investment climate is expected to improve with the resumption of international assistance focusing on greater infrastructure development. A key point will be whether the current administration will be able to show results of democratization and economic growth both at home and abroad by the next general election in 2015. On the other hand, the opposition—led by Suu Kyi—must garner confidence both domestically and from abroad by showing balanced political judgment on economic policy, as well as in promoting democracy.

1. Two years since the Thein Sein Administration took office

(1) Further progress in democratization after the by-election and cabinet reshuffle

Two years have passed since Myanmar President Thein Sein's administration was sworn in in March 2011. In the country's by-elections held April 1, 2012, candidates from the National League for Democracy (NLD), led by Aung San Suu Kyi, won 43 seats out of 45. Suu Kyi made her parliamentary debut the following month after the strong showing

In July 2012, then-Vice President Tin Aung Myint Oo, known as a key conservative, resigned, and former Navy Commander in Chief Nyan Tun was appointed his successor. Nyan Tun is known as a clean and modest reformist who has engaged in establishing cooperative relationships with neighboring countries like India and Bangladesh during his term as Navy chief. In the cabinet reshuffle announced in August, President Thein Sein replaced ten ministers and transferred four pro-reform ministers to the president's office. These developments are considered to strengthen the regime's reform efforts by both including pro-democracy groups as well as by introducing a generational change within the ruling party.

The next political focal point will be the general election scheduled for 2015. While the ruling Union Solidarity and Development Party (USDP) aims to gain popular support through its achievements in democratization, economic growth, and the return to the international community, there is strong popular support for NLD Chairman Suu Kyi to be the next president. On the other hand, some feel that her political skills remain unknown. Suu Kyi has been appointed head of the Government's Rule of Law and Peace and Stability Committee and the investigative committee overseeing the copper mine development issue. Much attention has been paid to Suu Kyi's ability to address complex domestic issues in making balanced political judgments on economic policies to gain confidence both at home and from abroad, as well as in promoting democracy. Meanwhile, Suu Kyi was in fact disqualified from the presidency in 2008 under the current constitution enacted by the former military regime. Although she has been advocating constitutional change as an issue of the highest priority, changing the constitution requires the support of at least 75% of the legislature. Therefore, pursuing partnerships with army-appointed lawmakers—who make up a quarter of the legislature—and ruling party members will be critical for Suu Kyi.

(2) International assistance jumps in response to easing of sanctions and debt forgiveness by advanced nations

The US and the EU have been easing sanctions against Myanmar cautiously, in recognition of progress in economic reforms and democratization, including the inclusion of the opposition in national politics after the by-elections. In July 2012, the US appointed an ambassador to Myanmar for the first time in 22 years and partially eased sanctions on financial services and new investment. Then in November, President Obama made the first visit to Myanmar by a sitting US president, using the opportunity to announce the lifting of the ban on imports from Myanmar (except for rubies and jadeite, considered financial sources for the former military regime). The US has lifted almost all its economic sanctions against Myanmar. In April 2013, the EU, which had suspended most of its sanctions for one year from 2012, has also agreed to lift all sanctions against Myanmar with the exception of the arms embargo.

At the same time, resolving the delinquent debt issue has paved the way for restarting international assistance to Myanmar. Following a multilateral meeting in Tokyo in October 2012, the Myanmar Government reached an agreement with the Paris Club group of creditor countries in January 2013 to clear half its outstanding external debt and reschedule payment of the remaining half over 15 years, with a seven year grace period. The Japanese Government also agreed to write off some JPY500 billion in delinquent debt owed by Myanmar, and then announced the resumption of JPY loans at the end of March. This would be the first lending by Japan to Myanmar in 26 years, and is especially significant since Japan holds 60% of Myanmar's total external debts. In addition, the Asian Development Bank and the World Bank are expected to restart loans to Myanmar, as bridge loans from Japan have enabled Myanmar to make debt payments.

Table 1: Myanmar's Outstanding External Debt
(as of end- 2012)

(Million USD)

	Total External Debt	Arrears	Share (in percent)
Multilarateral Creditors	1,670	953	8.7
World Bank	926	436	4.0
ADB	719	517	4.7
OPEC	25	0	0.0
Bilateral	13,575	10,051	91.3
Paris Club	10,415	10,051	91.3
Japan	6,661	6,581	59.8
Other	3,574	3,470	31.5
Non-Paris Club	3,160	0	0.0
Commercial	100	0	0.0
Total	15,345	11,004	100.0

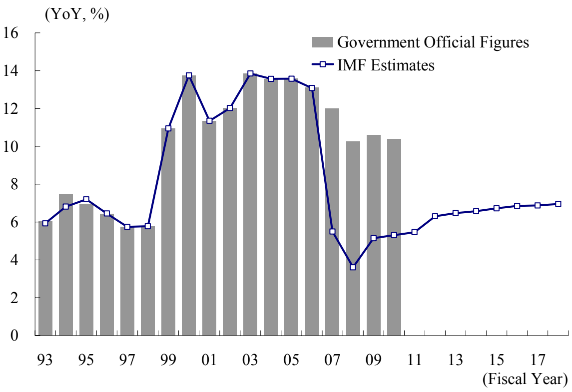
Source: Compiled by BTMU Economic Research Office from IMF statistics

2. Overview of the economy: Economy to expand, concerns over inflationary pressures rising

(1) Economy to accelerate on increase in foreign assistance and investment

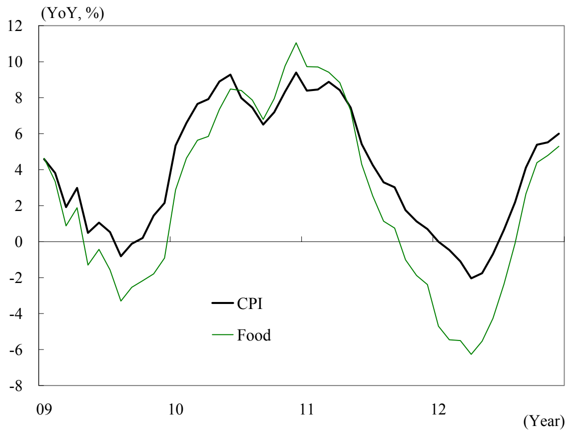
During the first half of the 2000s, Myanmar's economy recorded high growth in excess of China's. Real GDP expanded by more than 10% YoY, backed by expansion in agricultural products, natural resources and energy production, and exports. However, growth decelerated sharply to 3.6% YoY in FY2008 (April 2008-March 2009) due to the global financial crisis and destruction by a strong cyclone. Myanmar's economy has picked up since then on the background of natural resources development, expanded exports, and increased public investment, including the Naypydaw development project. The growth rate has been estimated to have recovered to 6.3% YoY in FY2012. Going forward, economic growth is expected to accelerate modestly to between 6.5% - 7% YoY, supported by an increase in international assistance and investment expansion by foreign companies (Figure 1).

Figure 1: Real GDP Growth



Note: Figures after FY2011 are estimated by IMF.
Source: Compiled by BTMU Economic Research Office from Myanmar Central Statistical Organization and IMF statistics

Figure 2: Consumer Price Index



Source: Compiled by BTMU Economic Research Office from CEIC database

(2) Inflationary pressures likely to be higher than shown by official data

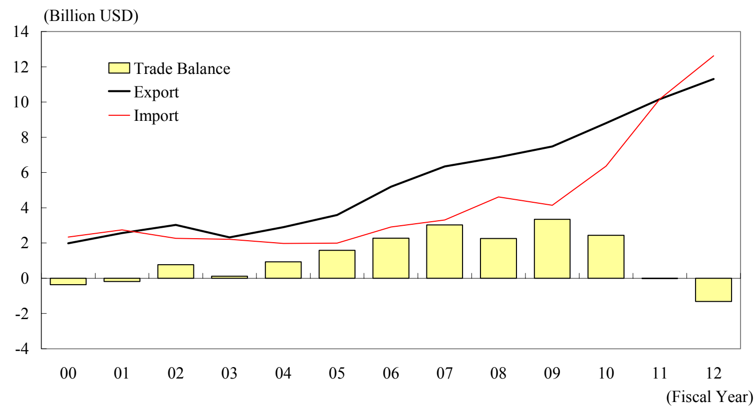
Myanmar's consumer price index (CPI) has been rising since mid-2012, mainly because of hikes in electricity and gasoline prices in January 2012, higher public servant salaries, and rising food costs due to flood damage in August 2012 (Figure 2). However, given soaring property prices and wage increase pressures in non-public sectors because of the greater presence by foreign companies and international organizations, Myanmar's actual CPI is likely higher than the official statistics.

(3) Trade balance turning into a deficit as imports soar

Myanmar's trade balance had been in a continuous surplus since 2002, a result of the country's Export First Policy, which permitted companies to import goods using only export earnings, and expanded natural gas exports to Thailand. Natural gas accounts for 30% of Myanmar's exports, followed by primary commodities such as beans, sesame products, rice, and timber. Recently, exports have been somewhat weak because of softening international commodity prices and economic slowdowns in major trade partners China and India.

Meanwhile, imports have been rising, mainly of capital goods and construction materials for large-scale public works and pipeline construction. Moreover, the pace of increase accelerated further after restrictions on used car imports were eased in September 2011 and the Export First Policy was abolished in June 2012. With these developments, the trade balance has been in deficit since 2011 (Figure 3).

Figure 3: The Trade Balance

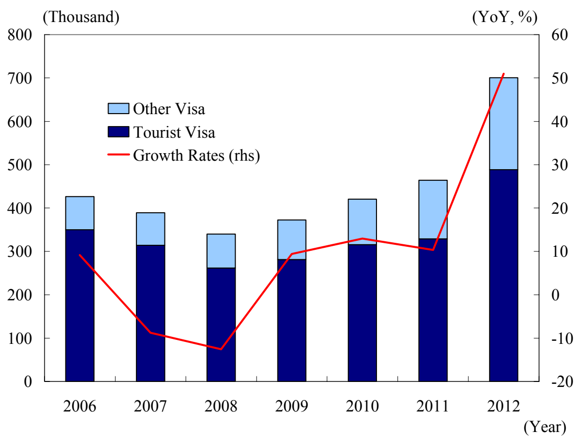


Note: Figures before FY2011 are converted to US dollars at the official rates. Figures for FY2012 are estimated by IMF.
Source: Compiled by BTMU Economic Research Office from ADB and IMF statistics

(4) Sharp increase in visitor arrivals

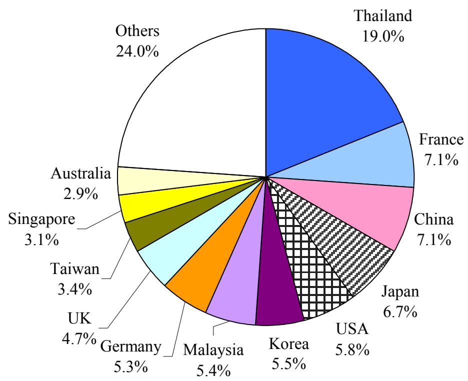
The number of visitor arrivals soared to 700,000 in 2012, up 51% from 2011 (Figure 4). By type of entry visa, the pace of increase by *other* visas (+57%) exceeded *tourist* visas (+49%) because of the increase in business visitors following progress with democratization and loosened economic sanctions. The most tourist visas were granted to visitors from Thailand, followed by France, China, and Japan (Figure 5). The soaring number of visitor arrivals is expected to have positive effects, including greater tourist revenue, but is meanwhile causing problems, such as a shortage of accommodations.

Figure 4: Visitor Arrivals (by type of visa)



Source: Compiled by BTMU Economic Research Office from CEIC database

Figure 5: Visitor Arrivals (by nationality, 2012)



Notes: Only visitor arrival in Yangon and Mandalay (with tourist VISA).
Source: Compiled by BTMU Economic Research Office from CEIC database

3. Foreign direct investment: Investment jumps as sanctions eased

(1) Overview: Companies entering Myanmar soar

Business interest in Myanmar has been rising as sanctions against the country have been loosened. Foreign direct investment (FDI) approved as of FY2012 (cumulative total value as of the end of March 2013) stood at USD42.1 billion, up +3.5% YoY but slowing from the +12.9% YoY pace in FY2011. However, of the number of approved enterprises increased by 94 in FY2012, compared to 12 in FY2011 (Table 2).

Some approximately 80% of investment in Myanmar is directed toward the power and resources industries (such as oil and natural gas), while investment in the manufacturing sector is relatively limited (Figure 6). However, investment in the manufacturing (+24.7% YoY) and hotel and tourism (+28.2% YoY) sectors has risen rapidly in the last year.

By country, China (USD14.2 billion) and Thailand (USD9.6 billion) have been the biggest investors in Myanmar, with investments in large-scale projects such as power generation and natural gas, while Japan (USD270 million) ranks 11th. However, Japan's investment (+18.4%) has grown by double digits in the last year, following Vietnam (+788.1%), UK (+52.6%), and Singapore (+23.0%). The sharp increase in investment from Vietnam reflects the construction of a commercial complex (USD300 million) comprised of a shopping center, hotel, and rental apartments.

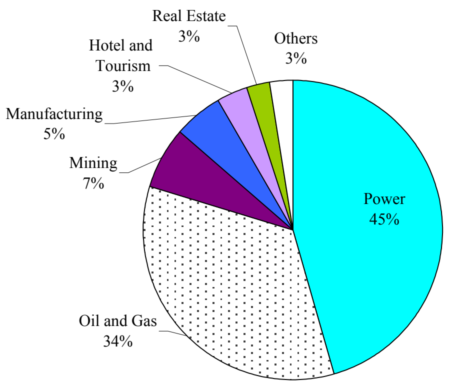
Singaporean companies (87) outnumber all other foreign enterprises in Myanmar, while the number of South Korean companies has grown the most in the past year (+28), followed by China (+12), Hong Kong (+11), and Japan (+10). Singaporean investment includes inflows into the tourism (including hotels) and property sectors by a subsidiary of a government-affiliated property developer and investment holding company, as well as investments by MNCs. Meanwhile, Japan has invested in a wide range of sectors, including trading, logistics, construction, property development, garments, consumer goods, and infrastructure, including telecommunication. The membership of Japanese Chamber of Commerce and Industry in Yangon has increased to 85 companies as of the end of March 2013, a reflection of the growing number of companies' representative offices (Table 3).

Table 2: Outstanding Approved Inward FDI (by country)

		As of March 2012		As of March 2013		Change in number/ amount (Mar 2012→Mar 2013)	
		No. of enterprises	Approved amount (million USD)	No. of enterprises	Approved amount (million USD)	(No. of enterprises)	(%)
1	China	32	13,949	44	14,181	12	1.7
2	Thailand	62	10,367	63	9,569	1	▲ 7.7
3	Hong Kong	38	6,308	49	6,393	11	1.4
4	UK	51	1,961	57	2,992	6	52.6
5	South Korea	49	2,940	77	2,979	28	1.3
6	Singapore	73	1,807	87	2,222	14	23.0
7	Malaysia	41	967	43	1,031	2	6.7
8	France	2	469	2	469	0	0.0
9	Vietnam	3	42	6	371	3	788.1
10	India	6	262	8	274	2	4.4
11	Japan	25	228	35	270	10	18.4
12	The Netherlands	5	239	7	249	2	4.3
13	US	15	244	15	244	0	0.0
	Total (including others)	467	40,698	561	42,119	94	3.5

Note: Figures for UK are inclusive of enterprises incorporated in tax havens like British Virgin Islands, Bermuda Islands and Cayman Islands.
Source: Compiled by BTMU Economic Research Office from Ministry of National Planning and Economic Development-DICA statistics

Figure 6: Aggregate FDI Inflows
(by industry, as of the end of March 2013)



Source: Compiled by BTMU Economic Research Office from Myanmar Central Statistical Organization statistics

Table 3: Japanese Chamber of Commerce and Industry Membership

	Myanmar	Cambodia	Laos
2009	51	45	28
2010	51	51	32
The latest figures	85	108	48
	JCCI, Yangon (as of March 2013)	Japanese Business Association of Cambodia (as of March 2013)	JCCI, Vientiane (as of December 2012)

Source: Compiled by BTMU Economic Research Office from JETRO report

(2) Investment climate: Advantageous labor costs, improvements in underdeveloped infrastructure

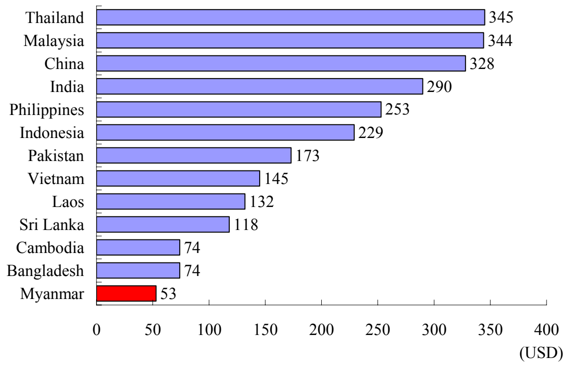
The biggest investment attraction in Myanmar is the country's abundant and low-cost labor. Of the total population of some 60 million—comparable to Thailand (Table 4)—44% are below 25 years old, and the working-age population (15-64 years old) is expected to increase through 2030. Myanmar is thus attractive not only as a manufacturing base, but also as a potential consumer market. The country's worker monthly base salary (USD53) is lower than in Vietnam (USD145) and Cambodia (USD74) (Figure 7). Myanmar's other strength is ease of communication vis-a-vis other emerging countries such as Cambodia and Laos, reflecting its high literacy rate of 92.3% (as of 2010) and relatively high command of English.

Table 4: Macroeconomic Indicators in Asian Countries

	Polulation (Million)	Nominal GDP (Billion USD)	Per capita GDP (USD)
Brunei	0.4	16.4	38,703
Indonesia	244.0	846.2	3,513
Malaysia	29.0	287.9	9,932
Philippines	95.8	224.8	2,386
Singapore	5.3	265.6	50,128
Thailand	64.1	345.7	5,469
Vietnam	87.8	122.7	1,408
Myanmar	62.4	51.4	824
Cambodia	15.1	12.9	883
Laos	6.3	8.3	1,320
China	1,347.4	7,298.1	5,416
India	1,202.0	1,826.8	1,442
Bangladesh	148.5	113.9	767

Note: As of 2011. Shadowed portion indicates estimated figures.
Source: Compiled by BTMU Economic Research Office from IMF statistics

Figure 7: Worker Monthly Base Salaries in Asian Countries (manufacturing sector)

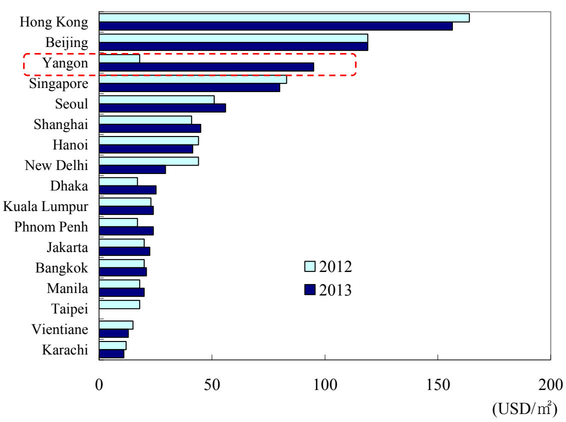


Note: As of October 2012, excluding benefits and allowances. Japanese-affiliated companies in Asia, full time employee with three years experience in manufacturing operations.
Source: Compiled by BTMU Economic Research Office from JETRO report

Both hard and soft infrastructure—ranging from electricity, roads, and telecommunications to the legal system and financial and capital markets—remains underdeveloped in Myanmar. The country lacks an adequate industrial park at present, a considerable barrier. Most of the 32 industrial parks in Myanmar have inadequate infrastructure. Mingaladon Industrial Park is equipped with an electricity and water supply system and waste water treatment plant, but is already fully occupied. As such, much attention has been paid to the Japanese-led Thilawa Special Economic Zone development scheduled for completion in 2015; the Dawei Development Project delayed by financial problems; and the Mingaladon Industrial Park, which may be expanded.

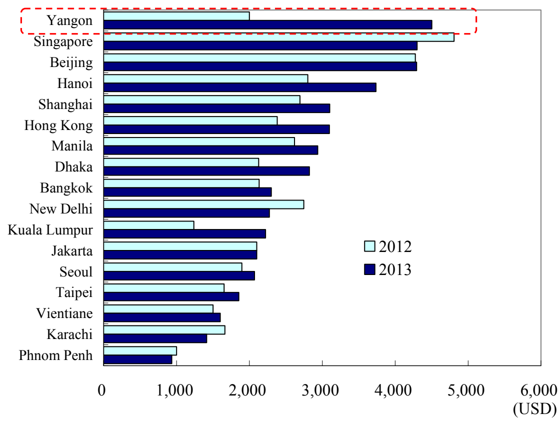
Moreover, there is growing concern over the recent sharp rise in office and housing rents as more foreign companies enter Myanmar. Yangon is one of the most costly major cities in Asia, with monthly office and housing rents soaring to USD95/m² and USD4,500, respectively, in 2013 from USD18/m² and USD1,600-2,400 in 2012 (Figure 8, Figure 9). The supply of office buildings and accommodation for foreign expatriates has been an urgent issue.

Figure 8: Monthly Office Rents



Source: Compiled by BTMU Economic Research Office from JETRO report

Figure 9: Monthly Housing Rents for Expatriates



Source: Compiled by BTMU Economic Research Office from JETRO report

On the other hand, the investment environment has improved somewhat. First, USD-based remittances and new investments are now possible after the easing of sanctions by Western countries. Second, the telecommunications environment has also been improving, with some international roaming services starting and the number of mobile phone subscriptions rising rapidly as prices fall. Conditions are expected to improve further as SIM card prices have dropped dramatically (MMK20,000→MMK1,500, from the end of April 2013) and the market has opened up to foreign telecom companies. (Bidding for two licenses expiring in June this year is expected to be open to foreign telecom companies.)

(3) New Foreign Investment Law

Under these circumstances, the Myanmar Government approved the New Foreign Investment Law on November 2, 2012, and released detailed rules on January 31, 2013. The Government had been working on the law amendment, as the 1988 foreign investment law contained numerous unclear rules and land use rights and tax system preferential measures had been considerably insufficient compared to other countries'. The amendment process was fraught with numerous complex developments. The Lower House of Parliament, pressured by the domestic business community, pushed to include provisions such as a USD5 million minimum investment capital requirement and a 49% foreign equity ceiling. Meanwhile, President Thein Sein sought to make changes because of concerns over the Law's protectionist details and even refused to sign the amendment bill passed by the parliament.

The New Foreign Investment Law is more friendly to business. Under the new law, foreign investors can purchase land lease rights from the Government and private owners. Previously, land lease contracts had been restricted to Government contracts. In addition, the tax holiday period has been extended from three to five years. Meanwhile, although the Law allows foreign investors to fully own ventures with some conditions, uncertainty remains as important matters still depend on decisions by the government-affiliated Myanmar Investment Commission (MIC). Furthermore, the law's protectionist clauses have raised concerns. In order to protect small and medium-sized domestic enterprises, the Law requires foreign investors in 42 business sectors to form a joint venture with local companies. These sectors are highly targeted by foreign firms and include the garment, food-processing, and office and residential real estate development industries. The foreign capital ratio in joint ventures may be up to 80% (the ratio can be changed with MIC permission from the government).

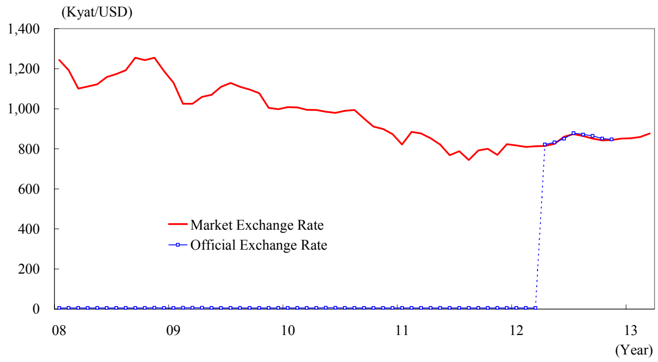
(4) Rapid progress in financial and capital markets reform

The Thein Sein Administration has been pushing fast-paced reforms in the financial and capital markets to facilitate smooth foreign trade and investment with the support of international organizations, foreign governments, and firms. Myanmar's Government has allowed private banks to conduct foreign currency operations since September 2011 and unified the multiple exchange rates, shifting to a managed floating exchange rate system in April 2012. In addition, credit card transactions are now possible in some hotels with credit card fees (4%), though cash transactions are still the norm.

Under the current foreign exchange system, the Central Bank of Myanmar (CBM) sets a daily reference rate based on bidding results and allows banks to carry out transactions within a band of ±0.8%. On April 2, 2012, the first day of the managed floating exchange rate system, the CBM set a reference rate of USD/MMK818, close to the prevailing rate of USD/MMK820. Since then, the MMK has depreciated against the USD from USD/MMK811-USD/MMK818 in April 2012 to USD/MMK863-USD/MMK891 in March 2013 (Figure 10). The trade deficit resulting from the rapid increase in imports appears to be putting depreciation pressure on the MMK. Going forward, despite expanded foreign investment, the possibility of further depreciation pressure has heightened due to increased capital goods imports, following the start of full-scale infrastructure development and increased profit remittances by foreign firms.

Meanwhile, there are still many problems remaining, from creating interbank, foreign exchange, and securities markets to developing a clearing system; liberalization of market entry to foreign financial institutions; and ensuring the independence of the CBM, currently under the Ministry of Finance and Revenue (an amendment to the Central Bank Law is under discussion).

Figure 10: USD/MMK



Note: Official Exchange Rates after April 2012 are Central Bank reference rates.
Source: Compiled by BTMU Economic Research Office from CEIC database and Bloomberg

4. Outlook and issues: Key will be boosting confidence both at home and abroad through democratization and reforms

Myanmar's the investment climate is expected to improve over the medium term, as both hard and soft infrastructure is developed further with the support of international organizations, foreign governments, and firms. However, international assistance for the industrial park development has been delayed due to land acquisition issues, while in the financial sector, the introduction of a clearing system has been impeded by concerns about electricity shortages. Thus, infrastructure development through international assistance has been fraught with difficulties and requires a cautious approach.

For the Thein Sein Administration, the key point will be showing achievements in democratization and economic growth both at home and abroad by the next general election in 2015. In the near term, the president's efforts to lead Myanmar's return to the international community have drawn attention. The country will host the Southeast Asian Games in December this year and chair the ASEAN Summit in 2014. On the other hand, Suu Kyi's opposition must garner confidence both at home and abroad by showing balanced political judgment in economic policy, as well as in promoting democracy.

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