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Myanmar: Navigating the Risks and Opportunities

Myanmar has the advantage of a favourable geographical position, low wages and a large potential consumer market. Its recent political and economic reforms have inspired optimism among foreign investors. However, despite the positive outlook, investors need to be cognisant of the risks and challenges of transacting with a market that has only recently emerged from decades of isolation. IE Singapore highlights the investment opportunities for Singapore companies in sectors including real estate, hospitality, logistics and consumer goods, and examines the potential pitfalls of doing business in Myanmar.

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Driving Singapore's External Economy

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Summary

// As a frontier market in Asia, Myanmar holds tremendous economic potential. It has vast reserves of untapped resources and a large population of 60 million. Located at the crossroads of China, India and Southeast Asia, Myanmar provides strategic access to a huge potential consumer market of 3 billion people.

// To triple the size of the economy and raise annual GDP per capita to US$2,400 (S$2,933) by 2015, the Thein Sein administration introduced a slew of political and economic reforms which reflects the government's resolve to create a pro-business environment.

// With the influx of foreign investments to the country, competition will intensify. Companies need to act fast and offer immediate solutions to secure business opportunities in Yangon and beyond.

// Opportunities exist across different sectors for Singapore companies, including manufacturing, logistics, urban solutions, hospitality, energy and consumerism.

// Myanmar is still in the nascent stages of developing its legal and physical infrastructure. Singapore companies need to understand the potential risks and challenges of doing business in Myanmar.

Positive Investment Outlook

Since economic and political reforms began in 2011, the Myanmar economy has undergone tremendous transformation. Improved growth forecasts and business optimism have attracted waves of prospective investors. The progressive easing of Western sanctions are set to accelerate the country's economic development as foreign investments take shape in the fledgling Myanmar economy.

Strategic connectivity to key regional markets

Located at the crossroads of Asia, Myanmar has direct access to three key regional markets, namely China, India and mainland Southeast Asia. With a combined population of 3 billion (43% of the world's population) and a total GDP of US$13 trillion (S$15.9 trillion), the region possesses immense potential for businesses.

Figure 1: Enhanced connectivity will facilitate trade growth and investment flows to the region

CNPC Oil & Gas Pipeline
- Myanmar to become a transit hub for oil & gas from Africa and the Middle East to China

North-South (NS) Corridor
- Completed in 2008
- Connects Bangkok to Kunming via Myanmar
- Logistics corridor for Myanmar to China and Thailand

Asian Highway Routes
- Connects Myanmar to China, India and Thailand
- Provides access to Yangon Port

Mekong-India Corridor
- 3,200km trilateral highway connecting India, Myanmar and Thailand
- Expected to be completed by 2016
- Increased trade and investment flows in the three countries

Current economic structure

Source:
International Monetary Fund (IMF) estimates, Myanmar Ministry of Commerce and Myanmar Ministry of National Planning and Economic Development

Figure 2: Key economic statistics (FY2012/13)	
GDP	US$55.3 billion (S$67.6 billion)
Real GDP Growth	6.4%
GDP per capita	US$868 (S$1,061)
Inflation	4.7%
Foreign Direct Investments (FDI)	US$1.42 billion (S$1.7 billion)
Exports	US$8.97 billion (S$11 billion)

Myanmar's economy grew at 6.5% in FY2012/13[1] and is forecasted to strengthen at an average of 7% to 8% over the next ten years[2], an increase from the annual growth rates of 4% to 5% in previous years. This strong growth will be largely driven by huge investments in power, oil & gas and infrastructure.

FDI into Myanmar increased more than 400% from FY2011/12 to FY2012/13, reaching a peak of US$1.42 billion (S$1.74 billion). Many multinational corporations (MNCs) spanning a broad range of industries such as food and beverage (F&B), consumer goods, automobile and hospitality have recently established a presence in Myanmar. These include Accor, Coca-Cola, Ford Motors, General Electric, Hilton, Mastercard, Nestle, PepsiCo, Tata Motors, Unilever, and Visa.

Figure 3: Cumulative FDI by sector

Sectors	**Permitted Enterprises**		
	No.	**Approved Amount in US$m (S$m)[3]**	**%**
Power	6	19,239 (23,511)	44.8
Oil & Gas	115	14,372 (17,564)	33.5
Mining	67	2,830 (3,458)	6.6
Manufacturing	261	2,750 (3,360)	6.4
Hotel & Tourism	47	1,586 (1,938)	3.7
Real Estate	19	1,057 (1,291)	2.5
Livestock & Fisheries	26	347 (424)	0.8
Transport & Communication	16	314 (383)	0.7
Industrial Estate	3	193 (236)	0.5
Agriculture	10	185 (226)	0.4
Construction	2	38 (46)	0.1
Other Services	12	42 (51)	0.1
Total	**584**	**42,951 (52,490)**	**100**

Source:
Myanmar Ministry of National Planning and Economic Development

As of 31 July 2013, the majority of foreign investments in Myanmar were concentrated in the power (44.8%) and oil & gas (33.5%) sectors. Sectors with the highest increase in foreign investments were manufacturing (+56%) and hotel & tourism (+49%). Growth in the manufacturing sector is largely driven by low labour costs and the easing of sanctions, while the overwhelming surge in business and leisure travellers contributed to expansion in the hotel & tourism sector.

1 World Bank
2 IMF estimates
3 The average exchange rate for 2012 from Monetary Authority of Singapore (MAS) is US$1 = S$1.2221

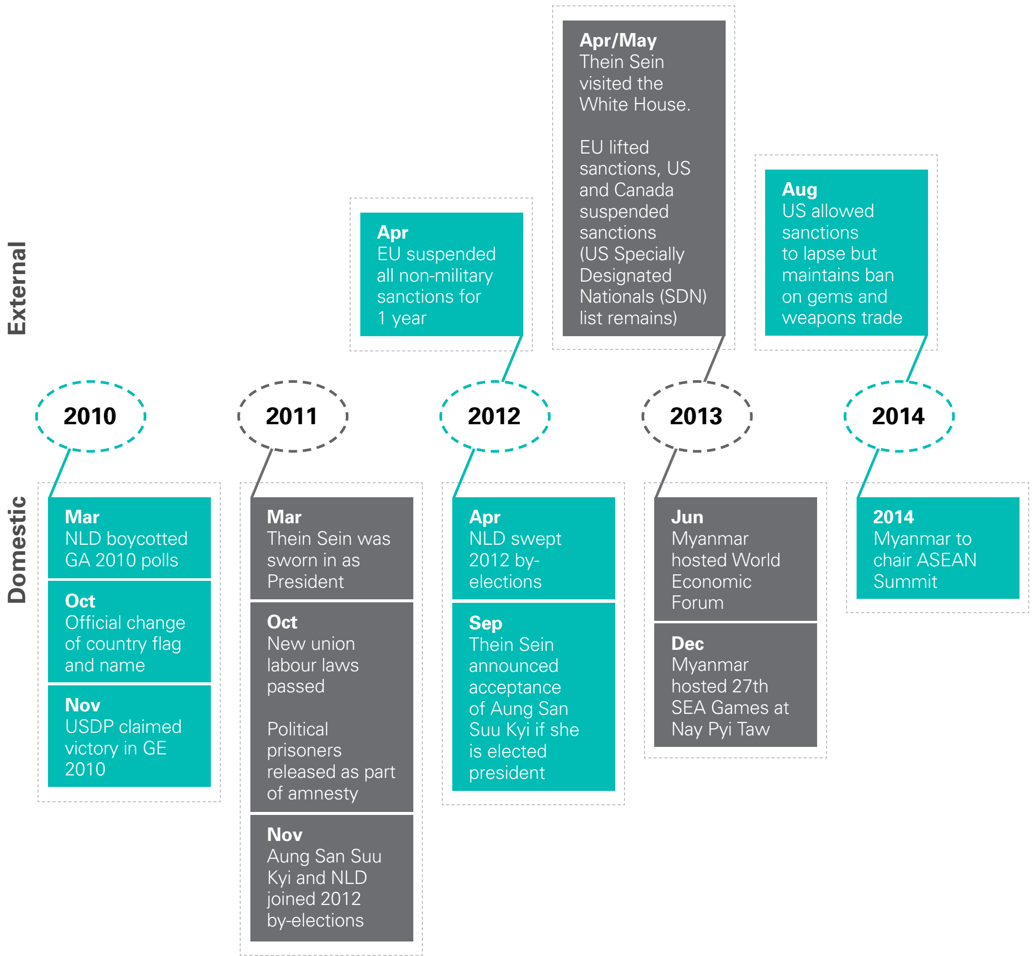
Recent Political and **Economic Developments**

Myanmar's recent political and economic reforms have been rapid and significant, paving the way for foreign investments into the country.

Political reforms

Over the last two years, the Thein Sein administration made sustained efforts to maintain the pace of political and economic reforms in Myanmar. This helped to secure the lifting of Western sanctions and support from multilateral organisations.

Figure 4: Easing of Western sanctions signals affirmation of Myanmar's reform efforts



Recent Political and Economic Developments

Domestic developments

After the by-elections in 2012, opposition leader Aung San Suu Kyi and 33 other elected members from the National League for Democracy (NLD) were sworn into office as part of the Lower House of Parliament. This marked a critical milestone for Myanmar in its political transformation and assimilation into the international community.

Myanmar has since played host to key international events such as the 22nd World Economic Forum on East Asia (June 2013) and the 27th SEA Games (December 2013). It will also assume the Chair of the Association of Southeast Asian Nations (ASEAN) for the first time in 2014. These events mark the coming of age of Myanmar, as the country emerges from political and economic isolation.

International response

The international community has signalled its support for the country's reform through greater political and economic engagement with Myanmar.

// **Deeper diplomatic engagement**

Prominent leaders such as the US President, Barack Obama, and British Prime Minister, David Cameron visited Myanmar in May and July 2013 respectively. The European Union (EU) also set up an EU Delegation in Yangon in the same year.

// **Easing of sanctions**

The EU and the US have lifted most of their economic sanctions imposed on Myanmar. Four Myanmar banks – Asia Green Development Bank, Ayeyarwady Bank, Myanma Economic Bank and Myanma Investment & Commercial Bank – have been allowed to engage in financial transactions with American companies. While the US remains firm on restrictions against individuals and activities that violate human rights, the easing of sanctions signals a shift in its foreign policy towards Myanmar. As Myanmar's rapprochement with the West gets under way, we expect greater participation from western MNCs, leading to increased competition in trade and investment.

// **Influx of developmental aid**

Countries including China and India have been eager to engage Myanmar with debt waivers and provisions of development loans. Japan has been the most significant donor country to date, waiving ¥500 billion (S$7.8 billion)[4] of debt and extending loans of up to ¥51 billion (S$799.3 million) at a low interest rate of 0.01% for infrastructure development[5]. Norway has pledged to contribute a US$850,000 (S$1 million) technical assistance grant in cooperation with the Asian Development Bank (ADB) to update Myanmar's 30-year old electricity law as part of initial steps towards meeting the nation's expanding power needs.

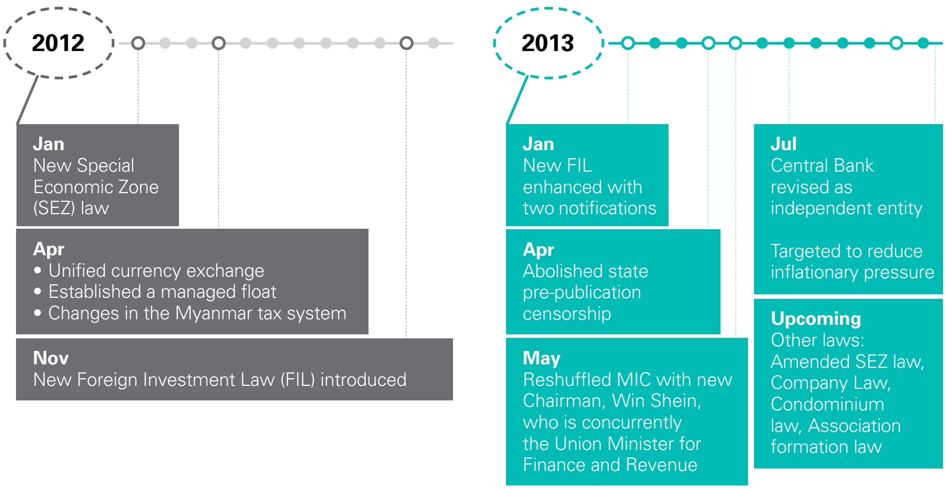
4 The average exchange rate for 2012 from MAS is ¥1= S$0.015672
5 "Abe pledges more aid to Myanmar", The Japan Times, May 2013

// **Increased presence of international organisations**

The World Bank, IMF and ADB have stepped up their presence in Myanmar, establishing new offices and increasing staff strength. In January 2013, the World Bank approved the Myanmar Re-engagement and Reform Support credit worth US$440 million (S$537.7 million)[6] to help Myanmar clear its outstanding debts. Some recently approved ADB projects in Myanmar include the design of its e-Governance Master Plan and the development of its post-primary education system. The renewed commitment of these international organisations will contribute significantly to the country's development, as technical expertise and fresh loans are introduced to put in place the necessary infrastructure to support economic growth.

Economic reforms

Figure 5: Economic reforms are on-going and positive



The passing of the new Foreign Investment Law (FIL) in January 2013 was a significant milestone in the country's transition towards a market economy as it provided greater clarity and certainty for foreign investments.

6 World Bank

Figure 6: Key changes in new FIL

Extension of land lease	Foreign investors can now lease land for a period of up to 50 years with two subsequent renewals of 10 years each. This allows for a longer upfront investment period and is an improvement over the previous land lease duration of 30 years with two renewals of 15 years each.
Transfer of investments at the end of investment period is no longer required	Foreign investors are no longer required to transfer their assets to Myanmar citizens. They reserve the right to sell their entities to any Myanmar national or foreign party of their choice.
Guarantee against expropriation	Foreign investments will not be expropriated. This provides assurance for foreign investors, in particular, those who might have encountered negative experience in the past.
Employment regulations on skilled workers	Companies registered with the Myanmar Investment Commission need to ensure that Myanmar nationals make up at least 25% of the skilled workers within the first two years from the commencement of operations, 50% in the second two-year period and 75% in the third two-year period. This is a move to ensure that skills are transferred to locals. Companies need to consider manpower training in their overall investment plans.
Remittance of profits	Foreign investors can remit their profits in foreign currency out of Myanmar at a prescribed exchanged rate through authorised banks.
Foreign participation in different sectors	Foreign investors can own up to 100% of companies in unrestricted sectors and up to 80% in restricted sectors. Foreign investors cannot participate in prohibited sectors, such as general trading, commercial trading of electricity, and mining of precious stones.
Joint ventures	There is no longer a minimum local or foreign ownership in joint ventures, though the restriction on foreign ownership in different sectors must be observed. This provides investors with greater flexibility in structuring partnerships with their local partners.

Other laws that will encourage foreign investments which are currently under debate include the Condominium Law, Special Economic Zone Law and Telecommunications Law.

Developments and reforms are in place to improve the stability of the social and business environment so as to provide foreign investors greater certainty over their investments. Parliamentary committees have been set up to examine issues such as corruption, farmers' rights, and land ownership disputes. The government is also ensuring that social development is not compromised in the process by monitoring the environmental and social impact of commercial projects. Commercial projects have to be sustainable and address issues such as income equality and interracial relations.

Singapore-Myanmar Bilateral Ties

Myanmar is familiar with Singapore. There is significant Singapore business presence in Myanmar, a large Myanmar community in Singapore and a pool of Myanmar companies using Singapore as an intermediary hub. With the lifting of Western sanctions, competition in the market has intensified. While the familiarity and warm relations are added advantages for Singapore companies, they need to act fast and differentiate themselves to gain an edge over the competition.

Figure 7: Bilateral trade between Singapore and Myanmar

Growing trade volumes

In 2012, Singapore was Myanmar's third largest trading partner, after China and Thailand. Bilateral trade reached US$1.4 billion (S$1.7 billion), up from US$1.3 billion (S$1.6 billion) in 2011[7]. Singapore is the 6th largest foreign investor in Myanmar, with a cumulative investment of US$2.8 billion (S$3.4 billion)[8]. In the first half of 2013, Singapore's trade with Myanmar reached US$1.1 billion (S$1.4 billion), rising 53% from US$711 million (S$895 million) in the same period in 2012. Trade and investment between Singapore and Myanmar is expected to grow as more investment opportunities unfold.

Singapore companies in Myanmar

Singapore companies have shown an enduring commitment in their investments in Myanmar. Singapore has been the largest investor in Myanmar's hospitality sector since the 1990s. Keppel Land established two hotels under the Sedona brand in Yangon and Mandalay in 1993, while Pan Pacific Hotels Group invested in a hotel in Yangon under its Parkroyal brand since 2001. Food manufacturer, Super Group, has operated in Myanmar for over 20 years and is currently enjoying first-mover advantage with its well-established brand and product lines[9].

In early 2013, Ya Kun opened two outlets in Yangon, ahead of other international coffee chains. Riding on the potential of a 60 million strong domestic consumer market in Myanmar, Ya Kun aims to establish ten outlets across Yangon by the end of 2014. Property developer, Soilbuild Group Holdings, entered into an agreement with Ayeyar Hinthar Group, a major Myanmar conglomerate specialising in agriculture and real estate, to jointly develop a US$120 million (S$149 million) condominium project in Yangon. Pan Pacific is also partnering Shwe Taung, one of Myanmar's leading corporations in real estate and infrastructure development, to develop a 348-room hotel as part of a mixed-use development in the heart of Yangon city centre.

Singapore companies continue to actively pursue opportunities and forge partnerships in a diverse range of sectors that are important to Myanmar's long term economic development. These range from real estate, construction to telecommunications and retail.

Singapore companies pursuing megaprojects in Myanmar

Other than setting up a presence in Myanmar, Singapore firms have also participated in the bids for some of the recent megaprojects in Myanmar:

// Singtel partnered Kanbawza Bank and M-Tel (Myanmar Telephone Company) to pursue two highly sought after 15-year telecommunications licenses. The consortium was pre-qualified with 11 other contenders. The licenses were eventually awarded to Norway's Telenor and Qatar's Ooredoo.

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7 IE Singapore
8 Ministry of National Planning & Economic Development, Myanmar, November 2013
9 "Potential for Myanmar Plays", The Business Times, March 2013

// Yongnam Holdings Ltd partnered Changi Airport Planners and Engineers and JGC Corporation to tender for the greenfield development of the Hanthawaddy International Airport in Bago Region. The same consortium also partnered Capital Diamond Star Group to tender for the upgrading of Yangon International Airport. Eventually, the project for the development of Yangon International Airport was awarded to Pioneer Aerodrome Services, a subsidiary of Myanmar conglomerate, Asiaworld, while the project for Hanthawaddy Airport was awarded to the Incheon Airport Consortium. In the event that the winning consortiums fail to deliver the projects, the Singapore consortium will be awarded the projects.

While there are many opportunities for Singapore companies to bid for major projects being rolled out by the government, competition for such megaprojects will intensify further.

Apart from the commercial considerations, Singapore companies bidding for these projects need to address the concerns of the Myanmar government in their proposals. This includes ensuring minimal impact on the communities and environment and catering for meaningful employment and knowledge transfer. Workers' training and technical knowledge transfer would help Myanmar better integrate into the global economy and proposals addressing these are preferred by the Myanmar government.

Given Myanmar's limited experience in structuring Private Public Partnerships (PPPs) for large infrastructure projects, Singapore investors and developers need to be aware of the risks involved. In a business environment where data and statistics are not always readily available, investors must be prepared that the project estimates provided may not always be accurate. Without proper assessment and due diligence at the early stages of the project design phase, investors and developers may find themselves spending more capital and time in lengthy negotiations with owners on the details and business case after the projects are contracted.

In a talent-scarce environment, Singapore developers may find it difficult to secure experienced professionals with the right project management capabilities and skills to oversee their projects. Singapore companies must hence be prepared to deploy their resources, invest in new hires from overseas and/or work with strong local partners who have a suitable workforce.

Beyond opportunities in megaprojects, companies can pursue related projects further downstream or in adjacent spaces. Many Singapore companies have made headway in this respect. For example, despite not being awarded the telecommunications license, SingTel will distribute its satellite phones and satellite broadcasting bandwidth services in Myanmar through Al Noor Group, Singtel's appointed channel partner in the country.

In the aviation sector, Tiger Airways commenced daily services to Yangon in October 2013, complementing Singapore Airlines and SilkAir's daily flights to the country. There are also opportunities in areas such as maintenance, repair and overhaul (MRO) services and the supply of aviation fuel.

Opportunities in Myanmar

Myanmar presents immense opportunities across different sectors for Singapore companies. Many sectors in Myanmar need fresh investments and technology upgrades to be internationally competitive.

Manufacturing and industrial development

Between the mid-1990s and early-2000s, Myanmar had a burgeoning manufacturing sector supported by a strong garment industry, which relied heavily on exports to the US[10]. However, the sanctions put in place by the US in 2004, followed by China's accession to the WTO in 2005, led to a gradual decline of the industry as manufacturers moved their production bases to China. As wages in China continue to rise at an annual rate of 10% to 15%, international manufacturers are now diversifying their production to Southeast Asia, where labour costs remain comparatively lower.

68% of Myanmar's population is between 15 to 64 years old. This amounts to a labour force of 37.6 million[11]. It has the region's lowest cost of labour, at approximately US$65 (S$79) a month (including overtime and allowances)[12] compared to China's daily minimum wage range of US$4.70 to US$8.11 (estimated at US$103 (S$126) to US$178 (S$218) a month). Myanmar's proximity to the regional consumer markets makes it a good alternative location for manufacturers.

Following the lifting of the US general import ban on Myanmar in July 2012, many international companies, including Coca-Cola and Unilever, have announced plans to establish production facilities in Yangon. Nissan and Suzuki will also locate car assembly plants in the country.

To support the potential growth of the manufacturing industry, three Special Economic Zones (SEZs) - Kyauk Phyu, Dawei and Thilawa - are being developed.

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10 "How has the Myanmar garment industry evolved", Toshihiro Kudo. It was estimated that close to 85% of its total exports consisted of apparel and textiles, of which close to half were for the US in 2000. In its peak, the Myanmar garment industry had about 400 factories with 300,000 employees, generating an export volume of US$600 million (S$733.3 million).

11 CIA World Factbook, 2013 estimates

12 Temporary minimum wage in Myanmar, Forbes

Figure 8: Gazetted Special Economic Zones

Kyauk Phyu
- Significant Chinese presence. China National Petroleum Corporation (CNPC) constructed and now operates a pair of 2,520km China-Myanmar oil and gas pipelines to Yunnan, China
- Plans to establish oil tanker ports and warehouses and seafood processing zone
- First phase of development due for completion in 2016

Dawei
- Joint project between the governments of Thailand and Myanmar
- Plans to develop a heavy industrial zone and a deep sea port which would open up trade routes to the Indian Ocean

Thilawa
- Located in the outskirts of Yangon city, this is a joint project between the governments of Japan and Myanmar
- To focus on labour-intensive light manufacturing industry (garment and shoe making)
- Has good access to labour and key commercial and industrial centres of Yangon and Mandalay
- Situated near international container port, Myanmar International Terminals Thilawa, at the mouth of Yangon River, Thilawa SEZ is a good location for manufacturing and transportation of goods
- Infrastructure is more developed compared to the other two SEZ
- First phase of development due for completion in 2015

The SEZ Law and Dawei SEZ law were passed in 2011, providing incentives for investment projects within the SEZs approved by the Central Body for the Myanmar Special Economic Zone, such as:

// Tax holidays for first five years

// 50% income tax relief on revenue from exports for the next five years

// 50% income tax relief on reinvestment obtained from export sale for the subsequent five years

// Exemption on custom duty for certain goods for five years. A 50% exemption applies for next five years

The amended SEZ Law, soon to be approved by the parliament, will offer more incentives to foreign investors.

Opportunities:
Singapore companies can participate in the development of the SEZs by seeking downstream opportunities. For example, Singapore companies can partner with project owners to offer operation and management capabilities in these SEZs by adopting an integrated approach across the value chain. Singapore can offer a total solutions package in the following areas:

// Master planning of the industrial zone to cater to different industries

// Development of infrastructure and technology

// Marketing of industrial zone to international MNCs

// Provision of utilities and waste solutions that comply to international standards

// Management of shared logistics operations

// Training of workers for tenants

// Development of residential and commercial facilities in the surrounding township

Such an approach plays to our strengths and differentiates Singapore companies from foreign competitors.

Beyond the gazetted SEZs in Yangon, Singapore companies should consider other cities such as Mandalay and Pathein in the Ayeyarwaddy region to establish industrial townships and bases for their manufacturing activities.

Designated as the logistics hub of the country, Mandalay offers opportunities for Singapore companies looking to establish export-oriented manufacturing trading activities with immediate neighbours, China and India. In addition, Myanmar has been reinstated into the EU's Generalised System of Preferences (EU GSP). With the exception of ammunition and arms, manufacturers can now benefit from full duty-free and quota-free access to EU markets from Myanmar.

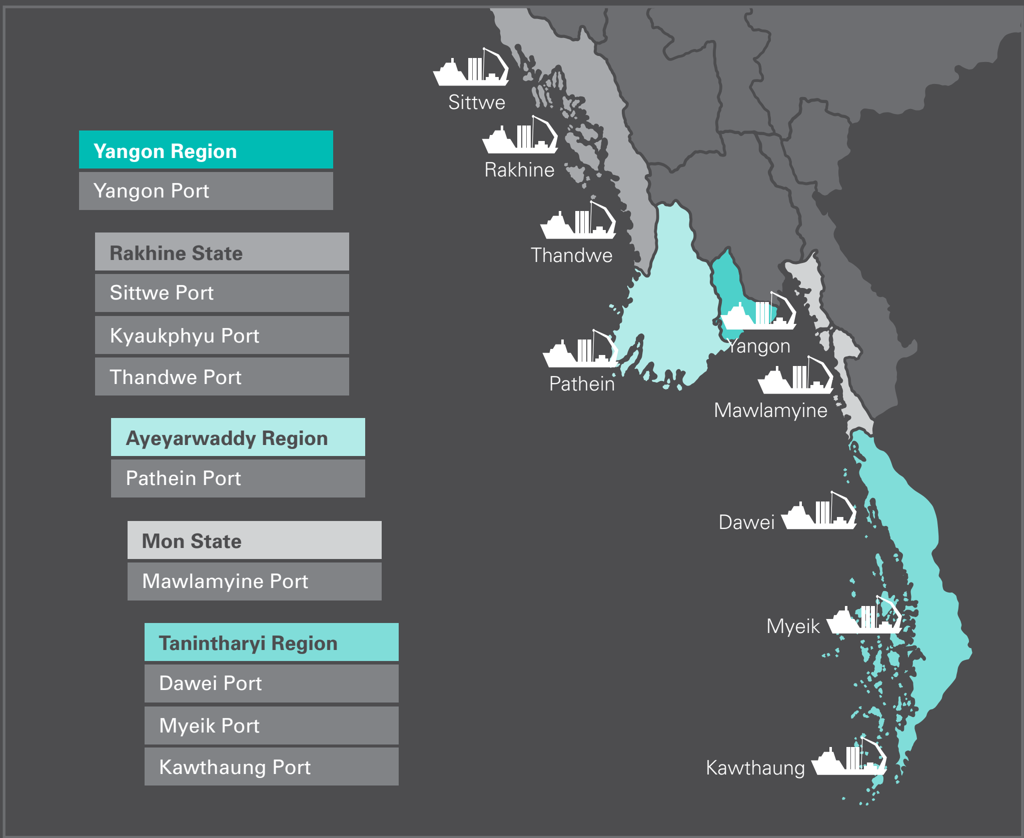
Widely-known as the "granary of Myanmar" and occupying the delta region of the Ayeyarwaddy River, the Ayeyarwaddy region, in particular, Pathein City, is blessed with abundant agri-commodities and fisheries production. In addition to rice, maize, beans and pulses, the region also produces fish, prawns and related products such as fish paste and sauce. Apart from food sourcing opportunities in the region, Singapore companies can consider investments in farming and food processing technology, for example in the areas of frozen food, sauces and condiments for export to the international market.

There are many options available to investors looking to establish their production base in Myanmar. However, investors must be prepared to deal with the current challenges of poor infrastructure, in terms of transport, telecommunications and utilities supply, which will be discussed in greater detail in the later part of this paper. Improvements to the country's infrastructure will take time.

Ports and logistics

Myanmar has nine port facilities along the western and south-eastern coast of the country, handling 24 million tons of import and export freight in 2011. Its principal port, the Port of Yangon, handled about 90% of the country's cargo throughput in the same year[13], while the others are mainly coastal ports with limited port handling capabilities.

Figure 9: Ports along Myanmar's coastline



Source:
Myanmar Port Authority

Despite the limitations, there have been a growing number of commercial freight forwarders expanding into Myanmar over the past two years, improving the country's liner connectivity. The United Nations Conference on Trade and Development (UNCTAD) reported that Myanmar has overtaken Brunei and Cambodia from 2004 to 2013 in the Asia Liner Connectivity Index.

Increased demand for its agricultural commodities and products internationally will lead to an increase in exports and correspondingly, a demand for improved connectivity to the region. This demand will spark a significant growth in Myanmar's port and logistics sector in the years to come.

13 "Myanmar: Transport Sector Initial Assessment", ADB, October 2012

Opportunities:
There are plans for the development of deep sea ports in Dawei, Kyauk Phyu, Thilawa and Sittwe to accommodate larger container vessels to handle the rapid increase in trade volume.

Facing the Indian Ocean, the Thandwe and Pathein ports are two potential areas for development as these provide good access for exports to Africa, Europe and the Middle East. When developed, the ports will significantly reduce shipping time for ships that used to ply the longer route through the Straits of Malacca. For operators focusing on ASEAN trade, Myeik and Kawthaung ports in the south may be suitable.

The construction of ports can commence only after the completion of an environmental and social impact study. However, Singapore companies can participate in the construction of warehousing and terminal facilities at ports through joint ventures with local partners. Beyond operations and management, these infrastructure construction projects also offer opportunities in engineering, procurement and construction (EPC) sectors.

Downstream, Singapore can leverage its expertise to improve the country's supply chain management, from logistics, warehouse facilities to container depots and freight stations. While Myanmar remains heavily reliant on land transportation, with road freight accounting for almost 75% of its total internal freight mix, its physical infrastructure and transport sector is considerably underdeveloped. According to the World Bank's Logistics Performance Index (LPI), Myanmar was ranked 133 out of 155 countries in 2012. Singapore companies looking to penetrate the market could partner local companies with well-established distribution networks throughout the country, to provide point-to-point delivery services.

Urban development

Over the past two years, there has been a massive surge in real estate prices in Yangon and Mandalay, driven primarily by demand from foreign investors, expatriates and local speculators. In Yangon, land prices in the city centre range between US$1,000 (S$1,222) to US$3,000 (S$3,666) psf, while land in prime areas outside the city centre fetch between US$800 (S$978) to US$1,500 (S$1,833) psf. Upscale condominiums in Yangon can fetch up to US$300 (S$367) to US$500 (S$611) psf, an eightfold increase since 2010. Many Myanmar businessmen and developers are riding on the property boom to develop new residential and commercial buildings.

However, the main impediment to the development of the city is its lack of clean water, power supply and environmental infrastructure such as drainage, water and waste management. With over six million people living in the cities of Yangon and Mandalay, there are immediate opportunities for Singapore companies in the energy, utilities and engineering sectors to offer their expertise and contribute to the urbanisation of the cities. Of immediate need is the provision of customised, cost-effective waste management systems and clean water supply for the development of industrial parks, such as those in the SEZs of Thilawa, Dawei and Kyau Phyu.

Opportunities:

Singapore's urban transformation from third-world to first-world and the role played by Singapore companies is highly regarded in Myanmar. Beyond the investment dollar, Singapore companies have proven their ability to provide end-to-end solutions in the urban development sector. Singapore companies can offer its expertise in city planning, facility management and urban solutions such as water treatment and waste management.

There are also opportunities to provide raw materials, urban planning and development in residential and hospitality projects. For example, through a joint venture with local company, High Tech Concrete Technology (a wholly-owned subsidiary of Myanmar construction giant, Shwe Taung Development Co.), Tiong Seng Holdings will set up a plant in Myanmar to manufacture and supply precast components to an affordable housing project by the Myanmar government.

However, companies need to recognise that land prices in Yangon are high. It is important to select partners who are willing to contribute land valued at equitable rates. Lack of enforcement on the registration of land ownership may also complicate due diligence investigations.

Hospitality

The surge in business and leisure visitors to Myanmar since 2011 led to a severe shortage in hotel rooms and serviced apartments. According to the Ministry of Hotels and Tourism, tourist arrivals in Myanmar rose by 30% to 1.06 million in 2012[14]. By 2020, arrivals are expected to increase sevenfold to 7.5 million, with tourism spending expected to exceed US$10 billion (S$12.2 billion). This will drive demand for hospitality services over the next five years.

Presently, there are over 780 hotels across Myanmar, of which, 204 are in Yangon. With 15 hotel projects still in the pipeline, hotel room rates, especially those in Yangon, have skyrocketed as a result of an overwhelming demand. Occupancy rates range between 80% to 100% all year round, rates for standard rooms at these hotels start from US$180 (S$220) during off-peak periods and can rise up to US$380 (S$464) during peak periods. The high room rates and growth potential have attracted attention from many international hoteliers including Accor and Hilton.

Likewise, there is strong demand for serviced apartments. Expatriates with a limited budget can expect a waiting time of at least one year, before more rooms are available. We expect this strong demand for new hotels and service apartments in Yangon to persist for the next three to five years.

Opportunities:

Singapore has established itself as one of the leading hospitality players in Myanmar since the 1990s. Singapore hospitality companies can capitalise on the strong Singapore brand and track record to establish their presence beyond Yangon to popular tourist destinations such as Mandalay, Bagan and Inle Lake.

Beyond business hotels in Yangon, heritage hotels are a segment with vast potential too. By investing in this segment, Singapore can tap into the growing market of leisure as well as high-end travellers while preserving the best of the country's heritage. Singapore hospitality players can also value-add to their Myanmar partners by providing access to international clients and management expertise.

As there has been minimal training available to the industry, hospitality services in the country have fallen behind international standards. Singapore companies can provide certified training programmes for the local hospitality and tourism workforce to upgrade their operational skills in areas ranging from food services, guest services and housekeeping to management expertise in service excellence and human resource management.

14 "Help unsqueeze Myanmar's packed hotels", Global Times, July 2013

Oil and gas

Myanmar currently produces about 7 million barrels of oil and 0.42 trillion cubic feet (tcf) of gas annually. Over 80% of the gas produced is sold to neighbouring China and a large proportion is exported to Thailand to fuel about a quarter of Thailand's energy needs[15]. Although hydrocarbon reserves in Myanmar is relatively modest at about 50 million barrels of oil and 10 tcf of gas[16], there are many potential unexplored fields both onshore and offshore. The potential discovery and production of new fields could present both upstream and downstream opportunities for Singapore oil & gas companies.

In early 2013, tenders for 18 onshore and 30 offshore blocks were conducted by the Myanmar Ministry of Energy. Of the 30 offshore blocks, 11 and 19 are in shallow water and deep water blocks respectively. As foreign companies do not require local partners to operate deep water blocks, investors are given full access to these blocks. The offshore tenders attracted oil majors such as ExxonMobil and Shell that competed against incumbents such as Daewoo, Myanmar Petroleum Resources Limited, Petronas, PTTEP, Total and the state-owned Myanma Oil and Gas Enterprise.

Figure 10: Companies awarded onshore blocks in 2013[17]

	Blocks/ Area	Awarded Company
PSC Blocks	B-2 (Zebyutaung-Nandaw)	ONGC Videsh Limited, India
PSC Blocks	K (Yamethin)	Eni, Italy
PSC Blocks	O (Pathein)	Petroleum Exploration (PVT) Ltd, Pakistan
PSC Blocks	EP-1 (Kyaukkyi-Mindon)	Brunei National Petroleum Co Sdn Bhd, Brunei
PSC Blocks	EP-3 (Thegon-Shwegu)	ONGC Videsh Limited, India
PSC Blocks	IOR-5 (Hitantabin)	Petronas Cangali, Malaysia
PSC Blocks	C-1 (Indaw-Yenan)	Pacific Hunt Energy Corp, Canada
PSC Blocks	H (Taungoo-Pyinmana)	Pacific Hunt Energy Corp, Canada
PSC Blocks	J (Mawiamyine)	Petroleum Exploration (PVT) Ltd, Pakistan
PSC Blocks	MOGE-4 (Myintha)	CAOG Sarl, Luxemborg
PSC Blocks	EP-4 (Mayaman)	JSOC Bashnett, Russia
PSC Blocks	RSF-5 (Ondwe)	Eni, Italy
PSC Blocks	MOGE-3 (Padaukpin-Natmi)	PTTEP South Asia Ltd + Palanf Sophon Offshore, Thailand
IPR Blocks	IOR-4 (Pyay)	MPRL E & P Pte Ltd, British Virgin Islands
IPR Blocks	IOR-6 (Myanaung)	MPRL E & P Pte Ltd, British Virgin Islands
IPR Blocks	IOR-7 (Shwepyitha)	Petronas Cangali, Malaysia

Source: Myanmar Ministry of Energy

15 Mandalay Capital Research
16 United States Energy Information Administration
17 Two blocks (specifically PSC M and IOR 3) of the 18 onshore areas were not awarded due to lack of bids.

Opportunities:
Once exploration and production works begin, there will be demand for oil rigs, marine equipment and supplies, offshore support vessels and supporting infrastructure such as shipyards and offshore supply bases. Singapore oil & gas companies can capitalise on their global reputation for quality and safety to offer a suite of solutions across the entire value chain such as engineering design, procurement of materials, construction and maintenance to capture one of the last emergent opportunities in Southeast Asia.

However, companies have to recognise the inherent risks involved. There are potential hazards from limited seismic data, high development cost and the possibility that contract terms may change. Investors should note that the oil & gas sector is complicated and related tenders are highly competitive.

Power

Myanmar experiences power shortages caused by an over-reliance on hydropower and under-investment in power generation. The current generation capacity caters to only 26% of the population. The government aims to increase capacity to 6,000MW to serve 80% of Myanmar's population by 2030. A masterplan for the industry is being developed and expected to be completed by 2014. In the meantime, with the influx of foreign investors setting up manufacturing plants and villagers moving into cities to seek employment, power shortages are expected to worsen in the short term.

Several power plants are in the pipeline to boost generation capacity. The Myanmar government has announced plans to build four coal-fired power plants in the Yangon, Sagaing, Ayeyarwaddy and Tanitharyi regions. Each will have a generating capacity of 1,000MW, 600MW, 450MW, and 50MW respectively, and are likely to employ clean coal technology. The Chinese and Thais are also pursuing new hydropower projects, such as the 1,400MW Kounloan project and 1,000MW Noungpha project in northern Shan state.

Opportunities:
While the proposed power plants take three to five years to materialise, Singapore companies can provide small-scale power generation solutions to be implemented in the short-term. This could take the form of generators, solar panels as an alternative source of energy or small scale power plants of 5MW to 10MW for individual tenants in industrial parks to provide consistent and reliable supply of power. This is a promising area as authorities have reportedly been moderating power transmission to industrial zones in Yangon since the start of 2013[18].

There are also opportunities to invest in small, renewable, off-grid power plants in rural areas. Compared to large scale power plants, these take a shorter time to establish and would better suit the rural needs of Myanmar's low population density of 74 people per square meter, the second lowest among ASEAN countries.

18 "Rangoon Starts Power Cuts For Industries", The Irrawaddy Magazine, Jan 2013

Although the current low tariff rate might not be attractive for investors, future increases are likely to take place especially if the tariff follows the growth trend of 6% per year seen from 2006 to 2012. When selecting the right sites for power plants, investors need to consider the availability of fuel supplies, potential demand and land clearance issues. Investors may also wish to consider sourcing funds from Singapore as the Myanmar banking industry is still underdeveloped.

Consumerism

With an estimated population of 60 million and an expected growth rate of 2% per annum over the next decade, Myanmar's domestic market has huge potential for growth. According to the Mckinsey Global Institute, the consumer class in Myanmar could potentially rise from 2.5 million today to 19 million by 2030. This could triple consumer spending from US$35 billion (S$42.8 billion) to US$100 billion (S$122.1 billion).

Singapore brands are in a good stead as they enjoy strong brand recognition amongst the upper-middle class in Myanmar. Several Singapore brands such as Charles and Keith, Chewy Junior, Heatwave, Iora and Ya Kun have already established their presence in Myanmar.

Opportunities:

Singapore regional distributors should reap the benefits of an early entry in a frontier market to establish brand loyalty that will increase market share in the longer term. This will pave the way and create value for future collaborations with other international brands.

Myanmar has a highly fragmented retail market. Organised retail stands at 10% and the potential in rural regions remains untapped. Local transport is inadequate which impedes the desire to travel to big box stores to shop. In the short to medium term, the consumer dollar will continue to be captured through small convenience stores and shophouses.

Before the rise of the middle class, manufacturers will need to modify their product offerings to cater to the price sensitive consumers. In order to effectively penetrate the mass market, companies can consider selling consumer packaged goods in smaller sachets which has worked well in the rural regions of China and Vietnam.

Distribution outside the cities of Yangon and Mandalay may be challenging for new market entrants due to the lack of logistics infrastructure. FMCG companies can explore partnerships with established local retailers and tap into their networks to facilitate the distribution of their products throughout the country.

Doing Business in Myanmar

Emerging from decades of economic and political isolation, Myanmar today shows good potential for inclusive growth. While opportunities are aplenty, market entry could be difficult due to information gaps, infrastructural challenges and policy risks. Singapore companies need to be aware of the attendant risks and challenges.

Setting up presence in Myanmar

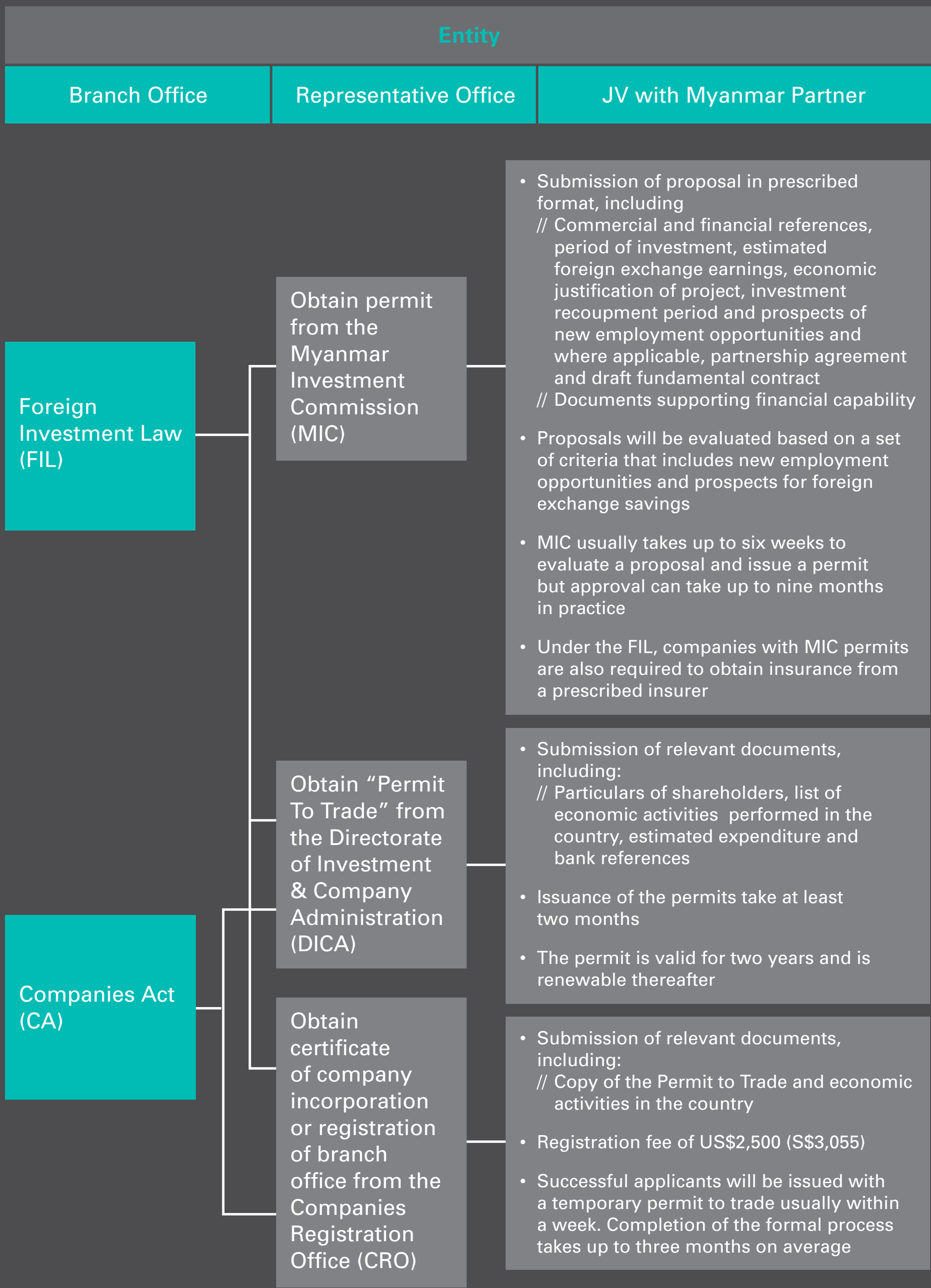
Foreign companies can establish their presence in Myanmar as a branch office, representative office (for financial institutions) or joint venture with a Myanmar partner. The companies may be registered under the Myanmar Companies Act (CA) or formed under the Foreign Investment Law (FIL). Companies registered under the FIL are eligible for certain tax incentives while those under the CA are not. Foreign entities formed under the FIL are also required to obtain permits from the Myanmar Investment Commission (MIC) and the Directorate of Investment and Company Administration (DICA), and register with the Companies Registration Office (CRO), while those under the CA only require a permit from the DICA and registration with the CRO.

Foreign capital requirements are imposed on companies depending on the type of activities it undertakes:

Type of Activities	Minimum Foreign Capital Required	
	Companies registered under the FIL	Companies registered under the CA
Manufacturing	US$500,000 (S$611,050)	US$150,000 (S$187,500)
Service	US$300,000 (S$366,300)	US$50,000 (S$61,1100)

Foreign investors often find the setting up of a business in Myanmar to be a lengthy process that takes many months to complete. To circumvent that, Singapore investors should engage competent law firms to execute the company registration and MIC permit application. The lawyers will ensure that the application is crafted accurately and handle the multiple trips to Nay Pyi Taw with minimal involvement from the client.

Figure 11: Establishing a presence in Myanmar



Risk and challenges

Legal infrastructure

As Myanmar gains speed in its reform process, many draft laws are pending consideration by Myanmar's Parliament.

In addition to key legislations such as the FIL, Myanmar's accession to the New York Convention in July 2013 represented a significant development to the benefit of foreign investors. It demonstrated the Government's intention to establish a business-friendly environment by allowing foreign investors to resolve commercial and investment-related disputes offshore and enforce foreign arbitral awards within Myanmar.

Myanmar is in the process of developing its legal system and one would need to prepare for changes as legislations are being adapted. In addition, investors should note that implementation is not a proven process and it will take time for the regulations to come into effect.

Lack of financing

Singapore companies involved in sizeable projects should be prepared to finance their own investments as there are limited project financing options in the country. Foreign banks are not allowed to operate in Myanmar at the moment. The regulatory framework does not always provide international banks with the option to secure collaterals.

The 2012 FIL provided encouraging signs of future changes regarding collateralisation of loans. There were discussions to permit companies to mortgage land rights provided by the government. This will allow project owners to provide collaterals required by offshore lenders[19].

In addition, Myanmar's recent membership with Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group, will encourage private-sector financing in the country. The agency will insure investments into the country against risks that include restrictions on financial transfers, expropriation, war and civil disturbance, breach of contract and non-honouring of financial obligations. We can expect foreign banks to follow the footsteps of MIGA's entry into Myanmar. Until then, project sponsors should ensure that they have ready access to corporate financing and bridging loans[20].

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19 International Financial Law Review

20 Bridging Loan: The corporate entity in Singapore guarantees the loan from Singapore banks and makes a corporate loan to the Myanmar entity.

Verification of land ownership

The recent amendments to the land laws enabled foreign investors to legally lease land from private Myanmar citizens, subjected to the approval of the relevant government department. However, the lack of an existing central government database makes it difficult for investors to accurately determine the ownership of privately-held land plots.

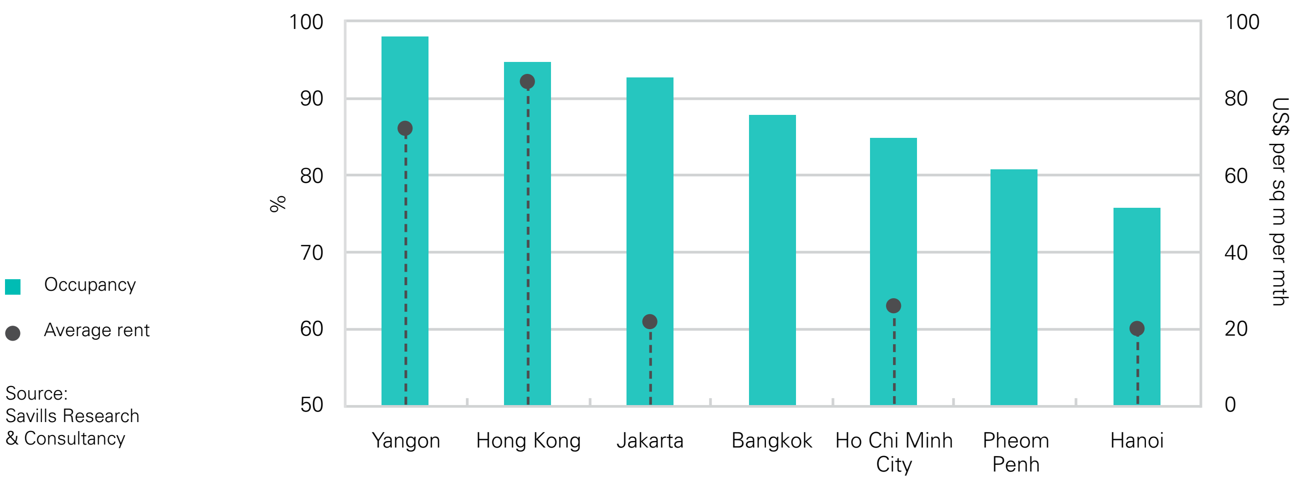
When locals sell land, they often do not change the name of the title deed holder. Therefore, locals rely primarily on legal contracts which state the transfer of land ownership after a sale. This could be confusing for Singapore investors.

Hence, Singapore investors need to hire competent lawyers to conduct due diligence on landowners. There is an increasing number of international law firms in Myanmar which Singapore investors can engage, such as Allen & Gledhill, Kelvin Chia Yangon and Rajah & Tann. Kelvin Chia Yangon has been in Myanmar since 1995, while Rajah & Tann entered into a joint-venture with local law firm, NK Legal, in March 2013. Allen & Gledhill is the most recent entrant to the market.

Skyrocketing rental and land prices

With the exponential increase in demand for residential and office space due to the entry of foreign investments, rental prices in Yangon have skyrocketed. As of April 2013, Yangon's average office occupancy rate rose from 23% to 98% compared to the first half of 2012. Average monthly rent recorded an increase of more than 80% over the same period last year[21] to US$72 (S$88) per sqm.

Figure 12: Office occupancy rate and average rent by city in first half of 2013



Source:
Savills Research
& Consultancy

21 Savills World Research

The high land prices make Yangon a less attractive property investment destination, relative to neighbouring countries like Thailand and Vietnam. To overcome the challenges of inflated property prices, Singapore companies can consider joint ventures in property developments with the government. Government land is generally cheaper and is also easier to obtain the necessary approvals and permits. In this set-up, the project would often be structured as a Build-Operate-Transfer contract, with a land lease duration ranging from 15 to 30 years. This allows the investor to own and manage the property for the duration of the land lease, after which ownership of the property will be transferred to the government.

Alternatively, Singapore investors may enter into joint ventures with local companies that have existing land banks. These local partners can contribute land (at a fair value) as equity into the joint venture, while the foreign investors will bear the costs of development and construction as part of their contribution to the partnership.

Poor infrastructure and power shortages

Decades of underinvestment has led to a weak infrastructure which is inadequate to support the influx of investments to the country. Poor urban planning, the lack of roads and flyovers have resulted in traffic congestion in the city.

Due to the lack of power generation facilities and reliance on an aging power infrastructure, power shortages are common in Yangon. To minimise disruptions to commercial activities, the Yangon City Development Committee (YCDC) has implemented power rationing across the various townships in the city.

Singapore companies setting up operations in Myanmar need to consider the impact of backup generators and diesel fuel on operational costs. Companies should also purchase uninterruptible power supplies for critical IT equipment and systems.

Shortage of skilled workers

Years of isolation from the international markets and underinvestment in education has caused a severe shortage of skilled workers including technicians, construction workers, engineers, executives and managers. The situation is exacerbated by the sudden surge in demand for skilled workers from foreign investors in the country.

The shortage of skilled workers has led to companies poaching staff from one another, hiring workers without the required experience and competencies, and even leaving positions unfilled for months. Businesses thus operate below full capacity and suffer from increased hiring and training costs.

The tight labour market has also led to a steep increase in wages, in particular for experienced hires proficient in English. For example, an experienced local manager with a good command of English can be paid up to US$800 (S$978) a month, double that of an inexperienced hire with a limited grasp of English.

The table below provides an estimate of the average salaries of Myanmar workers:

Figure 13: Average salaries of Myanmar workers

Position	Average monthly salary in Jan 12 US$ (S$)	Average monthly salary in Jan 13 US$ (S$)	Y-O-Y Change
General Worker	50 (61)	80 (98)	+60%
Driver	100 (122)	180 (220)	+80%
Secretary	150 (183)	250 (306)	+67%
Supervisor	200 (244)	300 (367)	+50%
Manager	250 (306)	600 (733)	+140%
Senior Management	800 (978)	1300 (1,589)	+62%

Source:
IE Singapore

In view of the rising wages, Singapore companies setting up operations in Myanmar should identify, train and develop high-potential local employees from the outset. While this may not allow companies to ramp up their operations rapidly, it will reduce overall operational costs in the long term.

Some companies are offering comprehensive benefits to their employees including incentive trips, company transportation, healthcare benefits and performance bonuses so as to retain their best employees. A strong relationship with employees and building up their sense of pride in the organisation will also improve staff retention rates.

Lack of transparency

In 2012, Myanmar ranked 172 out of 176 economies in the Transparency International Corruption Perceptions Index. While some have argued that it is too early to expect good results from a country which had only recently emerged from decades of economic isolation, the ranking reflects, nevertheless, the complexities of doing business in Myanmar.

Since taking office, the Thein Sein administration has been working hard to clamp down on corruption to ease investors' concerns. Anti-corruption committees have been established and policies were implemented to improve transparency. Slowly but surely, these initiatives will improve the investment landscape in Myanmar over time.

For now, Singapore companies pursuing investments and projects in Myanmar must be aware of the challenges and complexities involved.

Navigating the 2015 elections
If the current trajectory of liberalisation continues uninterrupted, Myanmar will enjoy stability and continued reforms even after the 2015 elections. Nevertheless, companies should be prepared for unforeseen contingencies. It is hence important for Singapore companies to align their investments to the country's key economic priorities of job creation and skills upgrading. Safeguarding local social and environmental conditions are also important considerations that would earn the acceptance of the local community.

Understanding the business culture

Humility and patience
Regardless of the size and international reach of their companies, Singapore companies have to be mindful of their interactions with the Myanmar businessmen. Successful business partnership in Myanmar is built on the foundation of a strong relationship, borne out of mutual respect for both parties. Making a conscious effort to establish such strong relationships with trusted local partners will enable investors to operate successfully in Myanmar.

Since the Myanmar economy was liberalised in 2011, there has been a flood of political and business delegations calling on Myanmar government officials. These visits range from courtesy calls to lobbying for government concessions. Myanmar companies, courted by throngs of foreign investors, have become more selective about who they meet.

Securing meetings with Myanmar officials and companies typically requires two weeks to a month's advanced notice. Even when meetings are confirmed, Singapore investors must be prepared for last minute changes as the officials may be called away for urgent official meetings and duties. Myanmar companies, too, are usually given only one day's notice to attend meetings in Nay Pyi Taw.

Investors hence need to understand that the cancellations are not deliberate and they should work patiently with the officials to reschedule the meetings. Once the meetings are secured, companies must be be concise and show their differentiating qualities clearly. Prior to a meeting with the Myanmar officials or companies, investors need to have a clear idea on the scope and benefits of their proposed projects and how they intend to work with their Myanmar counterparts. This will allow them to have a better understanding of the investors' interests and the potential areas for collaboration.

Appreciating the common practices of the Myanmar officials and companies will allow investors to manage their relationships effectively. Much of this hinges on being patient when dealing with the Myanmarese, which can be difficult for Singapore companies used to the pace of work back home.

Finding a good local partner

It is important for Singapore investors to identify good local partners in Myanmar as most lack sufficient local knowledge and connections to operate effectively in the country. Local partners can either be an agent or a joint venture partner and must possess three main attributes – trustworthiness, good local connections and a willingness to strike a fair deal.

Both in-market reputation and responsiveness are ways to assess a local partner. Even though Myanmar companies are inundated by meetings and projects, they will make an effort to follow up with companies and projects that they are interested in.

Singapore companies need to leverage the local connections and knowledge of local partners to effectively navigate through the complex bureaucracy and fluid business environment in Myanmar. For projects involving capital investments, local partners can advise Singapore investors on the relevant ministries to meet, how proposals should be presented and provide access to key stakeholders. Local partners can also advise Singapore investors on local business practices vis-à-vis government regulations.

The willingness of local partners to strike a fair deal is important in an environment of inflated prices. This is especially true for projects which require land. Singapore investors need local partners who own existing parcels of land in suitable locations and are willing to inject selected land plots into joint venture companies at a fair value.

It is a common misperception that all Myanmar companies are in need of capital. In the absence of an efficient financial sector to facilitate project financing, businesses in Myanmar are largely conducted in cash. Established Myanmar companies are generally financially strong with extensive local knowledge and connections to execute projects smoothly. Investors should be mindful of the market expertise and linkages to local communities that the local partners can bring to the table. Singapore investors should complement this with technology transfer and international access beyond just the investment dollar.

Working with Myanmar companies: conglomerates and second-tier players

Many of the largest and most powerful Myanmar conglomerates are controlled by Myanmar's leading business families, many of whom had enjoyed a close relationship with the previous government but remained on the US Specially Designated Nationals (SDN) list. While American companies are forbidden from doing business with these individuals and companies, many non-American companies are also wary of their interactions with them due to the possible reputational risks and impact to their current and future business dealings with American entities.

In the past, the most influential Myanmar entrepreneurs were close to the former government and given access to major contracts to grow their business. Their activities have allowed them to dominate key industries like property development, construction and commodity trading. Today, the government seems keen to delink the government-business nexus. The recent telco tender for instance, did not have a local player amongst the eventual winners. Yet, it is undeniable that Myanmar requires the resources and expertise of some of these leading entrepreneurs to undertake major developmental projects in the country.

Singapore companies need to realise that most big players of today inevitably have some linkages to the past. Barring some Myanmar companies with a certain reputation – well-documented in mainstream media, Singapore companies looking for potential local partners can still consider working with other leading entrepreneurs who made and are making significant positive contributions to their community. These companies, with their resources, connections and experience, may make good local partners in the long run.

Another category of Myanmar companies to work with are the emerging second-tier companies. These are the small players who managed to eke out a respectable living despite conditions of the past. Many are not on the US SDN list. These companies have established themselves as prominent market leaders in their respective sectors and command significant market share within their industries. Having gained a foothold domestically, they are hungry for access to the international markets and make ready partners for Singapore companies as many own sizeable land, banks and operations which foreign companies can value add to with their financial capabilities, brand and management expertise.

Conclusion

Myanmar is one of the last frontiers in Asia providing strategic access to key markets in Asia. The opportunities are real and so are the risks and challenges. With the lifting of Western sanctions, competition in the market is intense. But there is also a certain degree of market fatigue setting in among the business community. While potential suitors need to differentiate themselves to be noticed, the timing of their investment is equally important. There are certain sectors where there exist immediate opportunities and Singapore companies can benefit from a first mover advantage. For others, a more detailed study is required.

Myanmar offers abundant opportunities for Singapore companies in sectors, including power, real estate, logistics, hospitality and consumerism. Singapore companies should identify sectors that can stand the test of time and are resilient to the vagaries of an emerging economy. Beyond commercial considerations, key factors that may help to tip the balance in a company's favour in the pursuit of projects include proposals that show (1) meaningful job creation, (2) opportunities for skills upgrading of workforce, (3) an environmentally and socially sustainable growth path and (4) increased engagement with the international community.

After years of isolation, Myanmar partners are not only looking for investment dollars. Companies that can provide comprehensive solutions to their projects will gain an edge over the competition. This involves providing a whole value chain of services. The Singapore advantage thus lies in our ability to offer sustainable solutions for the benefit of the local community and provide access to the international community.

However, as with most emerging economies, there is still some uncertainty and inherent risks that Singapore companies need to consider. Understanding the market challenges and appreciating the business culture will help Singapore companies to penetrate the market effectively.

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