FINAL FRONTIER

The rise and rise of Myanmar

After more than 50 years of stagnation, Myanmar is finally opening its doors to investment from the outside world. As well as sitting between the regional heavyweights of China and India, Myanmar offers incredible investment opportunities in energy, mining, infrastructure, agriculture, fisheries and so much more that led the International Monetary Fund to brand the country as Asia’s “final frontier”.

Read inside for your guide to investing in Myanmar

One of the lowest sectors in investment and government budget, agriculture offers huge opportunities despite challenges

Investment in telecoms heats up as three local telecom companies are granted joint venture partnerships with foreign firms

Myanmar’s largely untapped minerals sector is receiving a gold rush of interest from frontier mining firms

The energy sector has boosted foreign reserves from almost zero in 1988 to US$7.2 billion today, but still offers significant potential

Myanmar’s banking industry needs revitalisation to attract and cope with an influx of foreign investment

Accurate information for potential investors on the impact of political change and where to focus resources

24 pages of insight on investing in Myanmar
Farmers can benefit with good policies

By Myo Lwin and Victoria Bruce

MYANMAR boasts vast areas of relatively undeveloped land that are attracting newfound attention from foreign investors seeking new opportunities in agricultural projects. However, concern remains for the amount of investment needed to replace antiquated technology with modern machines, the biggest concern plaguing many potential foreign investors – lack of infrastructure.

A Yangon-based consultant and agricultural specialist, Murray Linton, said Myanmar’s rich agricultural land hold the key to the next boom industry.

“Agriculture here has a lot of unrealised potential with vast areas of arable lands – relatively stable climates in most areas, reliable rainfalls and plentiful water in most areas,” said Mr Linton, former president of the Northern Territory Mango Association. He said Myanmar holds vast potential for new agricultural projects, particularly paddy production, which saw the country labelled the ‘rice bowl of Asia’ over half a century ago. However, Mr Linton says the lack of infrastructure including roads, train lines, mills, storage and processing facilities as well as communications and electricity means many projects will require investment in capital and technology to achieve profitable outcomes.

“Most projects require significant investment in these areas to start functioning and due to this issue agricultural projects need to be large scale to have the ability to find the economies of scale to achieve these investments,” Mr Linton said.

He said potential investors would need a substantial amount of capital to convert underdeveloped land into productive land suitable for agriculture projects, adding much outer regional land exists in areas previously subject to conflicts between traditional ethnic groups and the central government.

Thaddeu Hein, President of the Myanmar Fertiliser, Seed and Agrochemical Entrepreneurs Association Group, and Managing Director of Myanmar Aries Group said Myanmar can still double its arable land from its current agricultural land area of nearly 11.9 million hectares so that the total area will be about 35 percent of total land area. Myanmar’s total land area is 653,520 square kilometres.

Although 70 pc of the population remains dependent on agriculture, the amount of foreign investment is less than one percent compared to other sectors.

“It is not surprise that the country’s abundant natural resources attract the most attention among the foreign investment in a developing country like Myanmar.

“Power has been taking the lion’s share of foreign investment with nearly 47 pc or US$18.8 billion followed by oil and gas at 34 pc or $13.8 billion and mining at nearly seven pc or $2.8 billion in 2011.

FDI in agriculture however, registered a mere $173 million of total foreign investment.

“Invest MyanMar specIal Feature

Myanmar’s total land area is 653,520 km2

Potential to expand agriculture land use

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Myanmar must avoid the “planning and economic consequences at the national level”.

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Address: No22, U Chit Mg Housing, U Chit Mg Road, Tamwe Township, Yangon
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Opportunities on the horizon for telecoms

Government moves to fast-track development of Myanmar’s telecoms industry into the 21st Century involves huge infrastructure challenges, and opportunities for joint ventures, the future looks bright.

BY VICTORIA BRUCE

Myanmar’s ICT industry is in the forefront of discussions as the country needs to embrace technology to integrate into the global economy...

Cheap SIM cards, mobile phones and faster internet could be readily available in Myanmar as the government announces steps towards opening the country’s budding telecommunications sector.

Huge untapped opportunities are on the horizon for foreign companies to provide telecommunications services, a move that has been warmly welcomed by experts and industry players.

In the coming months three operating licences will be granted to foreign firms to bid for the government’s new telecoms consultant.

The government plans to open up the industry to foreign investment by inviting international firms to joint venture with three local companies to provide telecommunications services, a move that has been warmly welcomed by experts and industry players.

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The three local operators will joint venture with foreign firms to provide a range of fixed line, mobile and internet services.

Mr Robinson said decisions about infrastructure structure were usually influenced by a variety of factors – including the availability of willing investors to build and operate networks, the extent of industry competition that is desired, the nature of government moves to fast-track development of Myanmar’s telecoms industry into the 21st Century involves huge infrastructure challenges, and opportunities for joint ventures, the future looks bright.

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to meet the ever increasing demands of consumers and businesses,” Mr Alder said.

But whatever industry structure is ultimately decided, Ericsson’s leading technology and services expertise and experience in supporting operators in a range of industry environments would make a valuable contribution," he said.

Currently, all existing infrastructure is owned by MPT, which is tipped to lease this out to new operators, however its likely companies will have to foot the bill for further development of communication networks, said U Tin Win.

“Financially and technically, this is a huge project and we will need some support from overseas with technical transfers and financial support,” he said.

Because Myanmar is so under-developed, the country is effectively a blank canvas in terms of telecommunications networks and has the advantage of cherry-picking tried and tested models that have been successfully adapted in other countries, experts said.

“There is an opportunity for Myanmar to leverage off regional and international experience to develop effective and comprehensive policy and regulatory frameworks to support the development of telecoms,” Mr Robinson said.

“Other major international trends in telecoms may also be relevant to Myanmar, such as utilising infrastructure sharing to promote cost effective deployments and operations.

“However, international models will, as a minimum, need to be tweaked for specific circumstances. The sequencing and timing of further liberalisation will also be important in terms of the impact and effectiveness,” he said.

Inviting foreign investment in Myanmar’s telecommunications industry could benefit the country and its citizens by bringing in fresh funding and modern technology, Mr Nguyen said.

“Foreign telecom investment in Myanmar can offer strong capital and funding capabilities,” Mr Nguyen said, adding international firms can introduce the local market to modern network technologies and management know-how, along with innovative service and product offerings.

Foreign telecommunications firms can act as a vital bridge, connecting Myanmar to access to international markets, which in turn will speed up Myanmar’s path to integration in the global market and international communities. ■

Foreign businesses who have recently visited Yangon and Nay Pyi Taw have complained that it is hard to get reliable information from the government. US Ambas- sador to Myanmar Derek Mitchell said that US wants to focus on the ‘transparen- cy’ and importance of ‘sta- bility’ in the government in order to create a sustainable investment atmosphere. He stressed this point on a recent tour of Yangon accompanied by delegation of companies from the United States.

At present, oil, gas, and mining are receiving the highest amount of direct foreign investment, with over $41 billion as of June 2011. Investments in other areas such as manufacturing, tourism, and agriculture lag far behind.

Economists warned of a downside to concentrating on resources based investments. They claim these areas employ fewer people, transfer less technology to wider society, and only provides a flow of income to the government. U Maw Than, a retired professor of Yangon Insti- tute of Economics, said government needs to invite investment in manufactur- ing sectors. “The Government should be open and advertise other local products that can become valuable...instead of main natural resources,” he said.

President U Thein Sein said government will hand over the state-owned industries such as telecommunication, electricity, and finance to the private sector to invite more local and foreign investments to contribute the national budget. ■

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Investment in tourism looks set to reach new heights

By Zaw Win Than

POLITICAL developments over the past year have opened the door for Myanmar to be a new tourism market.

With many sanctions and travel boycotts lifted in recognition of reforms made, Myanmar is becoming a hot destination not only to travel and explore but also to invest in the industry.

Many international airlines, hotel chains and hospitality industries are closely watching Myanmar.

“There are indeed a large number of hotel chains that see Myanmar as a very promising destination. Not only hotel chains, I think everybody sees this,” said Mr Frank Janmaat, general manager and country director of KMA Hotels Group.

Myanmar has, in the future at least, no real potential to offer as, for instance, Thailand, which attracts 40 times more visitors a year than we do, there is still a lot of work to do. Just think about the limited number of hotel rooms, infrastructure, and the banking system just to name a few,” said Mr Frank Janmaat, general manager and country director of KMA Hotels Group.

Ministry figures for 2011 show Myanmar has 731 licensed hotels with more than 25,002 rooms. Earlier this year the ministry announced plans to increase the number of hotel zones in Myanmar: so far 11 hotel zones have been created in popular tourist regions and more are likely to be established.

And the government is keen to encourage both foreign and local investment in the hotel and tourism sector as it sees the potential for increased employment opportunities without significant environmental damage.

U Hphna Thant, a former secretary of the Union of Myanmar Travel Association said Myanmar is in a good position to make the right choices in terms of tourism growth.

“It is a right time as the future looks good and hopefully not too far away that investment must be beneficial to the country,” he said.

“The investment commission must have high ethical standards to develop tourism here. There must be non-discriminatory policies like wages for foreign recruits and local workers, equal opportunities regarding gender, ability and experience. And they must have an established green outlook, not a bit and run investor just out for a quick dollar,” he said.

The Myanmar Investment Commission (MIC) has put historic state-owned buildings in central Yangon up for tender in a bid to ease the city’s shortage of hotel rooms.

The commission has invited both local and foreign companies to bid on the properties for conversion into hotels on long-term leases.

“These buildings will be leased for 30 years, with the possibility of two 15-year extensions under the investment law. According to our terms and conditions, the original structure and architectural features of the buildings will not be allowed to be changed,” said an MIC spokesperson.

The spokesperson added that more state-owned buildings would be put up and announced for tender at a later date.

International hotel chains are already looking at Myanmar as the next tourism frontier.

Thailand’s second-largest listed hotelier, Central Plaza Hotel is considering a joint-venture opportunity in Myanmar. Central Plaza runs 31 hotels and resorts in Thailand and other countries, of which 16 are under management contracts.

The company has its business development team looking at opportunities in Myanmar for joint-ventures and the company aim to conclude their plans by the end of the year.

Global hotel chains, including United States-based Starwood Hotels & Resorts, which runs chains such as Westin, Sheraton and Le Meridian said Marriott International have also expressed interest in running hotels in Myanmar.

Singapore currently tops foreign investment in Myanmar’s hotel sector, followed by Thailand, Japan, Hong Kong, Malaysia and Britain.

Vietnam has also announced its intention to invest in Myanmar’s hotel and tourism sector. According to MIC, an un-named Vietnamese company is starting to build a hotel at the site of a former ministry building near the Sedona Hotel on Kalar Aye Pagoda Road.

A 15-member delegation of International Enterprise Singapore Business Department Trip to Myanmar, led by Group Director Southeast Asia Group Tan Siong Kim, held discussions with officials of Myanmar’s Ministry of Hotels and Tourism in the second week of May.

However, there are still issues to overcome in order to turn interest into actual investment.

Daw Mya Myat Mon Win, Assistant General Manager for marketing and operations of Chatrimum Hotel in Yangon, said more favourable rules and regulations are needed to encourage more international investors to Myanmar.

“Myanmar’s hotel chains interested in investing in Myanmar is a positive sign for the development of Myanmar tourism. Their interest in Myanmar upgrades the image of our country’s tourism business too.

“But more importantly, the government should encourage these international investors with favourable tax, investment law and policies,” said Daw Mya Myat Mon Win.

Mr Frank Janmaat highlighted the uncertainty concerning the yet unfinished FDIs law as a sticking point for investors who are looking at how best to enter the market.

“1 understand that the 100 percent Foreign Direct Investment (FDI) law is still not approved. I understand the problems with it. If there are tax exemptions for foreign companies, there should be tax exemptions for local businesses as well. The FDI law should not create unfair competition.

“The other side, Myanmar has been closed for such a long time from the rest of the world that there are large differences in the way locals and foreigners are conducting business. The ability to work together will be challenging. Not allowing 100 pc FDI will probably slow down the economic development of the country.

“In addition we need to see how much capital is still available within the country. Not allowing 100 pc FDI will limit growth just because of insufficient funds,” he said.

He also said that other issues will affect how FDI will come in, including adequate infrastructure and maintaining safeguards for maintaining development.

“Compared with most countries in the world the telephone and internet systems are inadequate according to 2012 standards. Facilities like international roaming and a fast and reliable internet connection are necessary for the economic development of the country,” he said.

“I think however that not all sectors should be open for foreign investment but should be kept under [several] government control, like public facilities and telecommunications systems,” he said.

However, anticipation for real growth in the sector is in full swing, with a number of international airlines actively ramping up their presence in the country.

More international airlines have announced plans to begin flights to Myanmar, including carriers from Europe and East Asia.

The first international airline set to fly to Yangon is South Korea’s Korean Airlines, it will start from September 13 between Yangon and Seoul every Thursday, Saturday and Sunday.

Some of the new international airlines flying into Myanmar from October are Hong Kong-based Cathay Pacific, Chinese Taipei’s EVA, Japan’s All Nippon Airways (ANA), and Qatar Airways.

Meanwhile, existing international operators are eyeing flights to Nay Pyi Taw, Bagan and Mandalay, according to the respective airlines. AirAsia will launch their new Mandalay service from late December.

In addition, German leisure carrier Condor – flying from Frankfurt to Yangon, Bangladesh’s Biman Airlines, SriLanka Airlines, Pakistan Airlines and a flight between Yangon and Philippines’ Cebu Pacific are also planned to launch before the end of the year.

The government is also tapping investment interest in the airline industry.

The Department of Civil Aviation (DCA) has invited local and foreign investors to participate in a planned upgrade of Yangon International Airport and some other domestic airports, including Helio, Nyaung U, Tachileik, Myitkyina, Patuha, Dawei, Myikyina and Kawthoung.

In late June, the DCA called for expressions of interest from local and foreign investors to restart the Hanthawaddy International Airport project, located on a 9000-acre (3642-hectare) site about 77 kilometres (48 miles) north of Yangon near Bago.

It was first slated for development in the early 1990s. Work began in May 1994 but ceased in October 2001.

Now the (travel) market is strong and we are unable to meet market demand. We also need to offer better quality services for visitors. That’s why we are inviting private sector participation in the Hanthawaddy International Airport project and other international as well as domestic projects,” said U Tin Naing Tin, director general of the DCA, a Ministry of Transport body in late June.

DCA hopes to have construction work begin in June 2013 for a December 2016 completion date. The airport will be capable of handling up to 50 million passengers a year, well above Yangon International Airport’s capacity of 2.7 million.
In a speech last June, President Thein Sein promised to triple Myanmar’s GDP per capita by 2016. Both local and foreign investors have kept an eye on the upcoming investment law to calculate their potential profit.

At the same time, the government has encouraged green growth and economy to combat climate change and poverty, both of which are major challenges in 21st century.

According to an AFP report, in August the assessment of British risk consultancy firm Maplecroft said six Asian countries, including Myanmar, were among 10 countries whose economies were most vulnerable to catastrophes such as earthquakes, floods, storms and other natural hazards. Bangladesh, the Philippines and Myanmar are considered to be at “extreme” risk in the assessment.

The report said the Natural Hazards Risk Atlas looks at the impact of natural disasters on a country relative to its economy, taking into account preparedness to deal with such events and social ability to rebound.

The statement also said that if a country’s infrastructure is weak and its governance is poor, the economic consequences are that much greater. The Asia Development Bank estimated in their April 2009 report on the Economic of Climate Change in South East Asia that by 2100, the region is likely to suffer more than the globe average and regional GDP could be reduced by nearly seven per cent every year as a result of climate change.

“Climate change is the thing that you may love, you may hate but you can’t ignore it,” said Dr Tun Lwin, former director general of the Department of Meteorology and Hydrology.

Dr Tun Lwin pointed out that the Monsoon period has not lasted five months in over 40 years. This has led to unusual rain distribution that has affected agriculture sectors and also food security.

Nargis, the most devastating storm in Myanmar history left 85,000 deaths, 54,000 people missing, and a loss of 3.3547 trillion kyat in national sectors and 8.3800 trillion kyat in private sectors according to the official government report.

Even today, Myanmar’s agriculture sectors are being affected by the damage of thousands of acres of paddy fields in serious flood in the last several weeks.

U Abel, former minister of the Ministry of National Planning and Economic Development said that every sector needs to prepare reserves in case of a crisis situation.

“Myanmar suffered rice crisis in 1986 and 1987. In a commodity crisis, we need a reserved amount to relieve the situation. And we also have to think follow up plan to solve the crisis such as how we will grow in next season.” he said.

For example, he pointed out that safeguard measures in the banking sector are also important for the financial crisis management. “We need safeguard measure for the financial crisis to protect our public. That is the responsibility of the state.”
Laws hold back rush of interest

Lacking in business transparency, Myanmar’s mining sector remains beyond the scope for many, but intrepid investors are showing interest.

BY VICTORIA BRUCE

Myanmar’s untapped minerals sector is receiving a gold rush of interest from foreign mining firms as they seek to unlock the country’s undiscovered potential of rich mineral wealth.

The country’s vast expanse of unexplored regions could hold rich deposits of rubies and gemstones, precious and base metals such as gold, silver copper and lead as well as coal, an essential energy resource, experts said.

International exploration firms are already scouting out opportunities in Myanmar’s rich mineral resource reserves but many say the country’s restrictive regulatory framework is holding back significant foreign investment.

Legal restrictions detering investment include an inhibitive Production Sharing Contract (PSC) arrangement, the lucrative gemstone sector being closed to foreigners, a current export ban on raw ores and certain commodities such as gold and coal, combined with a lack of legal and physical infrastructure that means many interested companies will be adopting a ‘wait and see’ approach.

One of the major bones of contention involves the 30-70 percent profit sharing ratio, stipulated under Myanmar’s 1994 mining law, between a foreign company and the Myanmar government, which does not act as an equity partner but takes a hefty percentage of the total resource extracted on top of royalties and income tax.

“That means you risk all the money, you risk all the development then you give the government a share of the production free of charge, on top of royalty,” said Stephen Everett, chairman of Australian exploration company Global Resources Corporation Limited, who was visiting Myanmar to look for coal mining opportunities on behalf of some Australian investors.

“People will not invest on that basis – not on a large-scale, anyway,” he said.

He explained that PSCs, a type of contract signed between a government and resource extraction company concerning how much of the resource each will receive, are common in the oil industry since the host country can use that resource to generate its domestic energy supply, but hardly any other countries employed such a contract in the mining sector.

In July, more than 250 foreign firms, almost half of which were mining companies, visited Yangon to attend the first ever Myanmar Mining Summit and meet with experts, local firms and officials from the Ministry of Mines to scope out opportunities in Myanmar’s mining sector.

Many investors told The Myanmar Times the country’s mineral sector holds great untapped opportunities but said the PSC, the export embargo and uncertainty over how the transparency of the application process to get the necessary permits to explore and mine mineral resources made Myanmar an unprofitable investment option, especially when compared to other Asian mining nations such as the Philippines or Indonesia.

Investors and experts pointed to many grey areas in the legal framework, saying law and practice are two different games in Myanmar, with some government officials explaining everything was open to negotiation.

“Foreign investors can negotiate the production sharing ratio with the relevant mining department,” said Dwe Ma Tha Zau, an expert on foreign investment from the Myanmar Directorate of Investment and Company Administration (DICA).

“Other terms of the PSC can be negotiated between the foreign company and the Myanmar government, said Alessio Polastri, managing partner of Yangon-based law firm P&A Asia.

“In practice, the extent to which an investor may negotiate and be granted a more favourable production sharing ratio, would depend on the type of minerals sought to be explored,” said Alessio Polastri, managing partner of Yangon-based law firm P & A Asia.

“The Government would normally seek higher profits from gold mining projects, as opposed to projects involving the exploration and exploitation of less popular minerals, such as zinc, Mr Polastri said.

“For some foreign investors, in the hope the new mining regulations address some of their key concerns. But while Myanmar’s current legal framework might not be attractive to big mining investors, Richard Taylor, general manager of Melbourne-based Five Corners Consulting and a speaker at the conference, said small to medium firms were well-laying the interest in getting the high-risk exploration activity underway within a country and it is these people which we will see larger companies follow,” Mr Taylor said.

“They are going in at a point where the mining law is in its infancy and down the track if Myanmar pursues an attractive and open mining system you will see larger by trade.

Northquest has applied for a permit to greenfield, an industry term meaning explore, for undiscovered gold deposits in remote central Myanmar and Mr North said he’s “very optimistic” the company will soon be given the green light from the Ministry of Mines.

“Myanmar will have an explosion of discovery, just like Canada did,” Mr North said, likening the status of modern day Myanmar’s mining sector to an unexplored Canada a century ago.

The 180 square kilometre patch he wants to target is a very prospective area of documented gold occurrences and unexplored exploration targets which have similar features to known gold occurrences, he said.

“The mining industry of Myanmar, particularly with respect to gold, has great potential and certain gold exploration targets have not been systematically ex.
The country has great potential for gold mining, he said, and foreign investors could bring in the capital and technological expertise to exploit this resource. But first, they have to find the deposits.

"Myanmar had done some small scale exploration in the past but previously lacked the modern technology necessary to identify rich mineral deposits," Mr. North said, explaining that Myanmar lacked modern geophysical data and geological data.

The country’s geological mapping – a special-purpose map made to show exposed rock units or geologic strata exposed on the surface of the ground – was first completed in 1934 by way of an aerial survey in light aircraft, however almost no geophysical tests have been done and the maps are yet to be freely available in digital format.

Myanmar’s untapped mineral wealth coupled with the absence of geophysical data and out-dated geological surveys as well as the absence of big name multinationals such as Rio Tinto or BHP Billiton could temper risk-hungry exploration firms such as Northquest to rise to the challenge and establish themselves as the first movers on Southeast Asia’s final frontier market.

Chemist and mining veteran Owen Hegarty of former Rio Tinto and Oxiana stock spoke at the summit and said his firm, Tigers Realm Group, is already scoping out potential copper and gold deposits.

"Tigers is taking a preliminary look at opportunities in Myanmar – we know the region well, we’ve had a look at some properties and prospects previously and we think the prospectivity for copper and gold is attractive and we believe it is un- and under-explored," Mr Hegarty said.

Mr Hegarty said his firm, which recently poured first gold at its Martabe Gold-Silver project in North Sumatra, and has extensive experience in exploring and building mines in Asia, was well-placed to be an early mover in Myanmar.

Although some 1335 mining concessions for known mineral deposits have already been allocated to local firms since March, geologists and experts are keen to hedge their bets that Myanmar’s unexplored regions could hold many more undiscovered mineral treasures.

"Given the limited availability in Myanmar of sophisticated equipment for conducting proper geological surveys for some time now, and the resultant lack of reliable geological information, it is hard to say if the best spots have already been allocated to local companies," Mr Polastri said.

"I would not be surprised if various world class deposits are discovered by professional mining companies willing to take the plunge," he said.

The current lack of large multinational mining firms on the scene also makes it an ideal playground for small scale mining firms to invest in the country’s unexplored mineral deposits, mining experts said.

But for now, most serious investors will likely wait for a more attractive legal framework, including the release of the long-anticipated Foreign Direct Investment (FDI) law and updated mining law.

Many hopes are pinned on certain changes being made to Myanmar’s mining law once the upcoming amendment bill is approved, although the government has not indicated a timeframe for that new legal framework to be in place.

And when that day comes, Australian firms will be at the front of the pack, Mr Everett said, adding Australian junior exploration and mining firms were well-placed to enter Myanmar.

"Australian entrepreneurial junior companies are often the first movers going into remote areas," Mr Everett said, pointing to examples of South America, Africa and parts of Asia.

“We have a significant track record in terms of being ahead of the game in terms of exploration processing,” he said, adding Australia’s strong reputation in environmental and social responsibility would work in the favour of new investors.

While Myanmar is definitely going to stay on the radar of many mining firms, until it takes steps to change the restrictive regulatory framework, the country’s mining industry is unlikely to see a gold rush of investment from foreign investors.

...
“If they doubt, it will be too late”

In an interview with retired director general of the Ministry of Energy, U Soe Myint, The Myanmar Times enquired about the prospects of foreign investment in the country’s oil and gas sector.

By Myo Lwin and Naw Say Phaw Wa

Q. HOW WOULD YOU ASSESS THE CURRENT STATE OF THE ENERGY SECTOR IN MYANMAR?
A. Myanmar’s oil and gas reserves are relatively untouched compared to South-East Asian countries like Indonesia, Vietnam and Thailand where they have been producing in large quantities. Many investors are keen to invest in Myanmar oil and gas. And we have received reports saying that there is possibility of finding more. So it is likely that multinationals oil giants like Shell, BP and Ry who did not come in the past because they were not able to come will now come.

Q. COULD YOU EXPLAIN THE DIFFERENCE BETWEEN THE PAST AND PRESENT FOR THE GAS SECTOR?
A. There were almost no foreign reserves back in 1988, 1998 and 1990. Now it is US$7 billion, as U Hla Tun, the Union Minister for Finance, has announced. This was not from sales of rice but from oil and gas. Because of that the government was able to prevent the situation getting any worse.

In the past there was no obvious proof of economic growth for certain reasons but in reality it had to some extent.

Many foreign investors are still hesitant to invest in Myanmar. But now the ultimate decision in politics lies with the people to decide their own way. And the more democratic process advances, the less controversial it will be for investment.

Q. HOW ARE THE CURRENT CHANGES INFLUENCING THE CONCERNS OF FOREIGN INVESTORS IN THE OIL AND GAS SECTOR?
A. There are still certain quarters saying negative things about Myanmar. But despite this, the oil giants are seemingly determined to do business here. This suggests that their impression of Myanmar’s oil and gas potential is pretty good.

There has been an issue over transparency of Myanmar Oil and Gas Enterprise. Being government staff myself, involved in the oil and gas industry, I have some knowledge about it. But, from a technical angle, I involved in the oil and gas sector.

Q. WHAT ADVICE DO YOU HAVE FOR OIL AND GAS COMPANIES WHO ARE SET TO INVEST HERE?
A. If they are doubting whether to invest here, they will be too late.

There is a precedent, if some do not come, others will. Now Myanmar is open so people from countries in south-east Asia and south Asia as well as from Europe are coming to convert one currency to another.

Many people got frustrated because of corruption. They raise questions why gas or hydropower is being sold to other countries amid shortages. As far as gas is concerned, the production of Yatana gas was estimated at about 900-1000 million cubic feet when the project plan was worked out immediately after discovery. Only if that amount was produced then the investing company would break-even. And only if they got the price they expected when selling gas, would their plans pay off.

We did not have the capacity to absorb such an amount at the moment. All we could handle was up to 20-30 million cubic feet a day. If we wanted to force higher sales of gas for us, we couldn’t give them the price they were asking. We received $2 for every 1,000 cubic ft by selling the gas to Thailand. This was not affordable to us. Basically, we could not use the gas produced in our own country. Now the price is more than US$10.

Q. IS THERE TECHNOLOGY TO PRODUCE OIL AND GAS FROM SHALE IN MYANMAR?
A. Shale gas is a subject that is wide-ranging. For example, gas produced from shale in the United States constitutes 40% of total gas produced there. Similarly, there is a lot of shale gas prospects in India and China. So, Myanmar may have the same. In Myanmar, shale is found in places near the border with Thailand, in the north-east and south-east of Mawlamyine like Mepale and Dawna mountains near the border with Thailand.

Shale oil and gas use a kind of energy prospected using unconventional methods. We need not go that way, there is still much more energy on islands to be prospected conventionally. But it hasn’t yet been discovered because of the government. As we do not have the capital, we are not able to do it better than others. If we could, many oil producing sites like Yenanchaung and Chaung would have been developed.

Q. WHAT NEEDS TO HAPPEN TO IMPROVE LOCAL ENERGY SUPPLY?
A. Many people get frustrated because of power shortages. They raise questions why gas or hydropower is being sold to other countries amid shortages. As far as gas is concerned, the production of Yatana gas was estimated at about 900-1000 million cubic feet when the project plan was worked out immediately after discovery. Only if that amount was produced then the investing company would break-even. And only if they got the price they expected when selling gas, would their plans pay off.
Myanmar’s small business not ready for competition

BY VICTORIA BRUCE

A

S Myanmar opens up to for- eign investment, many from the country’s small busi- ness sector, mostly family-run and owned companies, fear an influx of well-financed foreign competitors could harm their business.

As much as 90 percent of Myan- mar’s business sector is comprised of these small to medium enterpris- es (SMEs), experts estimate, which provide a pivotal livelihood for many locals.

Local firms have listed among their top grievances the potential for foreign firms to set up shop with 100 pc foreign ownership, meaning they could be in direct competition with local counterparts, and other incentives such as five year tax holidays, they said.

“In that sense, our mom and pop shops will all suffer and become overwhelmed by these potential in- vestors,” Dr Maung Maung Lay said.

There is potential for bigger, bet- ter financed and business-savvy investors to put local firms out of business, agreed Jared Bissinger, a Phd candidate from Australia’s Macquarie University who is studying Myanmar’s economy.

“What you don’t want is a bunch of foreign companies coming in and displacing local companies,” Mr Bissinger said. “And there’s a big risk of that happening.”

“Instead, you want foreign com- panies to come in and do things better than introducing more efficient production methods, more capital or new management tech- niques,” he said.

“These can bring production costs down and quality up, so new foreign firms don’t just take a slice of the pie but expand the size of the pie.”

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Myanmar Global Investment Forum: Progress, Potential and Promise

12-13 September, 2012
Myanmar International Convention Center, Nay Pyi Taw, Myanmar

On 12-13 September, Euromoney will launch the Myanmar Global Investment Forum. Co-hosted with the Myanmar Investment Commission and supported by the Ministries of Finance and Revenue, Industry, Energy and Commerce, the Central Bank of Myanmar and the UMFFCCI, the event will explore the opportunities available for foreign capital interested in taking part in one of the most exciting investment stories of our time. Over 400 foreign investors have already registered to attend, looking to meet with Myanmar’s leading businesses and politicians. Local and regional experts will come together to discuss what the country’s re-opening means for investors looking to break into this new frontier market. Speakers already confirmed include:

● U Soe Thane, Union Minister, President’s Office and Chairman, Myanmar Investment Commission
● U Htin Aung, Deputy Minister of Energy, Republic of the Union of Myanmar
● Derek Mitchell, Ambassador, Embassy of the United States
● Win Aung, President, UMFFCCI
● Junichi Yamada, Director General, Operations Strategy Department, Japan International Cooperation Agency (JICA)

If you would like further information about the conference or have any queries please contact us at rsvp@euromoneyasia.com.

http://www.euromoneyconferences.com/Myanmar
## Wednesday 12 September

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<td>08:15 – 09:15</td>
<td>Registration and Coffee hosted by Nestlé</td>
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<td>09:15 – 09:30</td>
<td>Opening Remarks: Tony Shale, Chief Executive Officer, Asia, Euromoney Institutional Investor PLC</td>
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<tr>
<td>09:30 – 10:00</td>
<td>Welcome Address: Soe Than, Union Minister, President’s Office and Chairman, Myanmar Investment Commission</td>
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<tr>
<td>10:00 – 11:00</td>
<td>Leaders’ Conversation: Myanmar’s Economic Future: Progress, Potential and Promise</td>
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<td>Moderator: Tony Shale, Chief Executive Officer, Asia, Euromoney Institutional Investor PLC</td>
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<td>Speakers: Alisher Ali, Chairman, Silk Road Finance</td>
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<td>Serge Pun, Executive Chairman, Yoma Strategic Holdings</td>
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<td>Nneajh Swaroop, Regional Chief Executive Officer, South East Asia, Standard Chartered Bank</td>
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<td>Arkhom Temtittapataisinth, Secretary General, Office of the National Economic and Social Development Board, Thailand</td>
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<td>11:00 – 11:30</td>
<td>Coffee Break hosted by Nestlé</td>
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<td>11:30 – 12:30</td>
<td>Panel I: Banking Sector Development and Market Opening</td>
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<td>Moderator: William Peseke, Asia Pacific Economist, Bloomberg View</td>
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<td>Speakers: Sutapa Amornvat, Chief Economist, Executive Vice President, Siam Commercial Bank</td>
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<td>Chansuk Fungyi, Senior Executive Vice President, Director, Bangkok Bank</td>
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<td>Than Lwin, Deputy Chairman, Kambawza Bank</td>
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<td>Khin Maung, Consultant, Ayeayarwady Bank</td>
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<td>12:30 – 13:30</td>
<td>Lunch</td>
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<td>13:30 – 14:15</td>
<td>Workshop A: What Should Foreign Investors Know About The Myanmar Foreign Investment Law?</td>
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<td>Speaker: Soe Win, Managing Director, Myanmar Vigour Consultants</td>
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<td>14:20 – 15:05</td>
<td>Workshop B: Enabling Business in Myanmar</td>
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<td>15:05 – 15:35</td>
<td>Coffee Break hosted by Nestlé</td>
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<td>15:35 – 16:35</td>
<td>Panel III: Real Estate Investment</td>
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<td>Moderator: Gwen Robinson, Bangkok Regional Correspondent, Financial Times</td>
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<td>Speakers: Aung Zaw Naiing, Chief Executive Officer, Shwe Taung Development</td>
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<td>Tony Poon, Associate Director, Colliers International</td>
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<td>Peter Ryder, Chief Executive Officer, Indochina Capital</td>
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<td>Marvin Yeo, Co-Founder and Managing Partner, Indochina Opportunity Partners</td>
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<td>16:35 – 16:45</td>
<td>Towards a New Era of Economic Engagement and Responsible Investment in Burma</td>
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<td>16:45 – 16:50</td>
<td>Close of Day One: Paris Shepherd, Director Asia Pacific, Euromoney Conferences</td>
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## Thursday 13 September

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<tr>
<td>08:30 – 09:00</td>
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<tr>
<td>09:00 – 09:10</td>
<td>Opening Remarks: Victor Wong, Conference Manager, Euromoney Conferences</td>
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<td>09:10 – 10:10</td>
<td>Panel V: Myanmar as a Manufacturing Base</td>
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<td>Moderator: Paris Shepherd, Director Asia Pacific, Euromoney Conferences</td>
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<td>Speakers: Win Aung, President, UMFCIC</td>
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<td>Sei Sam Htoo, Chairman, Kyaukphyu Ward</td>
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<td>Meral Karasulu, Masson Chief, Myanmar, International Monetary Fund (IMF)</td>
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<td>Pierre Trouillat, Senior Projects Manager, Nestle IndoChina Region</td>
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<td>10:10 – 10:40</td>
<td>Coffee Break hosted by Nestlé</td>
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<td>10:40 – 11:40</td>
<td>Panel VI: Infrastructure Development</td>
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<td>Moderator: Richard Morrow, Editor, Asiayoney</td>
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<td>Speakers: Daniel Gaecke, Managing Director, Annex Power, Thailand</td>
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<td>Anthony Much, Executive Director and Chief Executive Asset Management, H.R.L. Morrison &amp; Co.</td>
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<td>Cees van Schindler, Resident Representative, Myanmar, International Finance Corporation (IFC)</td>
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<td>Junichi Yamada, Director General, Operations Strategy Department, Japan International Cooperation Agency</td>
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<td>11:40 – 12:40</td>
<td>Panel VII: Investing in Myanmar’s Agriculture</td>
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<td>Speakers: Siripong Arousarana, Senior Vice President, Agro-Industry and Food Business, Myanmar C.P. Livestock</td>
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<td>Desmond Sheehy, Chief Investment Officer, Buxton Asset Management</td>
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<td>Ma Cherry Trivedi, Managing Director, Myanmar Operations, New Crossroads Asia</td>
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<td>12:40 – 12:45</td>
<td>Close of Conference: Diane Culligan, Programme Manager, Euromoney Conferences</td>
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Easing of sanctions offers mixed encouragement for investors

By VICTORIA BRUCE

As Myanmar engages in a series of political and economic reforms, the West has rewarded these changes by easing sanctions and promoting economic engagement with the Southeast Asian nation. But while the rolling back of sanctions against Myanmar by the West has been warmly welcomed as a symbolic gesture of support for President Thein Sein’s current government, experts say this policy progress has done little to stir up a “tsunami” of investment.

Although the easing of Western sanctions will help boost investor confidence in Myanmar, it’s going to take a lot more than that to attract significant new investment to Myanmar, said Jared Bissinger, a PhD candidate at Australia’s Macquarie University studying Myanmar’s economy.

“The suspension of sanctions is necessary but not sufficient … the economic evidence shows that there is a lag between lifting the legal sanction and when companies are actually brave enough to stick their toe in,” Mr Harcourt said.

Punitive sanctions normally affected investment and not trade, Mr Harcourt said, adding “whatever the Burmese government could not obtain from Western countries, they could substitute them with Chinese products and services. Other products and services were supplied via ASEAN countries, which had also chosen not to impose any sanctions on Myanmar.”

The move by the Australian government to wipe off its blacklist was mainly symbolic yet went a long way to improve investor perceptions and confidence in doing business with Myanmar, he said.

There has been much debate over how effective Western punitive sanctions have been in influencing political change in Myanmar, with many experts pointing to the conclusion that sanctions were unsuccessful and mainly hindered the socio-economic development of the impoverished Southeast Asian nation.

One Yangon-based analyst said implementation of punitive sanctions by Western countries had been ineffective in encouraging reform by the former military junta.

“The [Western] sanctions have not been successful in meeting the original goals. For example, these sanctions and international pressure did not help to release Daw Aung San Suu Kyi from her house arrest which covered most of her years in Yangon,” the analyst said.

“Companies are coming in now because they see a change in the economic environment, and see the potential of investing in Myanmar,” Mr Bissinger said.

Bissinger said the high cost of doing business and the country’s former unstable political environment previously made it an unattractive alternative to investors. “Companies are coming in now because they see a chance in the economic environment, and see the potential of investing in Myanmar,” Mr Bissinger said.

The analyst said Western sanctions had affected the lives of ordinary Burmese instead of pressuring the government, adding “the lack of effectiveness and seriousness of Western countries in implementing the sanctions had contributed to the suffering of ordinary Burmese.”

For determined foreign investors, sanctions are a mere formality and not a major deterrent, said Alessio Pelatiri, managing partner of Yangon-based law firm P&A Asia.

“One of the most popular questions I hear is ‘how can I avoid sanctions?’ – not ‘tell me about the sanctions and can I do my business or not,’” Mr Pelatiri said.

“If people already want to come here, they don’t care about sanctions, they just want to avoid them,” he said.

Mr Bissinger said the high cost of operating in Myanmar was a greater deterrent to foreign investment than sanctions, as many firms put profits before politics.

“Sanctions kept some countries from investing but I don’t think they’re the biggest reason why companies didn’t invest in Myanmar,” Mr Bissinger said.

He said the high cost of doing business and the country’s former unstable political environment previously made it an unattractive alternative to investors.

“The companies are coming in because they see a change in the economic environment, and see the potential of investing in Myanmar,” Mr Bissinger said.

Some are questioning whether the temporary suspension of sanctions by the European Union and the United States is actually deterring the Western investment the Burmese government is desperate to attract.

Director of private equity firm E&O Capital Management, Chris Oram, said the EU’s decision to suspend sanctions for one year is deterring larger European investors from that region.

“The biggest problem for European countries is the EU itself because the bureaucrats came up with a half-arsed proposal where they suspended sanctions for only one year,” Mr Oram said.

“So if you’re coming in as a service company that doesn’t really matter but if you’re thinking of investing US$30 million with the potential of those sanctions being reimposed in six months then you’re more likely going to wait and see, rather than to invest now.”

“So that’s what I think is the biggest hurdle to attracting European investors to Myanmar and I hope that in 12 months the EU will completely remove sanctions,” he said.

However, the British Embassy in Yangon’s newly appointed commercial counsellor Nazli Hector said the UK companies she’d spoken to had not indicated the temporarily suspension of sanctions were deterring investment in Myanmar.

“This doesn’t seem to be a major concern. Companies understand the removal of sanctions is a staged process and everyone seems very positive about the way things are moving forwards,” Ms Hector said.

She said most new British companies looking to enter Myanmar were interested in long-term investment.

“The suspension of sanctions is not deterring British companies from looking and showing interest in the market,” Ms Hector said.

An American investor agreed that the uncertainly surrounding Western sanctions could impact on invest-

ment in the under-developed country.

“I think there might be some hesitancy, especially by large multinational corporations, regarding how much investment they want to do in Myanmar,” the source said.

“However, I think most large investors will be hedging that the sanctions will be fully lifted and moved from that suspended state that they’re in now.”

On July 12 the US Treasury Department announced the issuance of two general licences waiving investment and financial sanctions, two of the most important sanctions inhibiting US economic engagement with Myanmar. However, the import ban on Myanmar-manufactured products remains in place and was recently extended a further three years, no doubt a blow for Myanmar’s struggling garment industry.

“Garments, a labour-intensive industry providing employment to thousands of Myanmar workers, represented over 80 pc in value of exports in the years running up to their banning in 2003 under the BTDA,” said Derek Torren, former British ambassador to Thailand and Vietnam and chairman of non-profit organisation Network Myanmar.

He said the import ban did little to affect the Myanmar government, receiving revenue from the lucrative gemstone industry which rights groups claim funds helps fund its military operations.

The US government has a web of overlapping sanctions that are subject to differing restrictions, waiver provisions, expiration conditions, and reporting requirements, meaning there is still a long way to go before a clear path is laid for American investors.
What happens after sanctions?

The world economy is often used to surprises — usually on the downside. But one on the upside over the past year has been the reforms in Myanmar and the lifting of economic sanctions. The surprise came from a new government led by President Thein Sein, the election of Aung San Suu Kyi to parliament and the latter’s call for Myanmar to open up to trade and investment and have monumental changes given Myanmar’s recent past.

Aung San Suu Kyi, sister of independence icon Aung San, has become the first elected civilian leader in Myanmar since the 1960s. According to Yale University economist Philip Levy the economic evidence suggests that disinvestment by major companies in South Africa were more ‘psychologically hurtful’ to the apartheid regime than economic sanctions. Although there is evidence that disinvestment by major companies, like Chase and Barclays had more of an impact than trade sanctions. As in the case of Cuba and then Southern Rhodesia, trade sanctions did not have as much impact as sanctions to foreign investment and in any case the economic distortions in the domestic economy (like South Africa’s apartheid labour market distortions) were as damaging as external sanctions.

Levy believes that the collapse of the Soviet Union was the key factor in enabling the white minority government to start negotiating with Nelson Mandela and the African National Congress, making South Africa a ‘special case’ in terms of effectiveness of sanctions. But what about Myanmar? Will it be a special case? It is clear that Myanmar has some big mountains to climb economically given the long days of military rule, isolation and the fact that it is a very poor and populous country. As the world’s leading global economics expert, Professor Sean Turnell says: “Burma is paradoxically a resource rich but economically poor country.”

One reason has not just been the isolation due to sanctions but also the enormous economic distortion of maintaining such a large military presence with no external defence purpose. According to Turnell, Myanmar kept “300,000 men under arms” (i.e. almost the population of Canberra) despite there being no obvious “genuine external threat”, which is similar to the economic burden placed upon South Africa of the vast bureaucratic apartheid apartheids (not to mention the ethical burden).

The defence overhang for Myanmar has put its fiscal policy under severe strain and created inflationary issues disrupting investment. Maintaining the military apparatus in Myanmar has also created bureaucratic distortions, sucking away resources from much needed infrastructure, health and education and handicapped Myanmar’s human capital development (creating too many idle low skilled soldiers and not enough farmers, teachers or other skilled workers).

The military overhang is the most pressing constraint on Myanmar’s return to any form of economic normality. But now President Thein Sein has made some moves in the pro-democracy direction, what can Myanmar do straight away economically?

Turnell has identified “low hanging fruit” such as providing visa on arrivals for tourists, eliminating export taxes and import licences, allowing banks to lend to farmers, and deregulating interest rate ‘caps’ and other financial regulations. But at the end of the day, economic development must come in the agricultural sector and in resources and Myanmar needs to develop institutions in areas like banking and finance where there is almost no viable sector to speak of.

And that’s all dependent on the capacity of Myanmar to reduce the military presence in the economy and society and create room for other sectors. In a country where the armed forces have had so much control for so long, that’s a big ask.

So can Australia play a key role? Bob Carr gave Aung San Suu Kyi a strong assurance that Australia was willing and able to play an important role in Myanmar’s return to democracy and long term economic viability. Australia has a big role to play in infrastructure given the need for roads, rail, ports and telecommunications to serve its 62 million plus population. AIDC billion can help in the development of oil and gas, and ANZ can play a similar role to its Pan Asian banking strategy in neighbouring Vietnam, Laos and Cambodia, and Australia’s education institutions can help with human capital development.

But most of all Australia’s comparative advantage is in agriculture, as well as our expertise in education and tourism, means we are well placed to help with Myanmar’s capacity building in the same way as we’ve helped the developing economies of Myanmar’s neighbours in the Mekong delta.

But it will be gradual and ‘softly softly’ as the world investment community monitors the progress of the pro-democracy reforms. It will take years to recover from what has happened in Myanmar since the 1960s, economically, politically and psychologically, but the lifting of sanctions and diplomatic warm (but positive) responses from investors and exporters (including from Australia) may signify some small steps to recovery on the new road to Mandalay.

Containers being loaded at Gingo port in east China’s Shandong province on August 24. PHOTO: AFP

Growth slows in Chinese overseas investments

BEIJING: China said last week growth in overseas direct investment slowed sharply last year as the global economic recovery remained weak and amid financial turmoil in Europe and the United States.

Beijing also called on foreign countries to treat its investors fairly amid continued suspicion in some about the growing economic influence of the Asian giant.

Outbound direct investment rose 8.5 percent last year from 2010, compared to an annual increase of around 22 pc the previous year, official data showed.

Last year’s rise was also dwarfed by an average annual increase of 44.6 pc between 2002 and 2011.

Chinese investors sent US$74.65 billion in direct investment to foreign countries last year, up from $68.81 billion in 2010, according to the Statistical Bulletin of China’s Outward Foreign Direct Investment.

But investment in foreign financial sectors fell 29.7 pc on-year to $6.07 billion, as Chinese investors turned cautious amid international financial turmoil, particularly in Europe and the United States.

The government expects overall overseas direct investment to rise in coming years as the world’s second-largest economy continues to zoom ahead and Chinese companies become more experienced and competitive abroad.

“I think prospects for Chinese companies to invest abroad are profoundly taking into account these factors and the current global economic situation,” Shi said.

China has set goals to increase overseas direct investment at an average annual rate of 17 pc through 2015 to $350 billion by then, she added. AFP

*Tim Harcourt is the J.W.Neville Fellow in Economics at the Australian School of Business, UNSW in Sydney and author of The Airport Economist: www.theairporteconomist.com

Marina Residence, Room 101-103 No.8, Kaba Aye Pagoda Rd, Mayangone Tsp, Yangon, Myanmar. Website: www.doreminfamilyclub.com

Billiton can help in the development of oil and gas, and ANZ can play a similar role to its Pan Asian banking strategy in neighbouring Vietnam, Laos and Cambodia, and Australia’s education institutions can help with human capital development.
Investors choice of local partner crucial

BY VICTORIA BRUCE

E ntering into a joint venture partnership in Myanmar can provide foreign investors with essential market knowledge and local assets and give local investors a shot in the arm with new capital, technology and markets. But legal experts warn such a partnership can come with a lot of risk and as Myanmar opens up to foreign investors, emerging incoming firms is whether to enter into a joint venture with a local Myanmar partner or to start up shop on their own.

In the more lucrative sectors, including oil and gas and mining, going it alone simply isn’t an option. While 100 percent foreign ownership is permitted in some industries, Myanmar law stipulates certain sectors are only accessible through a joint venture profit-sharing agreement with a local company and the relevant government body.

Foreign investors will need to choose their local partner wisely, to ensure they can value add to the joint venture and to mitigate any chance of dispute, given Myanmar’s unsettled legal system and lack of precedent, legal experts say.

Disputes with joint venture partners over money, profit sharing arrangements, intellectual property, reputation, arbitration and the ability of Myanmar’s legal system to enforce laws protecting their investments are some key concerns foreign investors need to consider before committing to a partnering ship.

But despite the obvious risks, creating a joint venture can be beneficial to both the foreign firm and the local partner, said Alessio Polastri, managing partner of Yangon-based law firm P & A Asia, as local partners can contribute essential assets, such as land and property, which foreign individuals and firms are not permitted to own under Myanmar law, as well as vital market knowledge on how to navigate the country’s complex economic and bureaucratic environment.

“Sharing profits also mean sharing risks and having assets which is sometimes priceless in emerging markets,” Mr Polastri said.

“Firms wanting to do business in Myanmar could benefit from a local partner who knows how to navigate the complexities of Southeast Asia’s final frontier market,” he said.

Foreign firms should not underestimate the value that local actors can bring to the joint venture partnership, he said, adding foreign investors needed to consider all the risks involved and do their homework before deciding to commit, as taking a potential local partner will be integral to the success of their business.

And while local companies are jostling for the opportunity to engage in a joint venture partnership with foreign firms, which they view as key to their own development, Mr Polastri said it is essential foreign investors to consider certain parties who can bring the most value.

“They are looking for equity, some are looking for debt, some are looking for a company that has obviously there’s no local debt market because the interest rate is prohibitive,” he said.

“Access to the lucrative oil and gas industry is limited to a profit sharing joint venture arrangement with the local company owning the exploration concession and a profit-sharing agreement with the government body MOGE. It’s a similar case for the mining sector where concessions for Myanmar’s rich mineral resources are controlled by the Ministry of Mines and the best spots have been awarded to private local companies, leaving foreign mining firms with the option of approaching local firms for joint venture arrangements or green-fielding at their own expense in the hope of finding a previously undiscovered deposit and negotiating the exclusive mining rights with the Ministry. Ministry officials told investors at a conference in June. Although many opportunities have been identified, grey areas surrounding security of their investment and while foreign investors desperately want to come here, Myanmar’s lack of clear legal structure and untapped foreign investment law remain key sticking points for foreign investors. Joint ventures can go wrong. One Yangon-based business consultant, who requested not to be identified, warned eager foreign investors to be prudent when considering entering into a joint venture arrangement with Myanmar companies and avoid doing business with individuals on targeted sanctions list.

During the decades of military rule, access to Myanmar’s business circuit was controlled by a small, elitist circle of business tycoons with close links to the former military regime, and foreign investors need to consider the potential legal and reputational risks of dealing with these companies or persons. And certain individuals and companies remain on the various targeted sanctions lists maintained by Western countries for their close links to the former military regime, and foreign investors need to consider the potential legal and reputational risks of dealing with these companies or persons.

And to make matters more confusing for foreign investors, Western nations have taken different approaches to maintaining these blacklists while cautiously encouraging the Myanmar government for its series of political and economic reforms, with the European Union (EU) opting for a one year suspension, the Australian government by abolishing its list completely while the US Treasury Department has maintained its Special Designated Nationals (SDN) list, which includes high profile individuals such as Myanmar’s President Thein Sein.

Finding a Myanmar firm or individual not linked to the former regime and with sound international experience in dealing with companies outside of Myanmar is quite a challenge, say some foreign investors, pointing out some of Myanmar’s larger firms are well versed when it comes to operating in ASEAN countries, which never previously owned any large yet have no experience in Western markets.

Some foreign firms prefer to deal with well-known local tycoons, to circumvent the bureaucratic challenges central to doing business in Myanmar. Mr Polastri said, adding the profile of such individuals is very appealing to big businesses because they are financially sound, with a deep knowledge of the local market and with abundant high-value assets.

“However Myanmar is home to a number of other rising business men who are also financially sound and who are not lacking with experience of their own,” he says.

Investors amendment, he says, are not for the faint of heart, may not be as rich or as experienced as they were but still valuable connections, and could be considered as potential local partners. Not surprisingly, they are making moves to link up with local firms and help propel their businesses to the international level and to develop continuous working relationships with.

But he says it’s ultimately up to the foreign firm to make the call and choose their business bedfellows.

"While foreign investors desperately want to come here, it’s not attractive right now …"
Banking sector comes under spotlight

In Myanmar's latest drive to revitalise the country's long troubled banking sector, the issue of foreign investment has become a key talking point to aid economic growth.

BY VICTORIA BRUCE

A s Myanmar takes steps to overhaul its banking sector and engage in a range of regulatory reforms, the role of foreign investment has come under the spotlight.

A strong local banking sector is essential in developing the private sector and maintaining sustainable economic growth, experts have said, with Myanmar's finance industry needing revitalisation if it is to support an influx of foreign and local investment.

Foreign banks could provide a “critical bridge” between Myanmar firms and the rest of the world, said Dr Sean Turnell, an Australian economist who has written extensively about Myanmar's banking sector, adding foreign banks would open up more opportunities for exporters, importers and others.

“Foreign banks would directly introduce modern technologies and methods, but they would also stimulate some of the better domestic players to lift their game,” Dr Turnell said, adding Myanmar's local banking system needed extensive reform and revitalisation, particularly in rural areas.

Domestic banks have an important role to play in Myanmar's future development, Dr Turnell added. “Domestic institutions need to be the mobilisers, aggregators and allocators of Myanmar’s financial resources,” he said.

But any significant development in the sector hinges on the outcome of the country's new foreign direct investment (FDI) and banking sector laws and whether Myanmar’s banking sector will retain limits to foreign investment.

There has been much debate among industry experts over what vehicle will be chosen by the government to facilitate foreign investment in the country’s banking sector and how to delicately balance providing enough incentives to encourage foreign firms against protecting and stimulating Myanmar’s local banking sector.

“The advantage of opening the door to foreign banks might be the greater sophistication of the Myanmar financial sector,” said Dr Michael Montesano, visiting research fellow at the Institute of Southeast Asian Studies in Singapore.

“But this advantage must be weighed against possible disadvantages,” he said, adding “We must not lose sight of the fact that the development of Myanmar’s own national banking sector must be the highest priority in this area.”

Opening up the industry to foreign investment will have immediate challenges resulting in long-term benefits for local firms, said U Than Lwin, chairman of leading Myanmar firm Kandawgyi (KEB) Bank.

“Our own people will become more proficient so in the long run we will benefit quite a lot but in the short term some of the companies may face difficulties in competing,” U Than Lwin said.

Boosting the local banking sector is crucial for the long-term benefit of the industry but in the short term some healthy competition and fresh techniques could be the best medicine to kick-start Myanmar’s finance sector, said Dr Aung Thura, chief executive of local research firm Thura Swiss and banking expert.

If the initial scope of foreign firms is limited to certain activities then this could give some protection to local banks and give them time to improve practices and effectively catch up to the competition, Dr Thura said, adding the local sector was currently ill-prepared to compete against 100 percent foreign-owned banks.

“Possibly the government can structure it so foreign banks can support areas of the economy not reached by local banks,” Dr Thura said, adding sectors such as retail banking could be reserved for the domestic sector.

“I think the government will have to give concessions to foreign banks step by step for different fields of banking,” he said. “First they would need to protect the retail banking market in Myanmar for some time so as this where local banks have their know how and expertise.”

“The other hand, there are areas of banking that are very global, e.g. investment banking, capital markets where local banks don’t have the expertise, required infrastructure and international network,” Dr Thura said, adding “here it might make sense to give market access to foreign banks in certain areas of joint ventures.”

Several investment models have been proposed, including an offshore banking model, joint venture arrangements and strategic partnerships, where a foreign firm would team up with a local firm, either splitting equally or coming to an agreement where one party retained the majority share, said U Than Lwin.

However a joint venture arrangement may be difficult to manage because one party will need the controlling interest, and most foreign firms will demand this as an incentive to invest, he said.

“In my view, because Myanmar has lagged behind for so many years in banking technology, we really need technology and

‘Not all local banks will be enthusiastic about entering into joint venture arrangements with foreign partners’

Not all local banks will be enthusiastic about entering into joint venture arrangements with foreign partners, said Dr Thura.

“Conversely, foreign banks might rather wait until complete liberalisation of the banking sector instead of starting with joint ventures,” Dr Thura said.

He suggested that compliance capacity from these foreign banks, so unless the majority share goes to foreign partners, they won’t be satisfied,” U Than Lwin said.

But not all local banks will be enthusiastic about entering into joint venture arrangements with foreign partners, said Dr Thura, adding some owners might fear to lose control of their banks.

“Conversely, foreign banks might rather wait until complete liberalisation of the banking sector instead of starting with joint ventures,” Dr Thura said.

He suggested that compliance challenges might result in some foreign firms opting to start new banks with a local partner instead of being part of joint ventures.

Several investment models have been proposed, including an offshore banking model, joint venture arrangements and strategic partnerships, where a foreign firm would team up with a local firm, either splitting equally or coming to an agreement where one party retained the majority share, said U Than Lwin.

“Foreign banks ought to be permitted to operate in Myanmar only on the basis of contributions that their activities will make either to that development or to the country’s real economy,” Dr Montesano said.

“In any case, all of this must happen in the context of priority being placed on the development of Myanmar institutions,” he said.

Not all are in favour of regulating the scope of foreign firms, as this might protect local banks in the short term but it will be at the expense of significant development in the country’s banking industry, said Dr Turnell.

“Instead of regulating the scope of foreign firms, Myanmar could allow a combination banking structure, and see which one works best,” Dr Turnell said.

“I think a mix of both would be best – allow both joint ventures and full foreign bank entry, and leave it up to the institutions themselves to decide what will work best for them,” he said.

Big name banks tipped to be keeping a keen eye on developments in Myanmar’s banking sector include Singapore firms DBS and Overseas Bank and the Overseas Chinese Banking Corporation, Dr Turnell said, adding the UK’s Standard Chartered, once the country’s leading bank before falling victim to nationalism in 1962, is likely to be the first Western bank to enter Myanmar.

Australia’s ANZ bank, which has a strong presence in Cambodia and Laos, has also announced an interest in Myanmar. “We see Myanmar as an opportunity,” said Giles Flanet, CEO Asia for ANZ.

“When the time is right, and there is an appropriate opportunity, we will extend our franchise to Myanmar,” Mr Flanet said.

Japanese banks such as Sumitomo Mitsui Banking Corporation (SMBC), which is providing technical assistance to Myanmar’s KBZ Bank, and the Bank of Tokyo-Mitsubishi, are also likely early entrants, Dr Turnell said.

For a country with such an underperforming banking sector, Myanmar hosts a surprisingly large number of banks and many of those institutions will die out or be consumed by the competition, said Dr Turnell.

“Many of the smaller banks will be extremely moribund. Over time I suspect there will be consolidation in the sector, and we will see a core of about 4 big private banks emerge, with some specialist institutions at the margins,” Dr Turnell said.

“Some of the smaller banks will simply disappear, but more will probably merge with some of the larger players over time. Scale matters in banking.”

Despite hosting a large number of private and government banks – around 20 banks though less than 10 pc of Myanmar’s population hold a bank account – Myanmar’s economy remains largely cash-driven and banking practices continue to be strictly regulated by the conservative Central Bank, which dictates lending services and places restrictions on the number of branches opened by any one bank.

Previous studies show private banks continue to lend more than the public sector, though in little more than government cash boxes, while strict control by the Central Bank has inhibited private sector lending.

“So far Myanmar’s banks, public and private, have been quasi-fiscal vehicles of the State,” Mr Turnell said. “Of course, up until now this has partly been a function of a lack of lending opportunities elsewhere and as the economy grows, this aspect will improve.”

“It is still a struggle, and the banks are regularly constrained by counter-productive regulation that is a hang-over from the old military regime Myanmar,” Mr Turnell said.

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“It is still a struggle, and the banks are regularly constrained by counter-productive regulation that is a hang-over from the old military regime Myanmar,” Mr Turnell said.
South Korea: an investment partner

In an exclusive commentary for The Myanmar Times by the South Korean ambassador to Myanmar, Mr Kim Hae-yong shares his views on the potential of foreign investment for the country’s development and where South Korea can help.

Korea has a long and friendly partner country to Myanmar since the establishment of bilateral diplomatic relation ship in 1975. Mr Min Young-bak, President of South Korea, paid a first state visit to Myanmar in 1979, paving the way for further enhancement of our bilateral ties for mutual benefits.

The two leaders discussed many issues for cooperation, including development assistance, investment, human resources development, infrastructure, energy and natural resources development, people-to-people exchanges and cooperation at the regional and international fora. I expect that by increasing discussions and initiatives into actions, our bilateral ties will be upgraded one step further in the coming years.

Reforms and progress made by the Myanmar government since early last year are remarkable and have drawn keen attention worldwide. On the economy, the effort to revamp the foreign investment law and related legal systems can be seen as one of the yardsticks showing sincerity and irreversibility of such reforms. Recent reinstatement of visa-on-arrival for foreign business people is another measure to welcome more foreign businesses and investors.

Third, in the same vein as above, an investment promotion and protection agreement needs to be clinched between South Korea and Myanmar. This government-to-government agreement will serve as the most important legal instrument between our two countries by protecting investors from non-commercial risks such as arbitrary nationalization, expropriation, and providing national treatment and most-favoured-nation treatment among other things.

Lastly, infrastructure is a backbone for all economic activities. Accordingly, special consideration needs to be given to potential foreign investors in such areas as electricity, railway, roads, telecommunications, water supply and drainage, ports and airports. Tangible progress in infrastructure areas will further invite more investment in other industries that Myanmar deems most essential, including agriculture, manufacturing and tourism.

Without doubt, all these efforts must be supported by the relevant economic policies: daunting challenges that must be addressed sooner rather than later.

First, foreign investment procedures need to be streamlined. Under the existing system, it would take almost a year or more to complete the establishment of foreign business in Myanmar after reviews by various ministries as well as company registration and trading permits. This situation stands in quite a contrast to local investment which starts business within three to six months from application. Also, it is notable that foreign investors have different interests in various businesses, thus wishing to see sectors widely open to foreign investors should be an essential part of this roadmap.

If I may, I would like to share South Korea’s viewpoints on how to induce more foreign investment and better use it as an effective instrument for economic development in Myanmar.

First, appropriate information on investment opportunities must be available at hand. Korean business people consider Myanmar as an attractive place to do business in. However, they still find it difficult to obtain necessary information and have access to the relevant authorities. They want the Myanmar government to assist in this situation and establish a mechanism to provide reliable investment-related information service, most preferably a one-stop service.

Second, difficulties faced by foreign investors will deter them away from making a decision to invest. That is why many countries strive to ensure that equitable (or better in some cases) treatment be given to foreign investors in administrative service, utilities and tax charges, and right to purchase vehicles and properties, to name just a few.

Where there is undue restriction on entry and exit of capital and return, investors will hesitate to move in. If this wish is appropriately reflected in Myanmar’s new investment law and the other relevant regulations/rules under review, we would welcome it. In the same context, an investment promotion and protection agreement needs to be clinched between South Korea and Myanmar. This government-to-government agreement will serve as the most important legal instrument between our two countries by protecting investors from non-commercial risks such as arbitrary nationalization, expropriation, and providing national treatment and most-favoured-nation treatment among other things. The agreement will surely create positive conditions for Korean investors and stimulate individual government-to-government initiatives.

Lastly, infrastructure is a backbone for all economic activities. Accordingly, special consideration needs to be given to potential foreign investors in such areas as electricity, railway, roads, telecommunications, water supply and drainage.

In conclusion, I believe that the Myanmar government should act accordingly in order to ensure that the investment environment of Myanmar is attractive enough to foreign investors from South Korea. For the company and businesses, I would like to share South Korea’s story here. They need to get used to tradition, culture, customary practices and way of life here. They must gather necessary information and analyze it in detail, expand human networking with their potential local partners, and closely consult government officials whenever such need arises. On the other hand, they must be fully aware of the importance of corporate social responsibility as well.

Korean business people also need to better grasp the nature and meaning of changes and rapid transformation currently underway in Myanmar. While they could pose challenges, many suggest that they will also provide a window of opportunity wider than ever. I wish to call on potential Korean investors to follow closely the developments made in Myanmar and, to this end, positively consider opening offices here to feel what is happening on the ground first.

In a final note, Korean TV dramas, movies and K-pop have a strong fanbase among Myanmar people, bringing them closer to Korean culture, way of life and thinking. This owes a lot to the fact that Korea and Myanmar have many features in common: history, religion, dietary habits, feelings and more.

I take this opportunity to appreciate Myanmar people for their intimate contacts with Korean culture. With further investment from Korea and strengthened business cooperation between our two countries, I believe that the Korean wave (Hallyu) will spread out from the cultural to economic fields.

In particular, I believe that Korea’s investment in Myanmar will be done in a way that could contribute to creating a win-win model between the two countries, sharing Korea’s story and promoting substantive cooperation that is mutually beneficial.
By Victoria Bruce

Information proves the latest hot commodity

BY VICTORIA BRUCE

Information is proving to be one of the latest hot commodities in Myanmar as potential investors explore business opportunities in Southeast Asia’s final frontier market.

The lack of reliable, accurate and credible trade and market information from inside Myanmar means many foreign firms will opt to commission research companies to help them toughen the water before taking the plunge to invest.

“Market research is essential and crucial for a new market such as Myanmar,” said business analyst and founder of i3M Group, a market research, business advisory and investment management firm focusing on Myanmar, Mr Kho Ky Peng.

“Foreign firms should make sure they do their homework before committing to any investment decisions,” Mr Peng said.

In the months following the easing of Western sanctions, Myanmar has seen a rush of interest from foreign investors, however experts have warned investors to curb their enthusiasm and point to the substantial legal, reputational and financial risks in Myanmar’s case, as well as the challenges of navigating the post-sanctions environment without falling foul of their home country’s regulations.

Despite Myanmar’s rapid reforms, global watchdog Transparency International ranks it as one of the world’s most corrupt countries and experts say the country lacks strong legal framework to protect the rights of foreign investors alongside an untested judicial system.

Engaging in proper due diligence can help mitigate legal, reputational and financial risks, said Chris Larkin, an industry veteran who has been based in Asia for more than a decade advising foreign firms on their investments, adding this kind of research was particularly important in post-sanction Myanmar.

Foreign investors should be prudent when selecting a local business partner for potential joint-venture arrangements and consider the reputation of big tycoons and individuals on targeted sanctions lists, said Mr Larkin, who is also the managing partner of political and market intelligence firm CLC Asia, which specialises in non-financial and non-legal due diligence.

“The reputation and track record of your potential partner are pivotal to the success of your business,” Mr Larkin said, encouraging new firms to take their time and engage in thorough research before committing to any business decisions.

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BY VICTORIA BRUCE

A s the Myanmar government ironed out the finishing touches to its foreign investment law, some fear the new law may be more restrictive than its predecessor and could protect local business at the expense of genuine socioeconomic growth.

This is the cautious re-

sponse of experts who are fol-

lowing the debate inside and outside parliament over a law that will help lay out the play-

ing field for foreign investors keen to enter Myanmar as the country opens up.

Experts have labelled the government’s move to limit foreign investment in certain sectors as “retrograde” and fear protectionistic economic policies, aimed at sheltering domestic markets, could inhibit the impoverished country’s future socioeco-

nomic growth.

The new draft, cited by Reuters in late August, moves to restrict 100 per cent foreign ownership in certain sec-

tors and bans investment in “small and medium industries and enterprises; agricultural and livestock business being carried on by local business people; retail business and small to medium service enterprises.”

“This is an example of the ‘creeping protectionism’ many of us have feared,” said Australian economist and Myanmar expert Sean Turnell.

“It is so important that, at this critical juncture, Myanmar does not lock its economy up in the clutches of old vested interests,” Mr Turnell said. Myanmar has been going through a series of economic and political reforms aimed at attracting foreign investment to the impoverished South-

East Asian state, however, these latest updates to the foreign, investment law may do little to encourage the confi-

dence of foreign investors.

The proposed restrictions to foreign investment could alleviate some of the fears voiced by domestic firms that the new investment law will favour foreign competitors; however, experts warn that protecting the domestic mar-

ket in the short term will not result in healthy, long-term economic growth.

Jared Bissinger, a PhD candidate at Australia’s Macquarie University, study-

ing Myanmar’s economy, said the best medicine to kick-

start the country’s economy after more than 50 years of economic mismanage-

ment, is to adopt policies that create a fair, predictable and stable business environment from which everyone enjoys some benefits.

“If you keep restricting competition, what incentives will there be for these local companies to ever become strong enough to compete against foreign investors,” Mr Bissinger said.

He said lack of funding is one of the major concerns voiced by domestic enter-

prises, but this could be improved if future reforms permit greater freedom within Myanmar’s financial sector, which would allow banks to better support the private businesses and stimulate economic growth.

“There is certainly justifica-

tion for some of the feeling among local businesses,” Mr Bissinger said.

“When it comes to access to credit, for example, they’d be at a huge disadvantage compared to international competitors.”

But local firms that play their cards right will find they have a lot in their favour, such as essential knowledge of lo-

cal markets and an under-

standing of the bureaucratic challenges in post-sanction Myanmar, he said.

While the Myanmar govern-

ment is balancing the need to firm up the details of its foreign investment law to give further confidence to inter-

national investors, such an important piece of legislation takes time to get right, said Dr Maung Maung Lay from the Union of Myanmar Federated Chambers of Commerce and Industry (UMFCCI).

“There’s no need to rush with all the mistakes – that will tarnish the image of the government,” said Dr Maung Maung Lay.

“This should not be an on again-off again policy like our electricity. It will be frustrating for the potential investors who are not here merely to gamble,” he said.

Dr Maung Maung Lay said the government is fine tuning certain aspects of the new law to “alleviate the concerns of the locals and get input from all the stakeholders.”

Local businessmen appear concerned that they may lose out.

“If they give the incen-

tives to the foreigners, say a five-year tax break, then we should also be granted five years, that would be fair,” said U Ohn Lwin, managing direc-

tor of Toyo Battery, a local battery manufacturer.

Dr Maung Maung Lay said extended tax holidays for foreign investors would put local enterprises at a com-

petitive disadvantage, adding many firms fear they will be overwhelmed by incoming competition.

The private sector feels that currently the playing field is not level and the government is too generous to the foreigners,” said Dr Maung Maung Lay, adding local firms lack the capital and technology to compete effectively.

However there’s a fine line between protecting local in-

vestors and inhibiting healthy competition, Mr Bissinger said.

“A compromise solution might entail allowing some protections in certain areas, but only for a specified length of time,” Mr Bissinger said.

The foreign direct invest-

ment (FDI) amendment bill builds on existing legislation enacted in 1988 and is tipped to permit foreign investors to expand their presence in joint ventures by allowing them to invest within the public or private sector.

The bill is also likely to increase land lease terms and extend tax holidays to five years.

In an earlier draft of the FDI bill, foreigners could lease for 30 years and would be allowed two 15-year extensions, compared to an unlimited period and 10 years extendable for two 10-year terms, depending on the nature of the business and the size of the investment.

And while some investors will be waiting for details contained in the new foreign investment law to be officially announced before firming up their own investment deci-

sions, its importance should not be underestimated, said Dr Turnell.

“Countries are always ‘tweaking’ their investment laws, and we should not see this as the ‘be all and end all’, said Dr Turnell.

“Dr Turnell claims the FDI law was an important signal-

ling device to international investors that Myanmar is a reliable place to do business.

“But the most important thing is that the law progresses in a way that creates confidence in the process in which it is made, and that the law itself be sound and reasonable,” said Dr Turnell.

“It does not have to be, and should not be, excessively generous to international investors, especially in areas (such as resource and energy extraction) where they will come anyway.”

“On the other hand, it is also important that the law not be the vehicle to pro-

tect vested interests at the expense of the broader good,” said Dr Turnell.

“New FDI law or old, foreign investors remain faced with the many challenges that come with doing business in Myanmar, including the lack of legal or physical infrastruc-

ture as well as an underper-

forming banking sector, an untested judicial system and layers of bureaucratic red tape.”

Information is key for ‘enormous opportunities’

Bagan Capital’s Chief Executive Officer, Jeremy Kosier-Jones, spoke to The Myanmar Times about establishing accurate market information for potential investors, the impact of political change and what investment needs to focus on.

By Ben White

INFORMATION REGARDING THE MYANMAR ECONO-

MY AND INVESTMENT CLIMATE HAS LONG BEEN A STRUGGLE. IS THAT CHANGING NOW?

“The situation in Myanmar is changing and chang-

ing quickly. One needs to keep in touch with a variety of sources to keep abreast of developments. This is one of the main reasons why we have opened our office in Nay Pyi Taw, to be sure that we optimise our access to information.”

WHAT KIND OF SERVICES DO YOU SEE ARE IN DEMAND AMONG INVESTORS?

“As in any market that is opening anew, people are starting with the basics. Investors are seeking infor-

mation about the political situation, investment laws and regulations, the status of infrastructure and the availability of an appropriate workforce. Particularly for those from the US, sanctions is also a lingering issue that requires important attention.”

AS ATTENTION ON OPPORTUNITIES HERE IS GROW-

ING RAPIDLY, IS IT A STRUGGLE TO MARKET ACCU-

RATE INFORMATION?

“It is definitely a struggle to put together sufficient and accurate information in general. We are not simply infor-

mation providers, but it is important to make sure that we are providing the highest quality information and advice that we can. Being diligent in the procurement of information and cross-checking is essential, as is giving clients a sense of the ‘margin of error’ that we perceive.”

TRANSPARENCY FROM OUR SIDE IS PARAMOUNT.

WHAT ADVICE DO YOU HAVE FOR INVESTORS LOOK-

ING TO COME INTO MYANMAR? HOW VALUABLE IS SUCH INFORMATION?

“Myanmar is clearly not a place to make a fast buck, but the opportunities are enormous if approached in the right way. We work with Myanmar companies seeking foreign capital as well as technology and expertise, and this focus on contributing to local industry we believe is important to creating long-term cooperative rela-

tionships that benefit all. Foreign investment needs to benefit Myanmar as well as the investor.”

WHAT WOULD YOU SAY ARE THE BIGGEST RISKS AND GAINS TO INVESTING IN MYANMAR?

“One significant risk is that the benefits of quality foreign investment are not sufficiently explained to all the stakeholders and hence regulations are decided upon that, in practice, result in investment that does not meet Myanmar’s development goals. There is a risk of this with the current discussion around the draft new Foreign Investment Law.”

“The gains side the answer is more obvious – gaining access to an economy that has not been mainstream for many years, yet in a country with a large population, abundant resources and in an attractive geographic loca-

tion.”

The Foreign Investment Law is debated in parliament. PHOTO AFP

Moves to limit FDI in certain sectors ‘retrograde’

The Myanmar Foreign Investment Law is being debated in the Myanmar parliament. PHOTO AFP
Land prices hold back property investment

BY VICTORIA BRUCE

Foreign investors flocking to Myanmar’s property scene are discovering that buying land in Southeast Asia’s final frontier is an expensive exercise, and while interest is booming, foreign investors are proving less than enthusiastic about handing over their cash.

Historically, property has been viewed as the safest place for domestic investors to sink their savings, mainly due to the limited investment channels available to domestic investors, however today the country’s soaring land prices continue to be propped up by this dysfunctional legacy.

As the country opens up to foreign investment, rising demand for land in the city centres such as Yangon and Mandalay have seen property prices soar with some experts warning a bubble is imminent.

“It’s cheaper to buy property in Tokyo,” one foreign investor said after he was quoted US$151,000 per square metre for a block of undeveloped land in the outskirts of Yangon.

Myanmar’s land prices were unattractive and often over-valued due to lack of market knowledge and concepts such as rate of return on capital, said Tony Picon, associate director of Myanmar’s economic development by making it unprofitable for investors in space-intensive industries such as manufacturing, tourism and real estate – the same industries that could create much-needed employment opportunities for Myanmar’s population.

Alonso Polastri, managing partner of Yangon-based firm PWA Asia said high land prices were a “deal-breaker” and a major concern to many foreign investors, particularly those in the real estate and manufacturing industries.

“Unfortunately this may push investors out of the country, not only those in real estate but those in manufacturing,” Mr Polastri said.

“People want to come here and relocate their businesses, and if you own a garment factory you will want a piece of land or a building to renovate, but right now the price is just insane,” he said.

“Even if the labour costs are cheaper than in other countries, for example China, people are still thinking twice about Myanmar.”

High land prices have disappointed a Hong Kong-based businessman in the manufacturing industry who wanted to relocate several of his company’s garment factories to a

Many of these iconic gems, built in times of colonial British rule, are owned or occupied by the Myanmar government, which in June announced it was inviting tenders from foreign and local investors to redevelop those grand old building as hotels, in a bid to ease the city’s hotel room shortage.

CUBE Capital said projects involving Yangon’s well-preserved colonial landscape could attract foreign investors.

“Even if the labour costs are cheaper than in other countries, for example China, people are still thinking twice about Myanmar...”

Special Economic Zone (SEZ) outside of Yangon.

“Initially, we thought Myanmar was very interesting for manufacturing because it has an abundance of raw materials, labour forces and land,” the investor told The Myanmar Times at a foreign investment summit in Yangon.

“But the high price of land coupled with extremely limited infrastructure and restrictive regulations make it an unattractive option for us to set up shop, especially compared to Cambodia or Vietnam,” he said.

Mr Picon warned Myanmar’s high land prices could result in potential foreign investors choosing neighbouring Bangladesh or Cambodia as a cheaper alternative to relocate their manufacturing projects.

“Myanmar isn’t the only game in town for these sorts of projects,” he said, adding land owners needed to drop prices to a more reasonable level in order to attract manufacturing projects, which in turn will create much-needed employment for Myanmar’s people.

“In downtown Yangon, potential property investors are viewing a spectacular array of centuries-old colonial buildings lining the former capital’s cityscape.

However investors have conflicting interpretations of the complex legal process involved in securing one of these iconic buildings.

“An obvious opportunity that catches most investors’ eyes lies in all these beautiful colonial buildings that are not currently occupied,” Ms Petkova said.

“Longer time for deadlines for bids to be placed is needed in order for companies to make detailed valuations of such important properties, including full site access to conduct structural integrity assessments. This will ensure a more improved bidding process that is in the best interests for the preservation of the country’s precious heritage,” Mr Picon said.

Large foreign hotel chains will snap up these iconic old buildings as their flagship hotel to lead their expansion process into Myanmar and factor in the cost of renovations into the additional value brought in by adding such unique and historical buildings to their portfolio, he said.

“Many of these iconic colonial buildings would be in high demand by foreign hotel companies,” Mr Picon said, adding larger hotels would take on these properties not just as a standalone venture but something which will be an integral part of their involvement in Yangon and the rest of the country in the long run.

An increasing demand for expat accommodation in Yangon, in the form of rental properties, apartments for lease and serviced apartments may also be an attractive option for potential investors.

On the other side of the Bago River, construction on several gigantic residential towers is underway to form the much-anticipated Star City, a project of SPA Group (Swe Pun and Associates), which is a joint development partner of Singaporean-listed Yoma Strategic Holdings.

SPA says around 75 per cent of units in the third block of the Star City residential project have already been snapped up by eager investors. Upon its completion in 2020, the
Local entrepreneurs welcome FDI, slam government bias

By Rinar Huu Khan

LOCAL entrepreneurs have welcomed the potential influx of foreign investment as a positive opportunity for the country’s development but warned that the government needs to think first of the country’s own benefit.

“The entrance of foreign investment is good as it is vital for us to gain technology, job opportunities and efficient job training as well,” U Ko Ko Lay, a director of Three Friends Construction, said.

“People’s perception of FDI is not as negative as many think but it must be considered in a positive way. It can bring more advantages but the respective authorities should check carefully before making any agreement for investment projects to benefit the country,” U Ko Ko Lay said.

He also said local companies should be prepared to work cooperatively with foreign companies rather than try to compete.

“The construction of 40 to 100 storey high-rises is impossible right now because we are in need of the right technology. But it will be better if foreign companies can use experienced architects and engineers from here,” he said.

U Ko Ko Lay also strongly hoped that the government push enactment of the Condominium Law and Building Code within a specific timeframe to improve building standards, structural quality and workplace safety in the building industry.

A more important need, however, concerns the Foreign Investment Law, currently being drafted in parliament, according to U Ko Ko Htwe, the chairman of Taw Win Family Construction based in Sanchaung township.

He said the current amendments to the draft Foreign Investment Law seem unfair as there was no legal provision for Myanmar citizens.

“We, as a citizen, are suffering due to the lack of responsibility by the Myanmar Investment Commission. It is ignoring our needs and isn’t providing support to invest in our own country. Such unfair discrimination is really depressing and I think the government has a responsibility for this,” he said.

He warned that the draft of the FDI law is lacking options for local entrepreneurs.

“The FDI law draft does not have specific categories for employment opportunities for skilled workers here. The Foreign investment Law is meant to invite foreign investment to benefit the country’s wealth and to get taxes and rental expenses as well,” he said.

He pointed to the unequal tax exemptions for foreign and local entrepreneurs in the proposed draft.

“Taxation in the proposed act looks to be unfair, such as the fact that foreign investors will be exempt from paying tax. Although they will not entirely be exempt, I’m concerned the government will get less dividends from this,” he said.

Local businesses have never got a tax exemption for doing business in minerals, oil and gas, but they will. I think our country will be in deep compensation for taxes due to unfair chance of dividend pay,” he added.

He also admitted that the tax reform over the time periods potentially being offered to foreign investors.

“Local businesses are more profitable for such large business that will have less profit return, such as dam building and reservoirs to produce hydro-power, should be no problem if the government leased them for 70 to 90 years. But in cases like petroleum or oil production it is not necessary to give a 70 year rental period when 30 years is enough. It means less chance for local expertise to develop. I would say we could do this kind of business in the future so the period of investment should be reviewed,” he said.

He also said local companies should be prepared to work cooperatively with foreign companies rather than try to compete.

In my opinion, the initial investments set up in Myanmar are by those who want to ensure a pioneer place in the country. It depends on whether the Foreign Investment Law is enforced, but potential investors from the United States, Europe and Japan are still waiting to come,” he said.

According to managing director of Qingian International (Myanmar) Group Development Co., Ltd (CNGQ), Mr Song Shang Feng, investing in Myanmar offers many good opportunities even with still existing weaknesses, and the situation is safe enough.

“I’ve seen and believe that the opportunities are greater than the weakness. So far I see, the government is willing to improve the positive opportunity for the country’s wealth and to get taxes and rental expenses as well,” he said.

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“I’ve seen and believe that the opportunities are greater than the weakness. So far I see, the government is willing to improve the building standards of the country and Myanmar people also want to raise their living standards. This is the mean thing,” said Mr Song, who’s company is based in Singapore.

“But there are disadvantages such as workers lacking experience because of fewer FDI projects in the past and construction technology. What’s most important is having construction regulations like building codes that are still not legally in place here. This is very important for the whole building industry,” Mr Song said.

“In the coming years, many new foreign investors will come to Myanmar and many new projects will be initiated. I trust that this can efficiently improve construction standards. Local companies can also benefit advantages such as labour training with the help of foreign firms partnerships to improve skill levels,” he said.

CNGQ’s first investment in Myanmar is with the City Mart project at Tamwe junction. Including four story and 100 capacity car park basement, the 15-month project is slated to finalised in late 2013.

“We’ve come and invested here due to the government’s attempts to create better investment opportunities, particularly after the election, and to improve the construction industry. We want to share construction techniques with local construction companies and the also to improve construction standards and quality controls here,” said Mr Song.
Q: What is your comment on the foreign investment law?

A: Both the new and old investment laws have been designed to be flexible for potential investors. The first law was issued with a decree by the State Peace and Development Council, based on English colonial law. In that law, a certain freedom was given according to the circumstances of those days. But there were only a few investors who came. Now another foreign investment bill has been submitted to the hluttaw. The bill was passed and then proceeded to the President. The bill submitted was drafted, along with a guarantee, by a Japanese economic consultancy.

Q: How do you see the investment may be constrained by the law?

A: It is mentioned in the investment law that foreign investors are allowed to do what local businesses cannot do. At present the state is supporting local businesses to thrive; the government is making every effort to raise the value of the US dollar against the Myanmar Kyat so as to bail local businesses out of financial difficulties. This is merely an action to make a handful of people profit at the expense of the majority.

Q: How do you measure the number of investors is large or small?

A: The previous small number of investors points to the political situation. There was little stability as investment does not also concern the state of law. What an investor decides on in any investment is how stable a country is politically. Because of the newfound tendency to ensure political stability, large numbers of investors are coming to re-assess Myanmar.

Q: Do you think local businesspeople will be affected by the foreign investment?

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Q: How do you see the domestic workforce is suitable for this change?

A: Businesspeople must bear in mind that foreign investors can do more than them if they think that, just because they are citizen, they can have their wishes fulfilled by approaching their minister. We have already protected local businesspeople with the law. When competition heats up, it is no use relying on the government. Foreign investors will bring large sums of capital in, local businesspeople must be smart to find ways to survive.

Q: What are the advantages and disadvantages of local and foreign businesspeople?

A: Foreigners have technology, market knowledge and capability to adequately invest whereas we don’t. But you don’t need to be scared, just be clever. Technology will be left behind if they come and leave. If products are already popular, a market will grow. Other countries are doing the same to make money. Besides, local businesses will get subcontract work. Local workers will get higher wages from foreign rather than local businesses. Foreigners will definitely recruit local workers so either skilled or semi-skilled workers will easily find employment. Also unskilled workers will receive training. All local businesspeople need to do is be smart and clever.

Q: What is your thoughts on claims that foreign investment improves the quality of life of local workers?

A: A state or regional government will have to fix its minimum wage in proportion to its commodity prices. But law connectivity will improve situation for local businesspeople, workers and environmental organisations.

Q: What is your comment on the foreign investment law set to be promulgated?

A: The previous small number of investors will not be small for sure. Whether the number of investors is large or small, the revised law will hamper investment or draw more investment. The government made concessions while the hluttaw banned them by justifying national protection.

Q: What is your comment on the foreign investment law drafted by the Japanese economic consultancy?

A: It was designed to draw in investors. Although it was originally designed by a Japanese firm, the hluttaw revised it when it was sent there for approval. It cannot really be called the Japanese version because it has passed through the hluttaw. It is now questionable whether the law is solid. If the law is changed all the time, they will not come.

Q: Do you think the state of law and peace in Myanmar will influence the investment?

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