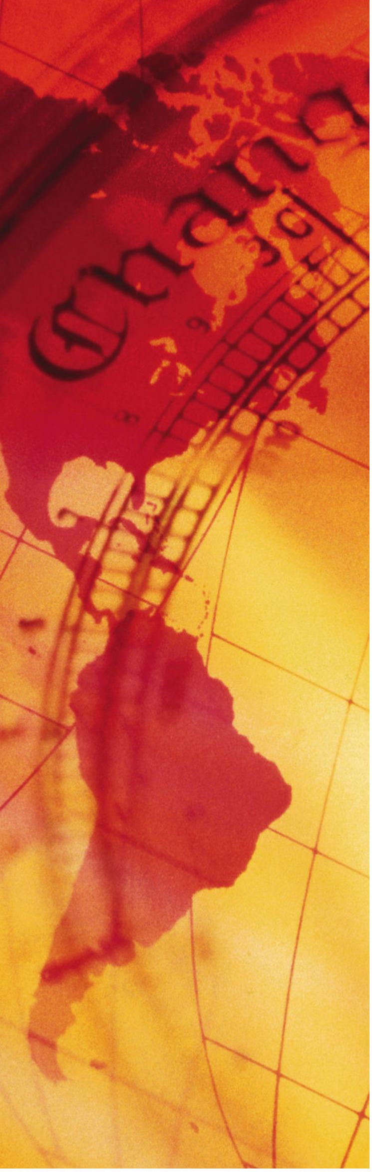

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Burma

Business and Investment Opportunities in Emerging Myanmar

Balbir B. Bhasin

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Abstract

This book is a practical and comprehensive guide to succeeding in doing business and investing in emerging Myanmar, formerly known as Burma. It covers the newly emerging country's history, geography, demographics and market size, political environment, economic conditions and industries, legal framework, cultural idiosyncrasies including religious issues. It also discusses language, beliefs and customs, business etiquette and attitudes, management and working styles, meetings and decision making, and negotiation strategies that work. It identifies incentives offered with regard to tax relief and repatriation of profits, the various sectors that are opening up, and where opportunities for participation exist. It also highlights the risks inherent in entering an emerging and new market economy and suggests ways of mitigating these risks. Strategies for success in an emerging Myanmar are propounded for both investors and businesses. This book allows for a deeper understanding of the business environment in Myanmar. You will be better able to evaluate the risk factors and options available and then make meaningful investment and business decisions.

Keywords

Burma, Myanmar, Association of Southeast Asian Nations, Asian cultures, business opportunities, business strategy, cross-cultural communications, emerging markets, foreign direct investment, global business, global strategy, technology transfer, international trade, international management, international marketing, international marketing research

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Introduction

"This is Burma, and it is quite unlike any land you know," wrote Victorian author Rudyard Kipling in his *Letters From The East* in 1889. Myanmar, previously known as Burma, is a resource rich country in the emerging Association of Southeast Asian Nations (ASEAN). It is the largest country in mainland Southeast Asia with a population of almost 60 million. For years, it has suffered from gross mismanagement due to excessive government controls, inefficient economic policies, and the imposition of trade sanctions by the West due to political considerations. However, a new day has dawned over this highly cultured but isolated land, as it begins modernization and gently but eagerly eases into the international community.

Myanmar is the last large Asian country to open itself to the world. This has been termed Myanmar's "Mandela" moment. Largely because of charismatic opposition leader Aung San Suu Kyi, the world will never be more interested in the country or more eager to invest there, as happened in South Africa in the early 1990s.[1] Myanmar's historic move toward democratization and reconciliation caught the world off guard. The new government has quickly initiated courageous and pragmatic political and economic reforms that are reintegrating it into the global community and accelerating its economic development.

The international community has responded very positively. Sanctions have been lifted by the West and the East is leading the investment surge into the country. An onslaught to get into Myanmar has begun. Myanmar should attract foreign investment for all three reasons that typically motivate multinational companies: resources, lower costs, and markets.[2] Being sizeable, unlike many smaller countries in developing Asia, Burma can grow relying on its own market as well as exports, and in a diversified manner if it industrializes successfully. But the bumpier road of some of its Southeast Asian neighbors suggests that success cannot be taken for granted. There will be challenges and risks, as has been the case for all emerging countries at the crossroad to a newer and less controlled environment.

Will the momentum toward democratization continue? Will it succeed in bringing together the various ethnic factions to achieve inclusiveness? Will the early entrants and foreign investors be amply rewarded for their risks? Will the coming period bring direct benefits to the average citizen? Will it avoid the mistakes made by its neighbors in the past and learn and benefit from their experience? Myanmar has a long way to go to realize its potential and succeed in bringing the long-awaited aspiration of a better life to all of its people, but the journey toward a brighter future has begun.

Acknowledgments

The author wishes to express his deep gratitude to the following people for their contribution in helping complete this book: Sardar Harbakhsh Singh Bhasin for his continuing guidance; Marishia for her unconditional support throughout the entire time this work took to materialize; LiLee for her excellent work and devotion as research assistant; and publisher David Parker for hanging in there while traversing the many changes that are still occurring in Myanmar as it finds its place in the globalized economy.

CHAPTER 1

Background: Understanding Myanmar

Map of Myanmar in Southeast Asia

Source: Adapted from Wikipedia (2013a). Retrieved January 12, 2013, from http://en.wikipedia.org/wiki/File:Location_Burma_%28Myanmar%29_ASEAN.svg

Overview: Sleepy Burma Awakens

Myanmar, formerly known as Burma, is a resource rich country. *Myan* means swift and *ma* means strong. It has remained closed to the outside world and consequently poor for over 60 years since independence from British colonial rule in 1948. With a population of over 55 million, it is the largest country in mainland Southeast Asia. Burma is located at the geographic crossroads of India, China, and Southeast Asia. The original capital Yangon (Rangoon) was replaced by the newly built administrative capital of Nay Pyi Taw in 2005. Myanmar's terrain is mostly tropical

Country at a glance

Size	676,578 sq. km (1.32 times the size of Thailand)
Climate	Tropical with seasonal monsoons
Capital	Naypyidaw
Political structure	Nominally civilian parliamentary government since 2011
Leader	President Thein Sein
Official language	Burmese
Population	55,167,330 (July 2013 est.)
Age breakdown	0–14 years (27%), 15–64 (68%), 65+ (5%)
Major religion	Buddhism (89%)
Major industries	Tourism, gems, gas, oil, hydropower, agriculture, forestry, and minerals
GDP	$89.23 billion (2012 est.)
GDP per capita	$1,400 (PPP) (2012 est.)

Source: Adapted from Central Intelligence Agency. (2013). *The World Factbook 2013*. Retrieved July 23, 2013, from https://www.cia.gov/library/publications/the-world-factbook/geos/bm.html

and the coastal south region of the Irrawaddy Delta is very fertile. Half of Myanmar is covered by forests. It is well endowed with rich natural resources and has abundant natural gas reserves. It has large areas of arable land, forestry, minerals of numerous varieties, and freshwater and marine resources. Yet it remains poor due to isolation and mismanagement. However, the country has switched to a market-oriented economy and is making progress in the liberalization of trade and investment. It became a member of the Association of Southeast Asian Nations (ASEAN) in 1997 and is working toward becoming fully integrated with the ASEAN community by 2015.

Myanmar's Turbulent History

The country's history has seen the unification of three waves of immigration from Cambodia (Hmong), the eastern Himalayas (Mongol), and northern Thailand (Tai) under the Buddhist King Anawratha in the 9th century at Pagan (now Bagan). By the 14th century, after numerous invasions by the Mongols and then by neighboring Siam, the country was carved up among warring tribes. The arrival of European traders in 1824—Portuguese, Dutch, and British—finally resulted in the colonization of Burma by the British in 1937. The British were expelled by the Japanese during World War II. The Japanese surrendered in 1945 and Burma became independent in 1948 under the leadership of their great statesman, General Aung San, who was assassinated the same year. The Union of Burma became a democratic republic with U Nu as Prime Minister.

In 1962, left-wing General Ne Win staged a coup, banned political opposition, suspended the Constitution, and introduced the "Burmese Way of Socialism." After 25 years of economic hardship and repression, the Burmese started to protest in 1987 and 1988. These uprisings were brutally quashed by the military government's State Law and Order Restoration Council (SLORC). In 1989, the military government officially changed the name of the country to Myanmar. The ruling junta has maintained a tight grip on Myanmar since 1988. In 1989, the opposition National League for Democracy (NLD) leader Aung San Suu Kyi, the daughter of Aung San, was put under house arrest. In 1990, the NLD won a landslide victory in the general election but the result was ignored by the military. Aung San Suu Kyi was awarded the Nobel Peace Prize

Myanmar opposition leader and Nobel laureate Aung San Suu Kyi

Source: Adapted from Wikipedia. (2013b). Retrieved January 12, 2013, from http://en.wikipedia.org/wiki/Aung_San_Suu_Kyi for her commitment to peaceful change in 1991. In 1992, military ruler General Than Shwe replaced Saw Maung as SLORC chairman, prime minister, and defense minister. Several political prisoners were freed in a bid to improve Burma's international image. Aung San Suu Kyi was released from house arrest after six years in 1995.[1]

In 1996, Aung San Suu Kyi attended the first NLD congress since her release but the SLORC arrested more than 200 delegates on their way to party congress. Finally in 1998, some 300 NLD members were released from prison but the ruling council refused to comply with the NLD deadline for convening of parliament. Student demonstrations were broken up aggressively. In 2000, the ruling council lifted restrictions on movements of Aung San Suu Kyi. Senior NLD members and Aung San Suu Kyi began secret talks with the ruling council. In 2001, the ruling council released some 200 pro-democracy activists. The government said that the releases reflected progress in talks with opposition NLD leader Aung San Suu Kyi who remained under house arrest. Finally in May 2002, Aung San Suu Kyi was released after nearly 20 months of house arrest but was taken into protective custody after clashes between her supporters and those of government.

In 2003, Khin Nyunt became the prime minister with the intention of drafting a new constitution as part of a road map to democracy. In 2004, the constitutional convention began despite a boycott by the NLD whose leader Aung San Suu Kyi remained under house arrest. The convention adjourned as Khin Nyunt was replaced as prime minister amid reports of a power struggle. He was placed under house arrest. In 2007, a wave of public dissent was sparked by fuel price hikes and dozens of activists were arrested. The military government declared that 14 years of constitutional talks have been completed and closed the National Convention. Buddhist monks held a series of anti-government protests. Aung San Suu Kyi was allowed to leave her house to greet monks demonstrating in Rangoon. Normality returned to Rangoon amid heavy military presence. By 2008, a series of bomb blasts had hit the country and state media put the blame on insurgent destructionists including ethnic Karen rebels. The government published a proposed new constitution, which allocated a quarter of seats in parliament to the military, and banned opposition leader Aung San Suu Kyi from holding office.

In 2008, Burma was hit by Cyclone Nargis around the low-lying Irrawaddy delta. Some estimates put the death toll as high as 134,000. A referendum on a new constitution proceeded amid the humanitarian crisis following the cyclone. The government declared that 92% voted in favor of the draft constitution. In 2009, the NLD offered to take part in planned elections if the government freed all political prisoners, changed the constitution, and admitted international observers. Opposition leader Aung San Suu Kyi was convicted of breaching conditions of her house arrest, following visit by an uninvited U.S. national in May. The initial sentence of 3 years of imprisonment was commuted to 18 months of house arrest. U.S. Secretary of State Hillary Clinton announced plans for engagement with military rulers and Aung San Suu Kyi began talks with Burma's military leaders and was allowed to meet Western diplomats.

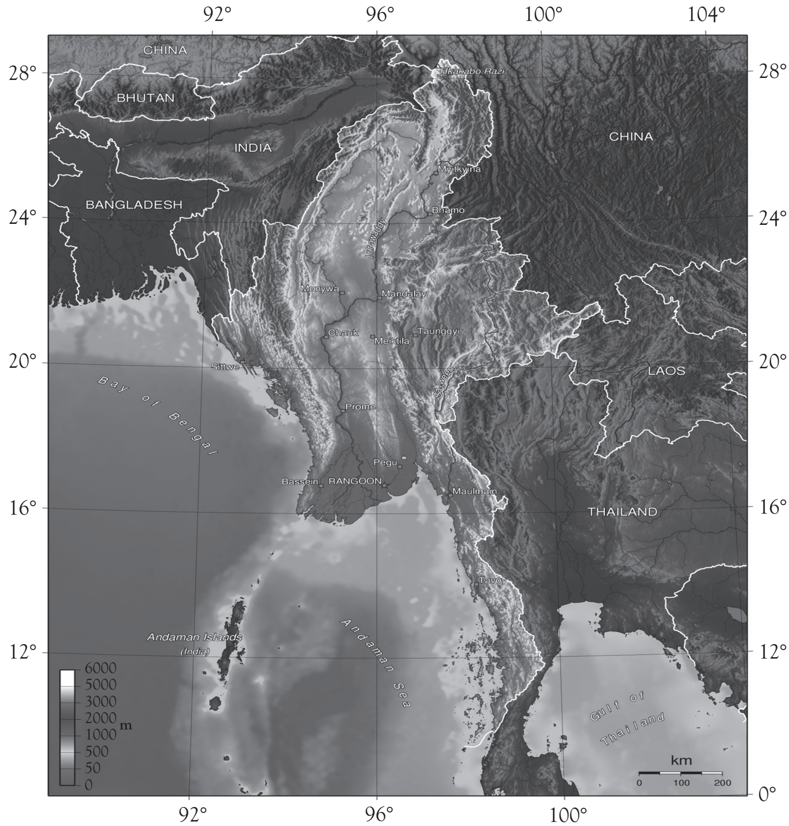
In 2010, the government announced that long-awaited election laws have been passed with provisions for an electoral commission handpicked by the junta. The NLD voted to boycott polls. A splinter party, the National Democratic Front (NDF) planned to compete in polls. The government changed the country's flag, national anthem, and official name. The main military-backed party, the Union Solidarity and Development Party (USDP), claimed a resounding victory in the first election in 20 years. Opposition groups alleged that widespread fraud had taken place and the election was widely condemned as a sham. The junta declared the election marked the transition from military rule to a civilian democracy. A week after the election, Aung San Suu Kyi, who had been prevented from taking part, was released from house arrest.

In March 2011, Thein Sein was sworn in as president of a new, nominally civilian government. In August, President Thein Sein met Aung San Suu Kyi in Nay Pyi Taw. She announced that she would stand for election to parliament and her party would rejoin the political process. In December 2011, U.S. Secretary of State Hillary Clinton visited Myanmar, met Aung San Suu Kyi, and held talks with President Thein Sein. The United States offered to improve relations if democratic reforms continued. President Thein Sein signed a law allowing peaceful demonstrations for the first time. The NLD re-registered as a political party in advance of by-elections for parliament due to be held early in 2012. In April 2012, NLD candidates swept the board in parliamentary by-elections with Aung San Suu Kyi elected. The European Union (EU) suspended all non-military sanctions against Burma for a year. The EU foreign policy chief Catherine Ashton, British Prime Minister David Cameron, and UN Secretary-General Ban Ki-moon visited Myanmar for talks on moving the democracy process forward. The United States suspended sanctions on Burma and allowed trade and investment between the two countries to begin. U.S. President Barack Obama visited Myanmar to offer "the hand of friendship" in return for more reforms.[2] In May 2013, President Thein Sein became the first Burmese president to visit the United States since 1966.

Geography: Tropical Country Rich in Resources

Myanmar is the largest country in mainland Southeast Asia and is geographically situated in the northwestern part. It is strategically located near major Indian Ocean shipping lanes. The country covers an area of more than 260,000 sq. miles (678,000 sq. km), which is roughly equivalent to the size of France and Belgium combined or slightly smaller than the state of Texas in the United States. The country ranges 936 km (581 miles) from east to west and 2,051 km (1,275 miles) from north to south. It is bordered on the north and northeast by the People's Republic of China, on the east and southeast by the Lao People's Democratic Republic and the Kingdom of Thailand, on the south by the Andaman Sea and the Bay of Bengal, and on the west by the People's Republic of Bangladesh and the Republic of India.

The original capital Yangon (Rangoon) was replaced by the newly built administrative capital of Nay Pyi Taw in 2005. The terrain is mostly tropical and the coastal south region of the Irrawaddy Delta is extremely fertile. Half of the country is covered by forests. The topography can roughly be divided into three parts: the Western Hill Region, the Central Valley Region, and the Eastern Hill Region. The Himalayan Range has a link with Myanmar and is known as the Western Yoma that runs to the South. The Western Yoma Range serves as a well that separates Myanmar from India. The Central Valley Region consists of the broadest valley of the Irrawaddy. The Eastern Hill Region is the Shan Plateau, which in average is 3,000 to 4,000 feet above sea level. Myanmar has a large coastline of



Topographical map of Myanmar

Source: Adapted from Wikipedia. (2013c). Retrieved January 12, 2013, from http://en.wikipedia.org/wiki/File:Burma_topo_en.jpg

almost 2,000 km to the west. The lowest point at the Andaman Sea is 0 m and the highest at Hkakabo Razi is 5,881 m.

The Irrawaddy, the main river in Myanmar, flows from north to south through the Central Burma Basin and ends in the wide Irrawaddy delta. The Mekong runs from the Tibetan Plateau through China's Yunnan province entering Northeastern Burma into Laos. In the east, the Salween and the Sittaung rivers run along the western side of the Shan Hills and the northern end of the Dawna Range. In the narrow southeastern part of Burma, the Ye, Heinze, Tavoy, Great Tenasserim, and Lenya rivers are relatively short and flow into the Andaman Sea. Further south, the Kraburi River forms the southern border between Thailand and Burma.

Myanmar's climate can be described as tropical with monsoons. It is characterized by strong monsoon influences, has a considerable amount of sunshine, a high rate of rainfall, and high humidity. The annual average temperature ranges from 22°C (72°F) to 27°C (81°F) year-round. There are three distinct seasons in Myanmar. The *cold and dry season* is from November to February with average monthly temperatures of between 20°C and 24°C. The *hot-dry season* is from March to April with average monthly temperatures between 30°C and 35°C. The *wet season* is between May and October with average temperature between 25°C and 30°C.

Myanmar is prone to natural disasters and vulnerable to the effects of climate change. The coastal regions are exposed to cyclones, tropical storms, and tsunamis, while the hilly regions are exposed to landslides. Rainfall inducing flooding is a recurring phenomenon across the country and most of the country is prone to earthquakes. Cyclone Nargis, which hit the Ayeyarwady Delta in May 2008 and left more than 138,000 dead and affected further 2.4 million people, was by far the worst natural disaster in recent history of the country. There have been frequent small- to medium-scale natural hazards such as floods, landslides, rat infestations, heat waves, and earthquakes. Cyclone Giri that hit Rakhine State in 2010 destroyed over 20,000 houses and affected at least 225,000 people. Disaster risk reduction remains a high priority for the government, which is still finalizing the Myanmar Action Plan for Disaster Risk Reduction.[3]

About 15% of the land is arable for agricultural use. Rice, pulses, beans, sesame, and groundnuts are the main crops. The country's natural resources include petroleum, timber, tin, antimony, zinc, copper, tungsten, lead, coal, marble, limestone, precious stones, natural gas, and hydropower. Myanmar has an estimated natural forest area of 43%, down by 12% from 10 years ago, and is ranked 33rd largest in the world.

Demographics: A Young Diverse Nation

Myanmar's population is around 60 million (2013 est.) and this makes it the 24th in the word and 4th in ASEAN but no formal census has been done since 1931. The majority of its people (75%) live in rural areas. Only 34% of the total population lives in cities but urbanization is growing at about 3% per year (2010 through 2015 est.). The major cities and population centers in millions are as follows: Rangoon, now called Yangon (4.3 million); Mandalay (1 million); Nay Pyi Taw (1 million). Myanmar has a 90% literacy rate (those who are 15 years and above and can read and write). Of the literate, 94% are male and 86% female.

In terms of ethnicity, 68% of the population is Burman, and minorities include Shan 9%, Karen 7%, Rakhine 4%, Chinese 3%, Indian 2%, Mon 2%, and other 5%. About 90% of the population is Buddhist, 4% Christian (3% Baptist, 1% Roman Catholic), 4% Muslim, 1% animist, and 2% other. The main and official language is Burmese and minority ethnic groups have their own languages, which are spoken mostly at home and discouraged. English is taught as a second language.

The majority of the population (68%) is in the 15 to 64 years age group, 27% is in the age group of 0 to 14 years, and the older segment of 65 years and beyond constitutes about 5%. The median age is thus only 27 years (27 years for men and 28.2 years for women), which makes Myanmar a country with a rather young population. Population growth rate (2013 est.) is 1.05% (109th in the world). Birth rate is 18.89 births per 1,000 (ranking 96th). The gender ratio is 1.06 males for every female. Life expectancy is 65, which ranks 167th in the world. Total fertility rate is 2.21 children born per woman—ranked 102 in the world. Death rate is around 8 per 1,000, ranking 95th in the world.[4]

Business Environment: Political, Economic, and Legal Systems

Political System

Formerly the "Socialist Republic of the Union of Burma," the country changed its name to Myanmar in 1989. It is a derivative of the Burmese short-form name *Myanma Naingngandaw.* It is a sovereign country with a nominally civilian parliamentary government since 2011. It remains an authoritarian country dominated by the military, which has held sole power since 1962. The head of state is a civilian president who has two vice presidents. The president is elected by the parliament from among three vice presidents; the upper house, the lower house, and military members of the parliament each nominate one vice president. The president serves a 5-year term. The cabinet is appointed by the president and confirmed by the parliament.

The legislative branch is bicameral and power is shared by, House of Nationalities (*Amyotha Hluttaw*), which has 224 seats, 168 directly elected and 56 appointed by the military; and the house of representatives (*Pythu Hluttaw*), which has 440 seats, 330 directly elected and 110 appointed by the military. Members of both houses serve 5-year terms. Elections were last held on November 7, 2010, and the next elections are to be held in December 2015.[5]

The judicial branch is based on the British-era legal system with a Supreme Court, a Court-Martial, and a Constitutional Tribunal in place. The judiciary is not fully independent of the executive. Until the end of January 2011, there was no formal separation of powers.

Myanmar administrative divisions

Source: Adapted from Wikipedia Commons. (2013). Retrieved January 12, 2013, from http://commons.wikimedia.org/wiki/File:Burma_Administrative_Divisions_2007.jpg

Myanmar is divided into 21 administrative subdivisions, which include seven states (*pyi ne*), seven regions (*taing detha gyi*), five self-administered zones, and one self-administered division. Administrative control by the central government is exercised through a system of subordinate executive bodies headed by chief ministers. See the preceding map.

Myanmar has been consistently rated at low levels on personal and political freedom indexes. It has 10 legally registered political parties. The USDA is the pro-government socio-political organization with 24 million members. The main opposition party is the NLD led by Aung San Suu Kyi. Relations with the West remain contentious but are thawing rapidly. 2012 saw the United States and the EU engaging Myanmar directly with visits to each other at the highest level and the reopening of consular offices. Myanmar's ties with its neighbors have also been strengthened since it became a member of ASEAN. It will assume chairmanship of the ASEAN community in 2014. China and India too have strengthened their political and economic ties with Myanmar.[6]

Economic System

Myanmar is working toward establishing a free market economy but is not there yet. After independence, as a reaction to years of colonization, the country adopted central planning, which resulted in a severe decline of the economy. From being one of the wealthiest rice, teak, mineral, and oil exporting nation, it experienced severe inflation. The subsequent military coup of 1962 saw further deterioration of the economy as Myanmar adopted the "Burmese Way to Socialism." Industries were nationalized and the state owned all sectors of the economy, leaving only agriculture to the masses. By 1987, Myanmar figured in the United Nation's list of least developed countries (LDCs). The country has suffered mismanagement of resources, low productivity, high inflation, large budget deficits, an overvalued currency, total government control of financial institutions, little room for private enterprise, poor infrastructure, and rampant corruption. Poverty in 2007 was reported to be 32.7%.[7] In 2010, the United Nations Development Program (UNDP) reported that poverty in Burma stood at 25% having fallen by 6% since 2005. Poverty incidence in rural areas is twice as high as in urban areas.[8]

In 1988, the government changed track and began opening the economy to expand the private sector encouraging foreign investment and participation in some sectors. Progress has been slow but increased trade with regional neighbors, fellow ASEAN nations, India, and China has resulted. There exists a large informal economy, which includes trade in currency and commodities. Myanmar has immense natural resources but the economy remains essentially agro-based. About 38% of its GDP (Figure 1.1) is derived from rice and other crops such as sesame, groundnuts and sugarcane, livestock and fisheries, and forestry. Myanmar has one of the largest teak reserves in the world. It is also is a net exporter of oil and natural gas and has major confirmed deposits. It has the 10th largest natural gas reserves in the world and the 7th largest in Asia. Precious stones are also abundant—90% of the world's rubies come from Myanmar. It also produces large amounts of sapphires, pearls, and jade, and these are exported mainly across the border to Thailand. A large illicit cross-border trade exists as Western sanctions have not allowed major jewelry companies to import gems from Myanmar.

Manufacturing remains a small component of the economy, just around 19.3% in 2012. Food processing, mining (copper, tin, tungsten, and gems), cement, fertilizer, oil and natural gas production, and garments are the principle industries. The currency, the *Kyat,* remains fragile though it has been stabilized since 2012. A dual exchange rate existed and

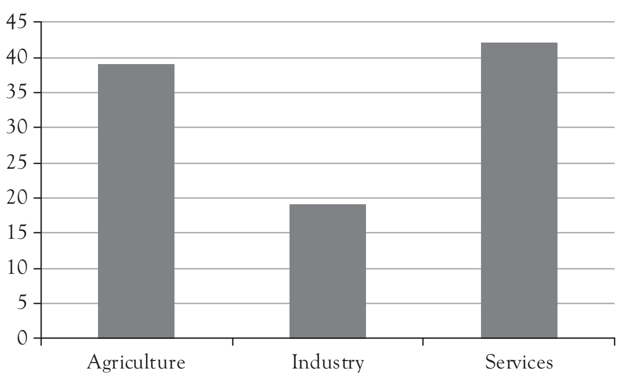


Figure 1.1 GDP by sector in Myanmar

Source: Adapted from Central Intelligence Agency. (2013). *The World Factbook, 2013 (data compiled from The World Factbook, 2013)*. Retrieved February 18, 2013, from https://www.cia.gov/library/publications/the-world-factbook/geos/bm.html as such inflation was a serious problem, estimated to be 5% in 2011, 7% in 2009, down from 22% in 2008, and 33% in 2007. In 2012, it was down to 3.1%.[9] Myanmar has not received any loans from the World Bank (WB) since 1987 or any assistance from the International Monetary Fund (IMF) though it is a member of both institutions. All this changed recently and relations have been established with the WB and work is in progress for infrastructure loans to be made. It has been a member of the Asian Development Bank (ADB) since 1973 but has received no assistance in over 20 years. In 2012, Burma reestablished its relations with the ADB and is now well under way to benefit from its services. In 2013, the ADB granted $512 million and the WB approved a credit of $440 million for social and economic development of the country. The ADB's loan to Myanmar was the first credit approved in almost 30 years and the WB's lending was after a gap of 25 years.[10]

Liberalization of the economy is a work in progress. Production controls in agriculture have been removed. Privatization of state-owned enterprises is taking place. Over 100 state-owned companies were up for sale in 2010. The government reports that in 2009 it sold 260 state-owned buildings, factories, and land plots. In 2011, private banks were allowed to trade in foreign currency and subsequently in 2012, the national currency the *kyat* was floated by the Central Bank of Myanmar. In mid-2013, the Kyat's exchange rate floated at around 983 MMK (kyat) to $1.[11]

In 2012, the president approved the foreign investment law (FIL) and this launched the new phase of development of the country. Foreign investment from China, South Korea, India, and ASEAN countries, including Singapore, Malaysia, and Thailand had already begun earlier but now a race has started for Western capital to begin flowing in. The energy sector and mining (including natural gas and power generation) and timber and mining were already of interest to foreign investors. Tourism has now grown and infrastructure is being developed with participation from international investors. New industrial zones are being developed. Myanmar is an active participant and member of the Greater Mekong Subregion Economic Cooperation Program (GMS Program) together with Cambodia, China, Laos, Thailand, and Vietnam; as well as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic

Cooperation (BIMSTEC) with Bangladesh, Bhutan, India, Nepal, Sri Lanka, and Thailand. The Shwe Gas Project in the Bay of Bengal is a consortium of KOGAS (Korea), which has 51% stake, ONGC (India), GAIL (India), and the Myanmar state oil company. The government has signed a contract to sell production to China, which is building a pipeline connecting the gas field to China.

Myanmar has the highest hydropower potential in Southeast Asia and the government has set the goal of generating all electricity from hydropower by 2030. There are over 36 hydropower plants under construction. China has invested $200 million of the $600 million cost and helped in the construction of the largest hydropower project in Ye Village. Another large project under construction is the Ta Sang project, which involves the building of a dam on the Salween River in the northeast of the country. This is a joint venture (JV) with a Thai company MDX Group, and the project is scheduled to be completed by 2022 with the electricity produced to be sold to Thailand. In return, Myanmar will receive an amount of free power.

Myanmar's chief trading partners are Thailand, China, India, Singapore, Japan, Malaysia, and Indonesia (Figure 1.2). It has border

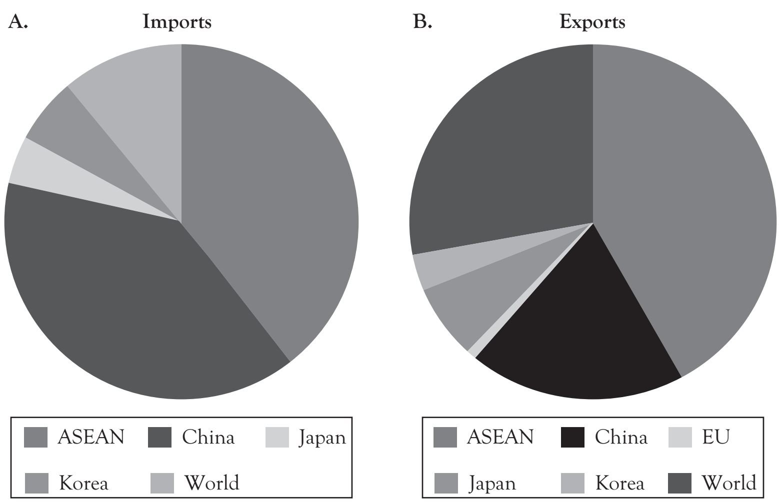


Figure 1.2 Major trading partners of Myanmar

Source: Adapted from Asian Development Bank. (2012a). Retrieved February 18, 2013, from http://www.adb.org/Documents/Books/Key_Indicators/2012/pdf/MYA.pdf trade agreements with China, India, Bangladesh, Thailand, and Laos. Several Memoranda of Understanding have been signed with these countries to expand bilateral trade. Myanmar has remained isolated from much of the Western world and sanctions were imposed by the United States, European Union, Australia, and Canada.

Only in the last 2 years, Western powers have lifted most sanctions and established affirmative trade and investment policies with the country. On April 23, 2012, the EU suspended all sanctions except the arms embargo, which remains in place. The EU also made clear in a statement that responsible investment in Burma by EU companies was now welcome. On July 11, 2012, the U.S. government eased restrictions to broadly authorize the exportation of financial services and to allow U.S. companies to responsibly do business in Burma. Subsequently, on November 16, 2012, the administration took another step toward normalizing economic relationship with Burma by issuing a directive to broadly authorize the importation of Burmese-origin goods, except jadeite and rubies, into the United States for the first time in almost a decade. On February 22, 2013, authorization was granted to U.S. persons to conduct most transactions—including opening and maintaining accounts and conducting a range of other financial services—with four of Burma's major financial institutions: Asia Green Development Bank, Ayeyarwady Bank, Myanmar Economic Bank, and Myanmar Investment and Commercial Bank.[12] The United States and Burma signed a Trade and Investment Framework Agreement (TIFA) on May 21, 2013, creating a platform for ongoing dialogue and cooperation on trade and investment issues between the two governments. The EU later granted Myanmar a preferential trade regime, which grants duty-free and quota-free access to the European market for all products except for arms and ammunition.

Myanmar is gradually embracing wide-ranging reforms as the government attempts to remove structural impediments and improve monetary and fiscal management to facilitate trade and foreign direct investment (FDI). The country reported impressive GDP growth rates, averaging 10.2% from 1992 through 2000 and 12.2% from 2000 to 2010, though these figures seem overstated. The IMF "Article IV Mission" of January 2012 estimated GDP growth to average 4.6% (2000–2010) and picking up to exceed 5% between 2009 and 2010. The GDP at purchasing power parity (PPP)

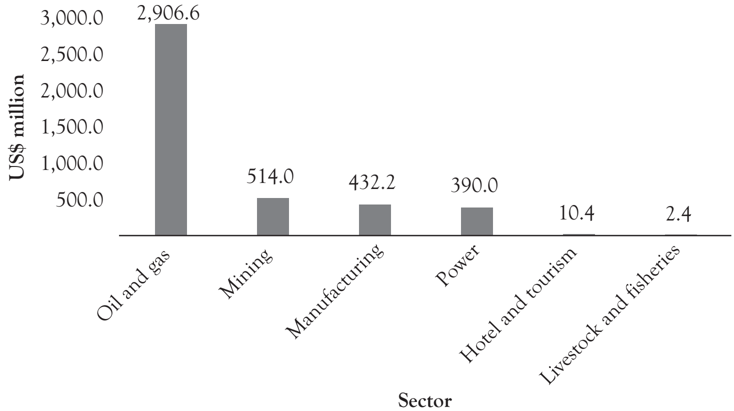


Figure 1.3 FDI inflows by sectors (2005–2010)

Source: Adapted from ADB (2012b). *Myanmar in transition: Opportunities and challenges*. Retrieved January 2, 2013, from http://www.adb.org/publications/myanmar-transition-opportunities-and-challenges

was estimated to be $89.23 billion in 2012 and ranked 77 in the world. The GDP real growth rate in 2012 was estimated to be 6.2%, 39th in the world, and the GDP per capita at PPP in 2012 was $1,400—which ranked 205th in the world.[13]

The near-term outlook for Myanmar's economy is relatively upbeat on the back of strong export earnings from resource commodities as well as FDI inflows (Figures 1.3 and Table 1.1). The ADB forecasts GDP growth for Myanmar to grow by 6.0% in 2012 and 6.3% in 2013. The ADB also expects Myanmar's economic performance to exceed expectations, provided development follows the regional pattern to about 7% to 8% every year for an extended period. GDP per capita would reach $2,000 to $3,000 by 2030—more than three times the current level—propelling Myanmar safely into the ranks of middle-income countries.[14]

Legal System

The legal system is rooted in British law, so it is founded on precedence based on common and civil law. The country does not accept jurisdiction of the International Court of Justice (ICJ). Under the *Judiciary Law of 2000*, the Supreme Court is the highest judicial body and is the court of last appeal. Below it are State or Divisional Courts, District Courts,

Table 1.1 Top 10 FDI inflows by countries (2012)

Permitted Enterprises				
Rank	*Country*	*No. of projects*	*USD in million*	*%*
1	China	5	13,949	34.3
2	Thailand	61	9,568	23.5
3	Hong Kong	38	6,308	15.5
4	Republic of Korea	49	2,941	7.2
5	United Kingdom	52	2,760	6.8
6	Singapore	72	1,804	4.4
7	Malaysia	41	1,027	2.5
8	France	2	469	1.2
9	United States	15	244	0.6
10	Indonesia	12	241	0.6

Source: Adapted from Myanmar Business Guide (2012). Retrieved July 23, 2013, from http://www.pwc.com/sg/en/assets/document/myanmar_business_guide.pdf

and Township Courts. Judges and Magistrates are appointed by the government. This being the case, it can be concluded that the judiciary is not independent. In reality, a dual system "rule by law" and rule of the "social and traditional practices" exists today. Social norms and traditional practices are left to be dealt by village headmen and abbots of Buddhist monasteries throughout the country.

In 2010, the Union Judiciary Law was enacted, which adopted the present Judicial System under the Constitution of the Republic of the Union of Myanmar 2008. It lists several fundamental rights, including various protections against discrimination; rights to education and health care; language and other cultural rights; prohibitions on enslavement, people trafficking and forced labor; freedom of movement; rights to property and privacy; a right to vote and stand in elections; and freedoms of expression, association and belief. Myanmar court decisions interpret laws with respect to prior case precedent according to the principle of *stare decisis*. Where there is no codified law, the courts have the discretion to apply Myanmar general law based on English common law as interpreted by Myanmar case precedent.

Myanmar's new law of foreign investment regime (2012 FIL) was finally signed by the president on November 3, 2012, creating a practical framework to match the government's policy of welcoming foreign investment.[15] By and large, investment with 100% foreign ownership is permitted for the vast majority of business activities, including telecommunications, power generation, services, infrastructure projects, agriculture, hospitality, and nonfood manufacturing. Retail and wholesale activities have been opened to foreign investment as well, subject to certain conditions. A relatively limited number of activities require a local partner such as food production, beverage production, plastics and certain chemical industries, mining and real estate development. However, even for those restricted sectors, foreign investors may hold up to 80% of the shares. The subsequent Notification November 2013, strengthens the land use rights by foreign-invested companies, including the possibility to lease land from anyone, and to take security on land and buildings. It has also made it easier to remit foreign currency overseas. Oil and gas exploration, development and production are allowed for foreign oil companies under a Production Sharing Contract (PSC) with the Myanma Oil and Gas Enterprise (MOGE). Blocks are awarded through an open and competitive bidding process. Gas-fired power plants are usually structured as a Build–Operate–Transfer (BOT) regime in Myanmar, where a foreign investor can own 100% of the Myanmar entity that concludes the BOT with the government. It is now possible to lease land from anyone, and to take security on land and buildings. A JV is, as a rule, required for development of most types of property, including buildings, condominiums, apartments, offices, and commercial space.[16]

The State-Owned Economic Enterprises Law of 1989 remains still in effect. Only state-owned enterprises have the sole right to carry out economic activities in the following areas: extraction of teak and sale of the same in the country and abroad; cultivation and conservation of forest plantations, with the exception of village-owned firewood plantations cultivated by the villagers for their personal use; exploration, extraction, sale, and production of petroleum and natural gas; exploration, extraction, and export of pearls, jade, and precious stones; breeding and production of fish and prawns in fisheries that have been reserved for research by the government; postal and telecommunications services; air transport and railway transport services; banking and insurance services; broadcasting and television services; exploration, extraction, and exports of metals; electricity generating services, other than those permitted by law to private and cooperative electricity generating services; and manufacturing of products relating to security and defense. However, the Myanmar Investment Commission (MIC) can make exceptions to this law and has routinely done so.[17]

Unions have not been allowed to operate in Burma since 1962. Workers in Burma are now allowed to form unions and go on strike under a new law (Labor Organization Law) signed in 2011, which became effective in March 2012. The law permits unions with a minimum of 30 members to be formed and allows strikes, if a notice period is given. Myanmar has yet to become a party to most of the world's governing human rights instruments, including the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

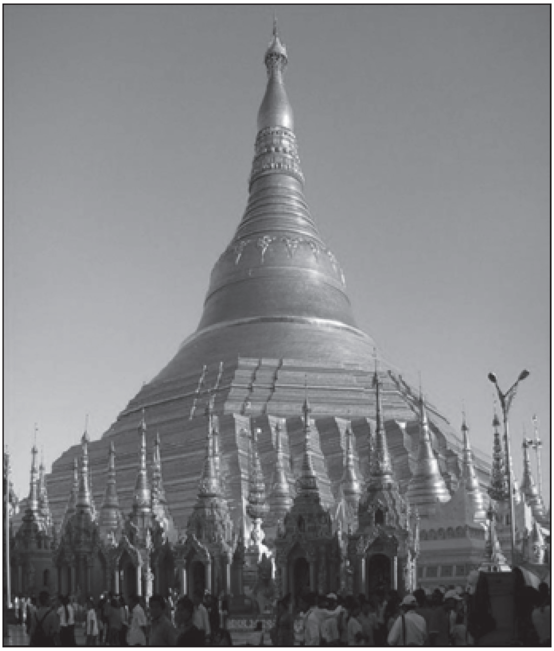
Myanmar is overhauling its intellectual property (IP) regime. Existing rights are based on British law, including the Copyright Act 1911 and common law passing off. During the years of the U.S. and EU embargo, many foreign businesses were not permitted to retain Myanmar legal counsel beyond the registration and protection of their trademarks. However, there was little local experience in the absence of a trademark law and protection was limited to the filing of a declaration of ownership under the Registration Act, which was taken to be prima facie evidence of ownership. As a member of the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO), Myanmar is now looking at revamping its IP laws and is specifically considering introducing a substantive trademark law. It is likely that there will be some grace period for marks "registered" under the existing system but new applications will eventually be necessary. Foreign businesses should begin taking appropriate measures to review their trademark portfolios and be aware of the risks of pre-emptive hijacking of marks by third parties under the new system.

Myanmar is party to several bilateral and multilateral investment treaties, including the ASEAN–Australia–New Zealand Free Trade Area (AANZFTA), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which aims to establish a free trade area by 2017 among Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand, and bilateral investment agreements with countries such as China, India, Kuwait, Laos, the Philippines, Thailand, and Vietnam. Myanmar's market access commitments, under some of these agreements, permit favorable treatment for investors from the relevant member country in service sectors such as construction, software development, and information technology (IT) services, accounting services, transport-related services, and warehousing.

Myanmar: Socio-Cultural Environment

The name "Burma" is the Anglo version of Myanmar and rooted in the *Bamar* or *Burman* people, who form the majority ethnic grouping making up 65% to 70% of the country's population. The remaining consists of minority ethnic groups such as Shan, Karen, Kareni, Rohingya, Arkenese, Kachin, Chin, Mon, Palaung, Parauk, Wa, and Yangbye. They speak their own languages. There are around 111 spoken languages in Myanmar. The official language and the most spoken language is Burmese. The other non-Burmese languages spoken most are Shan, Karen, Indian (Hindi, Urdu, Tamil, and Bengali), and Chinese (Mandarin, Fujian, and Cantonese). English is often spoken in business, government, and tourist circles. The Burman language is derived from Tibetan and Chinese languages and goes back a thousand years. The written script in based on the Mon and is related to South Indian scripts. Ninety percent of the people practice Theravada Buddhism. Minority religions include Christianity (4%), Islam (4%), and traditional animism (1%). The Constitution of 2008 protects the right of individuals to practice their own religion.

Myanmar culture is deeply rooted in Buddhism and has been adapted to local traditions and practices. The people take pride in their heritage and look back to the golden age of their history for inspiration. Central to Buddhism is the belief in *karma* where one endeavors to complete the cycle of births and deaths (reincarnation) by doing good deeds and living purely. Temples and monasteries, festivals, and rituals are the central part of village and even city life. Buddhist monks are venerated and supported fully by lay people. All Buddhist boys must become novice monks before the age of 20 years and a full-fledged monk after that. The duration of monkhood is flexible and left to individuals. It can be as little as 1 week. The entering of a monastery is a major event in the life of males and marked with a ceremony, *shinbyu* (coming of age). For girls it is the ear-piercing ceremony. Some important cultural events in the Myanmar calendar are the New Year *Thingyan* (Water Festival), which is celebrated over 3 to 4 days in April; the *Kasone* in May celebrating the Buddha's birth, enlightenment, and death; and the *Thadingyut* (Festival of Lights) usually in October to mark the descent of the Buddha from the abode of the *devas* (higher beings or gods). Superstitions abound in the rural areas and people consult astrologers and palmists for help in making decisions related to marriage, business ventures, and naming a newborn. Luck plays a major role in individual lives and *yadaya* (meritorious deeds) are performed to create luck. These may be in the form of setting birds or animals free, performing acts of charity, or contributing to communal projects.



Pagoda in Yangon, Myanmar

Source: Adapted from Wikipedia. (2013d). Retrieved August 5, 2013, from http://en.wikipedia.org/wiki/File:Shwedagon-Pano.jpg

Myanmar is a traditional society. The family is the central institution of daily life irrespective of religion, language, or ethnicity. Typically in a patriarchal system, the father is the head of the family. There are no family names. Women retain their names even after marriage. Elders are much respected and an honorific is used in addressing different age groups and genders. Older males receive a prefix of *U* (pronounced oo) and females the prefix of *Daw.* For young adults, the prefixes of *Ko* (for males) and *Ma* (for females) apply. The very young are referred to as *Maung* (male) and *Ma* (female). Children are valued immensely and referred to as *Yadana,* a treasure. Music and dance are integral to social life. As in other Buddhist countries, the monastery remains the center of cultural life in Myanmar.[18]

Myanmar: Business Culture and Intricacies

Myanmar is only now opening up to private enterprises and still does business the traditional way. Very few are exposed to dealing with foreigners. The work week in Myanmar follows the system left from British times: 5 or 6 days a week from 9 a.m. to 5 p.m. and Saturdays may be half-days, but in application it is not uniform. Most private and government offices close on Saturdays but shops may be open all week. Government employees arrive at their desks around 10 a.m. As in most traditional Southeast Asian societies, time is approached in a rather flexible manner. Hurrying is not considered a worthwhile pursuit or trait. Foreigners, however, are expected to be on time for meetings. Business suits are a norm for official meetings and contract signing ceremonies. The traditional Burmese greeting is *Mingalar Bar,* which translates to "wishing good tidings to you."

Proper titles are used when addressing each other. When addressing an older male, the prefix *U* is used. Thus, Mr. Thant becomes *U Thant*. When addressing an older female or a female official, address her with *Daw* in front of her name. When talking to a male of the same age and social status, one should put *Ko* in front of his name such as *Ko Mya*. If it is a female of the same age, use *Ma* instead. To address a younger male, one can either use *Ko* or *Maung.* When addressing a female of younger age, use *Ma.* To address children, use *Maung* for a boy and *Ma* for a girl. One can also use pronouns when talking to Myanmar people. When talking with an elderly person, call him *Oo* or *Oo Lay*, which laterally mean uncle. To call an elderly person, use *A Ba* or if he is a very senior person, use *A Phoe,* meaning grandfather. To call an older woman, use *A Daw* (aunt). For an elderly woman, use *A Phwar* (grandmother). To call another person of the same age, you can simply use his name. If he is slightly older call him *A Ko* (elder brother). If he is younger, call him *Nyi Lay* (younger brother). For a woman who is only a few years older than you, use *A Ma* (elder sister), and for a younger one, *Nyi Ma* (younger sister). Myanmar people use *Sayar* (teacher) to address a government official or one who is superior at work.

It is customary to give and receive business cards at first meetings. Myanmar culture is considered to be a soft culture in that their approach is nonaggressive. People are very respectful in their behavior toward elders and guests. Business is done on a personal basis. Relationships count for a lot. They are very conservative, in line with Buddhist practices. Public display of affection even among married couples is rarely seen. Maintaining face is very important in Myanmar, as is the case for most ASEAN countries. Receiving and granting of favors is common practice, so be prepared to reciprocate for all favors received. Gifts are not required but often exchanged especially when dealing with government officials. Sharp instruments, such as knives, and black colored gifts are taboo. People generally remove their footwear when entering homes or offices.

Business organizations are hierarchal. People are hardworking and loyal to their employers. In turn, they expect to be treated fairly. The employer is treated with reverence like a father figure and is expected to join employees during festive and tragic occasions and to help them out in times of difficulty. Births, engagements, and marriages are considered to be auspicious occasions or *tha ye,* while sickness and death fall into *nga ye* or sad occasions. Age plays an important role in the workplace and a younger person placed in a supervisory role may be uncomfortable with older subordinates. Communications tend to be indirect especially if a negative message is to be conveyed. A lengthy period of time may be spent socializing and exchanging pleasantries before business is discussed. Relationship building is paramount in business ventures.[19]

CHAPTER 2

Business Potential and Markets

Foreign investment is crucial for Myanmar's economic growth and development. Myanmar has begun the steps to rationalize its economy and badly needs both investment and expertise to sustain the process. It is opening itself to international trade. McKinsey, in its June 2013, assessment of the country, notes that "Myanmar would benefit all it can to allow foreign companies to invest in the country and to facilitate that investment to support strong and sustained growth."[1]

The country needs external investment capital to fund and build infrastructure as well as to acquire essential technology. It also needs to develop its human capital. Myanmar has been overly reliant on agriculture in the past. Emerging economies typically shift from agriculture to manufacturing to service sectors. Foreign investment has so far been concentrated in the oil and gas, hydropower, mining, and other extractive industries, with France, South Korea, Thailand, and most notably China leading the way.

The volume of FDI into Myanmar grew massively in 2012, as political and economic reforms coupled with improving international relations seemed to transform the country's investment environment. Project numbers increased from 10 to 54 and the country also saw significant increases in capital investment (151.94%) and job creation from FDI (157.20%)[2]. In the fiscal year ending in April 2013, Myanmar attracted $1.419 billion in FDI, an almost fivefold increase over the previous fiscal year. China, Hong Kong, Japan, South Korea, and Singapore were top contributors to that figure. FDI is expected to grow even more now that sanctions by the United States and European Union have been eased and removed.

This chapter outlines the various markets and openings made available to investors and businesses under the new foreign investment law (FIL).

It details the numerous growing sectors in Myanmar's economy, including manufacturing, industrial zones, construction, transportation, ports, housing, energy, mining, telecommunications, education, banking and insurance, and tourism.

Burma Opens: Incentives and Requirements for Foreign Investors

A New York Times, June 2013, story is illustrative of the changes that have taken place in Myanmar and startled the world. "Look, listen, learn—and leave" was the catchphrase that described trips to Burma by executives who saw firsthand the lack of electricity, terrible roads, eager but very uneducated workforce, and overwhelmed government officials. Now, 2 years after the country's civilian government came to power, the country appears to be moving into another stretch of its journey from military dictatorship to democratic economy. "Flirtations by foreign investors are turning into commitments, vague promises into dollars." Some of the world's most prominent multinational companies—Coca-Cola, Unilever, General Electric, Phillips, and Visa—have started doing business in the country.[3]

The greatest change has been the passing of a new FIL by Myanmar on November 3, 2012. The "2013 Investment Climate Statement—Burma" by the U.S. State Department's Bureau of Economic and Business Affairs (BEBA) declared that "most observers view the new law as a positive, pro-business step in the right direction, especially when compared to earlier protectionist versions of the law which had emerged in 2012."[4]

The FIL permits 100% ownership and restricts foreign investment in only a limited number of sectors, such as small and medium businesses, that can only be operated by a Burmese national. The new law does away with requirement of a minimum capital investment of $500,000. The FIL has no minimum capital requirement for foreign ownership. Investment is prohibited in the following "restricted" sectors: defense, the administration of electric power, small- or medium-scale mineral production, and Myanmar language publishing and media. The FIL also prohibits investment in certain specified areas such as activities that affect culture and ethnic traditions, agricultural farming, businesses that use hazardous chemicals, and in activities that can affect public health or can cause damage to the environment. Investment in "sensitive" sectors is limited to 80% equity with JV partners. They include food and agricultural activities, infrastructure development and construction, residential and commercial development, and air transport services. Individual ownership requirements can be established by the Myanmar Investment Commission (MIC), which "in the interest of the State" can make exceptions. In the past, the MIC has routinely granted numerous exceptions including through JVs or special licenses in the areas of banking (for domestic investors only), mining, petroleum, and natural gas extraction, telecommunications, radio and television broadcasting, and air transport services.

The foreign investment process has been simplified to three steps:

1. Obtaining an investment permit from the MIC
2. Obtaining a "Permit to Trade" from the Directorate of Investment and Company Administration (DICA)
3. Completing the registration of the establishment of the company with the Companies Registration Office

Investment approvals are made on a case-by-case basis. Once licensed, foreign firms may register their companies locally, use their permits to obtain resident visas, lease cars and real estate, and obtain new import and export licenses from the Ministry of Commerce. The FIL aims to provide investors with security of tenure, protection against state expropriation, and a means to enforce the terms of their agreements with local partners. According to Article 28 of the FIL, foreign investments approved by the MIC will not be nationalized during the term of their investment. In addition, the law guarantees that the Government of Myanmar (GoM) will not suspend or terminate an investment enterprise without reasonable cause, and on expiry of the contract, the GoM guarantees an investor the withdrawal of foreign capital in the foreign currency in which the investment was made. There is provision for the repatriation of profits and invested funds on an ongoing basis, subject to payment of taxes and creditors. Commercial contracts are also allowed to stipulate dispute resolution procedures.

The new FIL (Article 18) also appears to allow an investor to challenge a decision of the MIC in the event of denial of the application or the issuance of an approval adverse to the interest of a foreign investor under Myanmar law.[5] According to Article 43 of the FIL, when disputes cannot be settled amicably between the parties concerned, the dispute should be settled according to the provisions of the contract or in accordance with Burmese law if the contract contains no dispute settlement provisions. On March 6, 2013, the GoM also signed the Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958, better known as the *New York Convention*, which allows for more effective enforcement in Myanmar of arbitral awards made in signatory countries and provides foreign investors with needed confidence that contractual terms can be enforced in Myanmar.

As an alternative way of investing in Myanmar, foreign investors can still establish service and manufacturing companies solely under the Myanmar Companies Act (1913) and need not apply for an investment permit. Such companies will not be entitled to preferential tax treatment or the specific protections offered under the new FIL. Minimum share capital requirement for service companies is $50,000 and for manufacturing companies it is $150,000, down from $300,000 and $500,000, respectively. The new law also permits JV partners in nonsensitive sectors to determine their respective equity contributions at their own discretion. Foreign ownership in sensitive sectors is now capped at 80%. Under the previous law, a foreign investor had to contribute no less than 35% of the capital of the joint venture.[6]

Though no minimal capital requirements for a foreign investment project have been set, the MIC (Article 37) will consider the proposed amount of the capital investment in assessing the overall feasibility of the application. Certain activities require more capital under the Foreign Investment Rules, such as retail trading, which will be permitted from 2015, but will be subject to a minimum investment of $3 million.

As of January 1, 2012, the government no longer taxes overseas remittances. According to the new law, foreign investors have the right of remittance of foreign currency. Foreign investors are allowed to remit foreign currency overseas through banks, which are authorized to conduct foreign banking business at the prevailing exchange rate. The top income and corporate tax rates are 30%. Newly established foreign-invested companies may apply for a tax holiday for up to 5 years under the new FIL.

Export enterprises may be granted a 50% tax relief on profits made from exported goods. Losses incurred within the first 2 years after the expiry of the tax-exemption period may be carried forward for up to 3 years. Greater tax incentives are allowed for investments in infrastructure development and the creation of special economic zones (SEZs) such as the 5 years of tax holiday and greater flexibility on exemptions and reliefs on income tax.

According to Article 27 of the FIL, in order to promote foreign investment the GoM will grant new investors a 5-year tax holiday with an option for further exemption if the enterprise is "beneficial to the State." The FIL also details several other exemptions and reliefs such as a 3-year exemption on custom duties and the relief from commercial tax for goods produced for export. In addition, Article 27 (j) grants an exemption from customs duty or other internal taxes for any machinery or equipment, or materials imported in order to expand the business. Any enterprise operating under the FIL or the Myanmar Companies Act must pay income tax at a 25% tax rate effective from April 1, 2012. Withholding tax on royalties and interest is 15% for resident foreigners and 20% for nonresident foreigners. Tax collection in Burma is, in practice, extremely lax, but foreign investors are an easy target for cash-strapped tax authorities. The Burmese fiscal year ends March 31; tax returns are due by June 30.

By law, foreigners may not purchase and own land or condominiums in Burma, and—until September 2011—could only rent property on a short-term basis, with leases typically limited to 1 year. However, according to Article 31 of the new FIL, foreign investors may, depending on the type and value of investment, lease land for a period of up to 50 years and renew it for a further two 10-year periods. Longer leases may be granted by the government. It is important to stress that the foreign entity must first obtain permission from the MIC in order to lease land in Burma. In addition, a private entity can establish, buy, sell, and own a business only with the review and approval of the MIC.[7]

In addition to the 19 "industrial zones" that surround Yangon, Mandalay, and other cities (and where no investment incentives are offered) there are three SEZs in Myanmar. The first is Dawei in Tanintharyi Division and the second at Kyauk Phyu off the western coast of Rakhine State. Both are being developed as deep-sea ports. The third is the Thilawa SEZ on the outskirts of Rangoon, which already hosts port facilities that can accommodate larger vessels and container throughput than can the inner ports of Rangoon.

Burma enacted a SEZ law in January 2011. The SEZ law includes the following incentives for investors:[8]

1. Investors may apply for income tax exemption on the proceeds of export sales for the first 5 years from the day of commencement of production or service.
2. Investors may apply for 50% relief on income tax rate stipulated under existing law for the second 5 years on proceeds from export sales.
3. For the third 5-year period, if the profits obtained from export sales are reinvested, the investor may apply for 50% relief on the income tax rate stipulated under existing law on the invested profits.

With respect to the workforce needs, new foreign investment funded enterprises must hire Burmese citizens making them 25% of their total skilled employees by the first 2 years of operation, 50% by the subsequent 2 years, and 75% by the third 2-year period. However, the law (Article 24) grants the MIC power to extend the time limit to employ Burmese workers for "knowledge-based business." Only Myanmar citizens may fill unskilled positions.

In supporting the Burmese government's ongoing reform efforts, the U.S. government announced on May 23, 2013, a *Reporting Requirements on Responsible Investment* in Burma. This is based on the understanding that "participation of U.S. businesses in Burma's economy can be a model for responsible investment and business operations, supporting further positive change, promoting inclusive economic development, and contributing to the welfare of the Burmese people."[9] American companies investing in Myanmar must detail in public reports the steps they have taken to respect human and labor rights, to protect the environment, and to avoid corruption. The reporting requirement represents a novel and somewhat controversial effort by the administration to shape business practices in an emerging economy that has embarked on a remarkable opening. The requirements apply to any company investing more than

$500,000, and to all investments with the country's state energy monopoly, Myanma Oil and Gas Enterprise. In addition to ensuring the rights of workers and providing protection for the environment, the companies must report any payment exceeding $10,000 to government agencies or officials, any contact with Myanmar's military, arrangements with private security companies, and the details of any purchase of land or real property. U.S. companies are required to submit their reports within 180 days of reaching the threshold and by July each year thereafter. The reports will be made public on the website of the newly reopened American Embassy in Yangon (Rangoon). Companies can also separately submit to the State Department a report with any privileged competitive information that will not be made public. While there are no explicit penalties for not reporting, the State Department expects that most companies will comply to avoid public criticism from advocates for human rights and the environment who are closely watching Myanmar's political and economic opening.[10]

The MIC is committed to handling applications expeditiously. It will constitute an inter-departmental team to assist in reviews of investment proposals. Its Application Committee will meet weekly to consider the investment proposals put forward in the preceding week. While local government will be provided an opportunity to give input on the proposals, their comments must be made within a week of the MIC's requests for participation. The U.S. Association of Corporate Counsel (ACC) reported in March 2013, that since the passing and implementation of the FIL, the MIC has approved several investment applications in the areas of manufacturing, infrastructure, and some general services. The restrictions listed in the Foreign Investment Rules are not complicated or onerous compared with jurisdictions of neighboring countries, such as China and Vietnam, that opened up to foreign investment in past years. "Myanmar may therefore take a number of steps at a time in providing a more level playing field for foreign investors in the country."[11]

Manufacturing

Myanmar's economy has been predominately agrarian. However, agriculture's share of contribution to the GDP has decreased significantly from

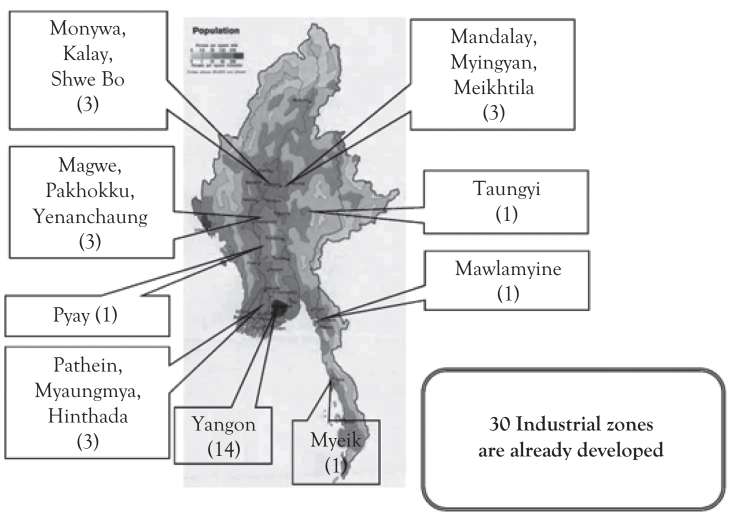
63% in 1994 to 36% in 2010.[12] It used to rank as the world's top rice exporter before it collapsed into military mismanagement in 1962.[13] The agricultural sector still remains the main sector providing employment to about 70% of the population.[14] Prior to 2000, the manufacturing sector remained a low key player in the economy's output, and was dominated mainly by the textile and apparel industry. This was due to the international sanctions imposed by the United States, European Union, and Canada, where imports from Myanmar were banned. The textile industry's exports to the and European Union halted for 10 years before reopening its trade privileges to Myanmar again under the EU's Generalized System of Preferences (GSP) in May 2013.[15] The industry accounted for 85% of Myanmar's exports, and the United States was the largest exporting country, which occupied 25% of the total exports prior to the ban.[16]

The removal of the import ban and direct investments in Myanmar by the United States and the and European Union in 2012 helped crystallize business decisions of many multinational corporations to enter into the manufacturing sector with local companies. A trade agreement was signed between the United States and Myanmar after President Obama's visit in May 2012. Most sanctions have been waived and it is not expected that there would be an annual renewal of the sanctions.[17] Renowned brand names like PepsiCo, Coca Cola, Caterpillar, Carlsberg, Ford Motors, and General Electric have established business presence via joint distribution with the local companies since then.

The rising labor cost in China, the manufacturing giant in the textile and apparel industry, propels companies to shift production to Myanmar, so as to take advantage of the cheaper wage rate, as compared to neighboring countries like Thailand, Cambodia, and Vietnam. Myanmar has 13 million people between the ages of 18 and 28 (40% of the total labor force is aged between 15 and 24 years). The adult literacy rate is 92%. In addition, Myanmar has the lowest monthly minimum wage of $32 (in effect it is more like $64).[18] In Thailand, the monthly wage for a factory worker is $358, in Vietnam $150, and in Cambodia $88. Wages are expected to rise in Myanmar in the near future, but wages are also rising in other Asian countries as well. China has already the third highest labor cost in Asia after Malaysia and Thailand. Some manufacturers are already looking to move their operations from Thailand to Myanmar.

Certainly, this is leading the influx of labor-intensive production streaming into Myanmar. However, the country is plagued by an unskilled labor force, which impedes productivity growth. The lack of infrastructure in terms of constant and reliable electricity supply poses operational challenges to potential investors who might be reluctant to set up production facilities despite the low labor cost. But all these challenges are potential opportunities for investment. Foreign investment is pivotal in helping alleviate Myanmar's economy by reaping rewards of investors' transforming the low-skilled workforce into a skilled one. Manufacturing certainly has greater potential for creating high-quality jobs. As such this sector is getting the maximum attention from the government in seeking foreign investment.

Myanmar has developed 30 industrial zones and is developing three SEZs in anticipation and preparation of the ensuing demand for manufacturing facilities. Myanmar's SEZ law was passed on January 27, 2011, to attract FDI into the country. It covers special economic zones, export processing zones, and sub-trading zones; providing tax exemptions and incentives to small-, medium-, and large-size foreign businesses operating within the zones. It allows ease of financial transactions within and outside the zones, as well as into and out of the country.



Myanmar industrial zones

Source: Adapted from ISIS Malaysia. (2012). Retrieved April 23, 2013, from http://www.isis.org.my/files/ISIS_FOCUS_2012/IF12/IF12_2012_I3.pdf

Myanmar has 12 border trade points linking to China (4), Thailand (4), India (2), and Bangladesh (2). Myanmar's border trade with Thailand, India, and China has impacted these countries' investment in the SEZs. Myanmar's total border trade amounted to $3 billion in 2011 serving a market size of 2.6 billion people located in Thailand, China, India, Bangladesh, and Laos. It has increased by 1.5-fold as compared to 2010. Based on 2009 trade figures, Myanmar–Thailand border trade was slightly above half a million.[19]

The Dawei deep-sea port, fully owned by Ital-Thai Development in Thailand, is the first SEZ project that will open up a new southeast border trade land between Myanmar and Thailand by 2018. Thailand is Myanmar's second largest border trading partner after China. The project aims to build six industrial zones, in port and heavy industry; oil and gas; upstream petrochemical complex; downstream petrochemical complex; medium and light industry.[20] Major trade partners, China, Japan, and India have disclosed intentions to participate in the Dawei project development in the form of infrastructure study and execution that would enhance their inter-border trade with Myanmar.

A memorandum of understanding (MOU) on the Thilawa SEZ project in southern Yangon area was signed and witnessed by the Japanese Prime Minister Shinzo Abe during his visit on May 25, 2013. The project is financed by Japanese consortium, Mitsubishi Corp., Marubeni Corp., and Sumitomo Corp., and over 200,000 jobs are expected to be added, upon the completion of the project. Its focus is on developing high-tech industries, and industries which are labor-intensive, for example, textiles, and will also include a deep-sea port. It will have two zones: on the one hand is a "free zone" and on the other hand a "promotion zone." The free zone aims to attract export-oriented foreign investors to allow the import of raw materials freely into the zone for exports. The promotion zone is a service center providing hospitals, schools, and residential areas equipped with supermarkets and amenities. In addition, it provides opportunities for domestic investors who are interested to render their services in this zone by way of tax levy.[21] This project is deemed more plausible due to its proximity to Myanmar's existing ports and Yangon International Airport.[22] The industrial estate will be an eco-friendly township for other cities to emulate.

The third SEZ is located at Kyaukpyu, in Rakhine State, off the coast of the Bay of Bengal. Currently, it is an export port for rice. The project covers construction of a deep-sea port, oil wharves, road transport terminals, upgrade of airports, residential and recreation areas, amounting to $2 billion in investment. The major project financed by the China National Petroleum Corporation is a construction of a gas and oil terminal with a pipeline that links Yunnan and other western cities in China with Myanmar. Completed in 2013, the pipeline transports gas from Myanmar and oil from the Middle East and Africa across Myanmar to China. It is multibillion dollar revenue for the Myanmar economy and will make Kyaukpyu, Asia's next largest petrochemical hub after Singapore. The development of the deep-sea port will cater for oil tankers and vessels, which are currently not able to dock in the existing Myanmar ports which are mostly river terminals, with shallow water. The advantage of the deep-sea port is its strategic location at the central western coast of Myanmar providing shorter transit time from China to India bypassing the Strait of Malacca, which has been by far one of the most important shipping lanes in the world. Consequently, it would enhance China–India and Association of Southeast Asian Nations (ASEAN) trade. The government plans to expand the airport by building a new passenger terminal.[23]

The success of Myanmar's industrialization is dependent on economic, socio-economic, and political variables. The government's ability to source financial assistance from international institutions, other governments, and big private investors is vital to make Myanmar the next newly industrialized country in the region. The process enables optimization of Myanmar's natural resources. It provides abundance of opportunities for trade and services in a nascent market eager to be part of a larger economy.

Construction

The outcome of industrialization is economic prosperity both for the country and its people. The isolation of the country for so many decades under military dictatorship has restricted the progress of the community and isolated it from the rest of the world. Urbanization has been slow and 70% of the population still lives in rural areas. Although national poverty has been reduced significantly, it is still prevalent and much work still has to be done. Based on the 2010 census figures, 25.6% or 16 million people are living below the poverty line. Of the total employed, 31% or 9 million people live under $1.25 (PPP) per day based on 2008 census figures.[24] The rural areas have twice the level of poverty as compared to the urban areas, particularly in the states of Chin and Rakhine. The Human Development Index (HDI) improved from 0.281 in 1980 to 0.498 in 2012, ranking Myanmar as 129th out of 186 countries measured. Myanmar's HDI is slightly above the low human development category but significantly lower than that of the East Asia and Pacific region. The three basic dimensions of HDI, health, education, and income have to be substantially improved by implementing national development policies, so as to alleviate poverty[25].

The National Comprehensive Development Plan (NCDP) documented a set of four 5-year plans over a period of time till 2030. The government announced in the opening of the first Myanmar Development Cooperation Forum at Myanmar International Convention on January 19, 2013, the following:

> The government will adopt a people-centered approach in line with the Framework for Economic and Social Reform (FESR) when reforming the 10 priority areas such as finance and revenue, relaxation of restrictions on trade and foreign investment, development of the private sector, education and health sectors, food security and development of the agricultural sector, transparency in government, the mobile phone and Internet systems, and development of the basic infrastructure.

The majority of the people in Myanmar live in rural areas, and only 30% of the population is urbanized (Figure 2.1). The rural population is mainly poor ethnic farmers, living in badly built huts with poor access to water and sanitation. Seventy-eight percent of the rural population is using an improved water drinking source (Figure 2.2), while only 73% has access to improved sanitation facilities.[26] Political instability entraps the rural dwellers who often have to be displaced due to military threats and the numerous civil wars being waged by the minorities. Industrialization

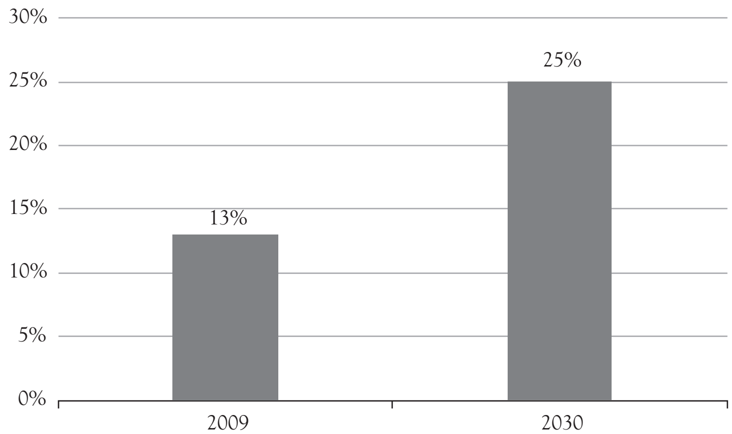


Figure 2.1 Myanmar's urban growth by 2030

Source: Adapted from McKinsey Global Institute. (2013). *Myanmar's moment: Unique opportunities, major challenges*. Retrieved July 23, 2013, from http://www.mckinsey.com/insights/asia-pacific/myanmars_momenthttp://www.pwc.com/sg/en/assets/document/myanmar_business_guide.pdf

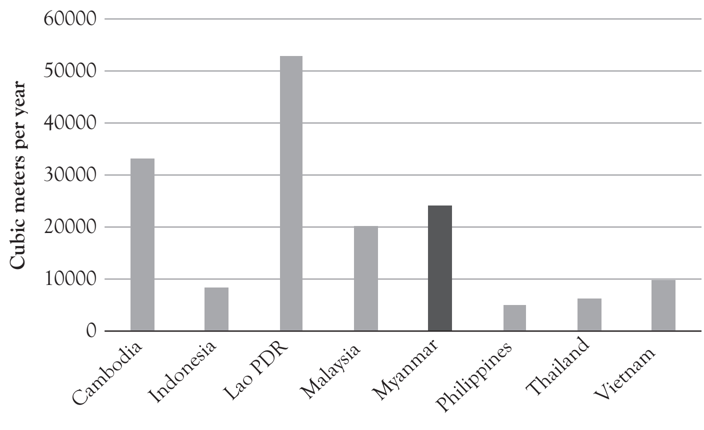


Figure 2.2 Total actual renewable water resources per habitant (2011)

Source: Adapted from FAO. (2013). *Aquastats database (data compiled from Aquastats database)*. Retrieved August 12, 2013, from http://www.fao.org/nr/water/aquastat/main/index.stm http://www.fao.org

of certain prime areas to build dams and economic zones has caused two-thirds of landowners from the rural area to lose their lands without adequate compensation (Center of Housing Rights and Evictions; COHRE). On a national level, 40% of households do not own land, and landownership is held by the State.[27]

However, the real estate industry is experiencing an economic boom and prices have soared particularly in the Yangon area, the international commercial hub of Myanmar. Affluent locals are moving away from the city and selling properties to foreigners who want to speculate on the real estate market since Myanmar reopened to investment. Private investment opportunities for the wealthy in Myanmar are limited to real estate, which is the cause of artificial price escalation in the Yangon area since 2011.[28] Foreign developers are seizing opportunities to renovate existing buildings and adding new ones to capitalize on the demand of the market as more direct investments are flowing into the country. There is a necessity to bridge the gap as commercial and residential properties are very limited in Myanmar when compared to Vietnam, Cambodia, and Thailand.[29] All these transactions are possible due to the amendment of the FIL in 2012. Prior to this, foreigners were only allowed to rent and sign short-term leases of up to 1 year.[30] The government plans to build 1 million houses nationwide over a period of 20 years.[31] In addition, the World Bank, IMF, and ADB are financially supporting the 30-year development plan, which includes property and industrial development.[32] A construction and housing development bank is opening in January 2014 to provide finance to low-income households to afford home ownership.[33]

Just as the property prices have skyrocketed since 2012 in the sellers' market, the cost of construction has increased accordingly and exacerbated the costs of building materials. Developers are given lands which are not conducive for housing projects (lack of infrastructure linkage of bridges or highways) and as a result are challenged to include auxiliary projects to make the housing development projects wholesome.

Many houses are shabby and in bad condition. Demolition of existing poorly constructed houses by squatters is necessary so as to make room for new housing developments. The current output in terms of the total number of units is only satisfying 30% of the needed capacity of 20,000 houses annually. The construction project will be divided over a span of 5 years, building an average of 50,000 units annually.[34] In light of the high poverty of the country where a high percentage of the population still lives below the poverty line, the ministry of construction has committed to build more low-cost housing so that the poor can afford housing through cheap financing.[35]

The population of Yangon, the commercial hub of the country, is expected to surge with a combination of locals and expatriates from foreign corporations. There is a derived demand for more condominiums equipped with amenities, shopping complexes, hotels, office space, and hospitals in the former capital of Myanmar. The relaxation of the property law in 2011, allowing foreigners to acquire long-term lease from the government for real estate development, has incentivized regional foreign investors to accelerate their speed of investment in Myanmar. Star City's project is a mega project consisting of condominiums, shopping complex and golf courses, and is due for full completion by 2020. The 20 apartment blocks with around 4000 one- to four-bedroom units were opened in December 2012. The second phase of the project is a joint venture between Singapore and Myanmar, investing $94.6 million to design and build Star City on a total gross space area of 114,000 sq. m. About 500 more jobs will be added.[36] No major housing development in Yangon's Dagon Seikkan Township is backed by the government, which will house over 80,000 people. As reiterated by U Aung Kyaw Oo, the director of the land and tax revenue department under the Department of Human Settlements and Housing Development (DHSHD), the priority projects for urbanization are to construct schools, hospitals, and public parks.[37]

Due to the financial difficulties faced by students in Pakokku Township in receiving adequate health and eye care services, the Japanese government disclosed in February 2013 its plan to grant financial assistance totaling $0.28 million for construction of one monastic education middle school in Magway region, one monastic eye specialist clinic in Yangon Region; and provision of three medical equipment (autoclaves) at New Yangon General Hospital in Yangon Region.[38] Thailand's largest hospital, Bangkok Dusit Medical Services PLC (BGH) is planning to set up a hospital branch in 2013 to serve their Burmese customers in their home country. Myanmar has the second largest group of patients who receive health care services from BGH after UAE.[39]

The government held a housing conference in the beginning of 2013, to reinforce their commitment toward a 2040 vision "Sustainable Long-Term Physical and Social Development of Human Settlement and Adequate Shelter for All Citizens." The aim is to secure local and foreign investment interest and knowledge exchange in this communal project of affordable housing for all in Myanmar.[40] The government has also drawn up plans to construct a "mini Singapore" near the Kyaukpyu SEZ, which is located next to the rich gas fields in the Bay of Bengal. It offers a natural harbor for shipping to South Asia, Africa, and the Middle East. The ambitious plan includes development of a deep-sea port, power plant, an international airport, a highway, and a railway linking Kyaukpyu with southwest China. A gas pipeline has already been opened and an oil pipeline will be ready next year. About 250,000 jobs are expected to be created. So far, the South Korean (Daewoo International) and Chinese (CNPC) projects have cost more than $3 billion. Infrastructure development of $10 million has been spent by CNPC, which includes building of local schools, hospitals, a reservoir, and drinking water facilities for the five main villages.[41]

Education is one of the most important reforms for future generation sustainability. Myanmar used to be one of the most peaceful and literate states in Asia before it gained independence in 1948. The education system started to go astray with little budget to maintain the system, and schools and universities were reduced to a neglected state till 2000.[42] The road to reform consists of rebuilding campuses and restoring campus life, to facilitate students to receive higher education in an all-round conducive environment, complete with accessible convenience in both tangible and intangible infrastructure. This cannot be achieved without international players like the United States, European Union, and Asia, who are well placed to contribute to the education system of Myanmar. More details on opportunities in Myanmar are presented in the Education section.

The construction industry was valued at around $3 billion in 2012. It is further expected to grow at around 8% annually over the next 5 years to reach $4.2 billion in 2016. By and large the industry is underdeveloped with construction companies being mainly government-owned or small business and contracting firms, which lack both capital and expertise in addition to limited experience. With the infusion of foreign capital, technology, and state-of-the-art equipment, the industry is poised to grow and prosper significantly.[43] In terms of infrastructure development, the immediate-term priorities of the government are in urban transportation systems, upgrading of national airports, and water utilities. The government has also committed to restructuring the relevant agencies in the transport, water, and public work sectors to ensure a clear separation of responsibility between regulatory authorities and service providers and operators.[44]

Transportation

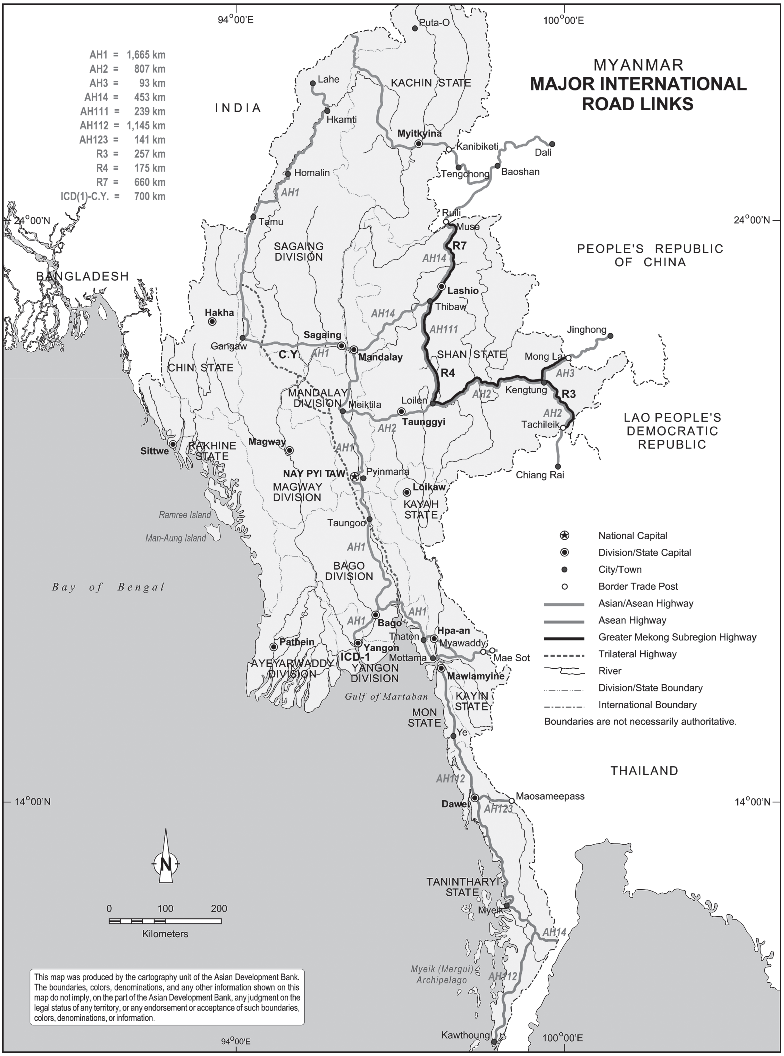
Myanmar's transportation network is weak and underinvested due to lackluster development planning and technical know-how in building a solid infrastructure. Based on the country's size, population, and potential, Myanmar's transport sector is significantly less developed than countries in the ASEAN. Existing roads are not maintained and in very poor condition.[45] The absence of international trade and financial aid and decades of military junta rule contributed to the current despondent state of the country's chronic situation. While the rest of the neighboring countries were actively pursuing economic progress in the 1980s, Myanmar remained in an economic deadlock stifled by international trade sanctions. The highways and railways built in the 1990s by the government are now in dire conditions and cripple economic activities so necessary for growth. Moreover, there is no transportation linkage by a single railroad or highway to any of its five neighboring countries.[46] The rural areas are poorly connected by roads or railways. The historic railway, which was built during World War II, was abandoned for half a century due to a dispute between the Karen National Union (KNU) and government troops.[47] The abandoned "Death Railway" constructed by the prisoners of war (POW) and a cause of over 1,500 deaths, would be reconstructed to enhance bilateral trade and provide ease of border crossing to western Thailand.[48] According to ADB's initial assessment of the railway sector, the network needs basic infrastructure, including track renewal, replacement of sleepers, and upgrading of signaling and communications systems. The railway sector is poised for investment potential to revamp the current entire infrastructure and services to achieve connectivity to the rural population and its regional counterparts.[49]

Only half of out of 69 Myanmar airports are operational with 3 serving international passengers and 29 serving regional passengers. The three international airports are located in the commercial hubs in Yangon, Mandalay, and the capital in Nay Pyi Taw. A new airport, Hanthawaddy International airport, near Yangon will be built to cope with the influx of tourists. It is expected to be completed by 2017 with an investment of $1 billion, carrying 12 million passengers annually, with the possibility of accommodating up to 35 million passengers per year. There are also plans to convert airport management to the management of private companies.[50] The potential is tremendous as existing international airports need to be refurbished to meet international standards of services.

The crumbled transportation infrastructure is a way of life for the local people. They are confronted with backward methods of transportation on very poor roads. The agricultural sector, which feeds the majority of the employed, is using traditional mechanized methods from production to deliverance. Ploughs are pulled by oxen, and wheelbarrows and bicycles are the basic means of transportation prevalent in the vegetable market in Yangon.[51]

Today, the road map of Myanmar´s infrastructure development is landmarked with numerous technical and implementation challenges. It has attracted both regional and international institutions and corporations as participants of the country's economic acceleration and social well-being. There are many projects in the pipeline toward urbanization and industrialization. The country needs $320 billion in infrastructure development over the next 15 years to fully reach its growth potential.[52] An agreement was reached in October 2012, between the local government and ADB to administer the country's road assets management program so as to address and rectify the current transportation issues confronted by the population. The investment of $1.4 million is financed by Japan Fund for Poverty Reduction. One of the pivotal objectives is to achieve transportation linkage by all-weather roads from all remote and border regions by 2025.[53]

Myanmar is a member of ASEAN and during the decades of international trade and financial sanctions, only countries around the region have been their key trading partners. Thailand, India, and Japan are their top three export trading partners. These countries, including China, are located in close proximity and have vested investment interests in projects that would further enhance trade connectivity within the region. The government plans to invest $10.9 billion in roads and bridges, at



Major international road links passing through Myanmar

Source: Adapted from Asian Development Bank. (2012b). Retrieved January 2, 2013, from http://www.adb.org/publications/myanmar-transition-opportunities-and-challenges

union, state, and regional levels. The project will produce international and interstate highways linking Myanmar with Asia.[54] According to the KPMG 2013 Report, the number of vehicles per 1000 people was approximately 38, compared to Thailand and Lao PDR, which had a higher number at 432 and 171, respectively. Although growth has more than doubled since 2004, the potential is still enormous, as the government focuses on building sound policies and continues to attract foreign participants to improve road linkages to rural communities as well as the neighboring countries.[55]

The principal port in Myanmar is located in Yangon, which is the base where all international cargo trade takes place. It has the most industrial zones and hence Yangon contains most of the production facilities.[56] The other eight ports are along the western and southeastern coast, namely: Sittwe, Kyaukphyu, Thandwe, Pathein, Mawlaymine, Dawei, Myeik, and Kawthuang. They are mostly river ports and not suitable for big vessels to berth.

A milestone contract worth over $58 billion was signed in November 2010, between the government and Ital-Thai Development to transform a fishing village in Dawei, a city southeast of Myanmar, into an industrialized economic zone. It aims to enhance trade, investment, tourism, fishery, mining, natural gas, and other industries between Thailand and Myanmar. The three-phase project covers construction of a 160 m long highway, deep-sea port, and industrial estate, which will connect Myanmar to their trading neighbors, particularly Thailand. The emergence of the deep-sea lane will reap economic benefits and posit Myanmar as a trading hub connecting Southeast Asia with the Indian Ocean, the Middle East, Europe, and Africa. The port can handle 200 million tons and 3.2 million tons annually. Half of its handling capacity is attributed to exporting of Myanmar's abundant natural resources such as coal, crude oil, chemicals, and petrochemicals.[57] This megaproject manifests the investment interests of China, India, and Japan to explore their role and contribution in the area of finance, technical, and logistics know-how to the coastal and overall infrastructure development in Myanmar. The country's transition will impact regional and international trade and advance economic growth. Lives of the communities will be improved through domestic job creation and better living conditions for the population.[58]

Efforts are under way to upgrade airports to cope with the increasing tourist arrivals. In August 2013, the government awarded contracts to expand two existing airports and build a new international airport. A consortium consisting of local, Malaysian, and Singaporean companies will expand the Yangon International Airport which has a capacity to handle 2.7 million passengers annually. The contract for repair and expansion of Mandalay International Airport was awarded to Mitsubishi Corp., Japan Airlines, and SPA Management. It is currently a domestic aviation hub serving 12 cities. Finally, a new international airport, Hanthawaddy International Airport, will be built in Pegu, about 50 miles northeast of Yangon. The airport is expected to handle 12 million passengers annually. The project is worth over $1 billion and was awarded to South Korea's state-run Inchon International Airport Corp. and will be finished by 2018.[59]

The new FIL permits foreign joint ventures to build warehouse facilities at ports and provides an immense opportunity for global transportation and logistics companies to establish business in Myanmar. The potential is reinforced by the favorable location of Myanmar, which is close to the biggest markets in the region, China and India. When the deep-sea Dawei port goes into full-scale operation, it would create a shorter international trade route from Europe and companies would be able to enjoy lower transportation cost and time.[60]

Energy

Myanmar is endowed with vast energy resources ranging from coal, petroleum, natural gas, oil, and hydropower. It is one of the five major energy exporters in the region, particularly of natural gas.[61] Myanmar people in the ancient times were known to be one of the earliest pioneers of petroleum mining in the world. The earliest petroleum discovery in Myanmar was found to be as early as 900 AD, during the reign of King Salay Nga Khway (AD 906–915).

Burma was one of the first oil producers when the Burmah Oil Company Limited started mechanical drilling at the oilfields and continuous distillation in the Yangon refinery in 1886. The company is the oldest oil company in United Kingdom and the opportunity to enter into Myanmar's refinery was a consequence of the Anglo-Burmese War in 1852.[62] It exported its production to mainland India using its own tankers. During British rule, Myanmar supplied 8% of the world's total oil production.[63] In 1942, the British destroyed the refinery and all oil installations when the Japanese invaded the country during World War II.[64]

Although the refinery was reconstructed and production resumed, the production performance was lackluster. In 1963, all oil and gas assets were nationalized by the military junta and named the People's Oil Industry.[65] The regime prioritized national earnings through exporting vast amount of oil and for economic growth and development.

Production of oil remained small scale and increased only by 2.5-fold over the 13-year period from 1965 till 1978. The nationalization lasted for two decades before the government decided to open for FDI in 1989. Major investors were Premier Oil (UK), Total (France), Petronas Carigali, Daewoo, PTT Exploration and Production Public Company (PTTEP), and China National Offshore Oil Corporation.[66] Due to international trade sanctions the country was not able to receive international financial aid and export its natural resources to the international community. The economy thrived on exports to their neighboring countries of Thailand, China, and India, who are resource hungry. However, the huge influx of revenue did not increase the wealth of the population due to lack of transparency and mismanagement of the funds received. Hence, the country has some of the worse development indicators in the world, creating a resource curse.[67] The new civilian government has actively pursued reforms in the energy sector after decades of mismanagement. The Ministry of Energy was appointed to govern the exploration, development, and marketing of oil and gas. There are a total of 36 foreign companies working on onshore and offshore blocks in Myanmar. Investments are flowing in seamlessly and according to the Statistical Yearbook 2011 of the Ministry of National Planning and Economic Development, a total of 104 investment enterprises have been approved by the MIC for the oil and gas sector as of March 31, 2011, amounting to $13.8 billion in investment.[68] Total sales of gas amounted to $2.5 billion in 2010, and it is expected that it will increase to $4.1 billion in the next year. Revenues are expected to rise exponentially as there are over 100 new onshore and offshore oil and gas blocks open for exploration. The Shwe natural gas and oil pipeline project between Myanmar and China has a reserve of 4.5 trillion cubic feet (tcf).[69] It will generate a total of $1.8 billion revenue per year for Myanmar over the 30-year period starting in 2013.

Myanmar has proven gas reserves of 10 tcf and ranks 36th among natural gas producers worldwide. Myanmar provides 50% of Thailand's domestic supply of electricity, in the form of natural gas.[70] The Thailand–Myanmar pipeline will add more natural gas export revenue for Myanmar. Currently, the Yadana and Yedgun fields are exporting 1,205 Millions of cubic feet per day (mmcfd) of natural gas to Thailand since 1998 and 2000, respectively. They generate annual revenue of $2 billion for the government. Zawitka field, which has a reserve of 1.4 tcf, will start producing natural gas by the end of 2013 and will increase export volume by 240 mmcfd.[71] India, which lies west of Myanmar, is planning to import gas from Arakan State in Myanmar through a pipeline passing through Bangladesh.

Since foreign investment became permissible in 1989, more than 40 contracts worth millions of dollars have been signed by the government. However, there has always been a lack of accountability of the government to disclose how the foreign funds were deposited and distributed. The export-oriented approach has cannibalized domestic energy supply resulting in 74% of the population having no access to electricity, with the majority being in the rural areas. The national average electrified rate is 16% while the average rates in Yangon and Mandalay are 67% and 51%, respectively (Figure 2.3). In 2011, domestic gas demand and supply in mmcfd fell short by 300 mmcfd, which implied that half the domestic demand for gas is being met natural gas and oil supply 18.2%

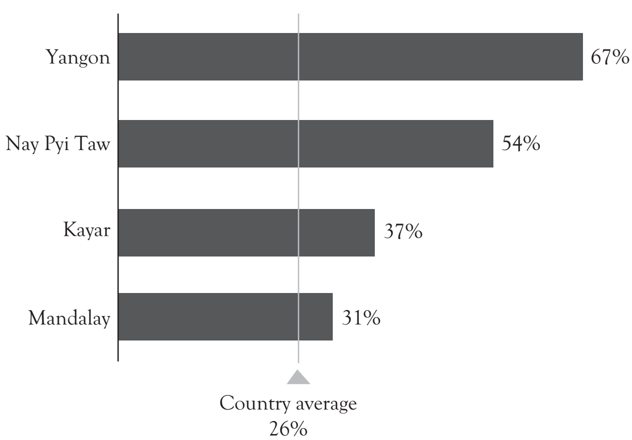


Figure 2.3 Myanmar's electrification rates

Source: Adapted from Asian Development Bank. (2012c). Retrieved January 2, 2013, from http://www.adb.org/sites/default/files/myanmar-energy-sector-assessment.pdf and 8.5% of the country energy supply. [72] The current volume of gas produced is being used to fire electricity plants (60%), fertilizer manufacture (12%), and production of compressed natural gas (10%).[73]

At the World Economic Forum in 2013, the government expressed the need to shift its focus away from oil and gas export, and instead to focus on increasing energy supply for private domestic consumption.[74] As documented by the International Energy Agency (IEA) in its *World Energy Outlook 2012*, Myanmar is an extreme example of "energy poverty." Lacking electricity, households rely on burning firewood and animal dung in poorly ventilated dwellings.[75] Opportunities for foreign and domestic companies to invest in the generation, transmission, and distribution of power are tremendous. The power sector is undernourished and investments in hydropower and coal-powered plants, gas fields, and oil and gas pipelines are entering the markets relentlessly.[76] In addition, Myanmar has gas reserves totaling 11.8 tcf with a huge potential for discovery.[77]

Coal accounted for a minute share of the total energy supply. Coal production in Myanmar underwent two different waves. On one hand during the parliamentary democracy, half a million ton of coal was produced after independence in 1949, till the time before FDI was allowed in the country in 1988. During the State Peace and Development Council (SPDC) rule from 1988 till 2009, coal output rose to 8,323 tons. Unlike oil and gas, the export of coal is limited to a negligible amount to Thailand and China.[78] Coal reserves are estimated to be 488.7 million tons, although 1% of it has been confirmed. The Ministry of Mines has identified 33 major coal deposits and growth is bound to continue due to the large reserves of exports, traditionally to Thailand and China.[79] Private sector participation has been encouraged to promote coal production. Plans are under way to increase the production of Kalewa coal mine from its present production level to 15,000 tons per year to 300,000 tons per year.[80]

Myanmar's hydropower potential lies in its four main rivers: Ayeyarwady, Chindwin, Thanlwin, and Sittaung, estimated at 100,000 megawatts (MW), with more than 90% capacity underoptimized[81]. See Table 2.1. Myanmar Electric Power Enterprise (MEPE), under the Ministry of Electric Power (MOEP), has identified over 300 large-scale

Table 2.1 Hydropower potential by river basin (including tributaries)

No.	River basin	No. of promising hydropower projects	Installed capacity (megawatt)
1	Ayeyarwady	34	21,821
2	Chindwin	8	3,015
3	Sittaung	11	1,128
4	Thanlwin	21	17,641
5	Mekong	4	720
6	Others	14	1,776
	Total	92	46,101

Source: Adapted from Asian Development Bank. (2012c). Retrieved January 2, 2013, from http://www.adb.org/sites/default/files/myanmar-energy-sector-assessment.pdf

locations suitable for hydropower development, with a combined potential capacity of about 46,331 MW. Some 66 potential hydropower development projects have been identified, 44 for foreign investors.[82]

The World Economic Forum Report 2013 has identified areas of weaknesses in the energy architecture of the country. Some weaknesses are opportunities for foreign public and private investors and NGOs, where enabling partnership is required to facilitate Myanmar's energy sector growth as an impetus to overall economic growth and development. The weaknesses are listed as the following:

1. The need to increase electrification rates in rural areas by improving the national grid
2. The lack of technical expertise, both in terms of the technology required for setting up hybrid village-level systems, and for the operation and maintenance of both hybrid and home systems
3. The prevalence of low-quality solar home systems and solar lamps in the marketplace, which leads to poor user experience and thus low levels of trust and adoption
4. The lack of access to capital and, in particular, the low availability of microfinance
5. Old and poorly maintained equipment leading to a weak power transmission and distribution network

The energy sector poses many challenges for the government but at the same time a lot of opportunities for investment if the government successfully revisits the existing contracts to enable domestic distribution of energy and make changes whenever possible.[83] Myanmar has to start building electricity from scratch since less than 25% of the population is connected to the national grid.[84] An ailing power infrastructure would constitute a compromise of a basic living standard for the entire population, let alone attract direct foreign investments.[85]

The plants in Myanmar are producing energy for the two biggest trading partners and investors, Thailand and China, generating huge export revenue at the expense of appreciation of local currency, making imports more expensive, and results in derived inflation. On July 29, 2013, the gas portion of the pipeline that connects China, Myanmar to the Indian Ocean was opened. At its full capacity of 12 billion cubic meters per year, the gas pipeline will account for about 6% of China's natural gas consumption. The 800 km long pipeline, which took more than 3 years to build, links the Myanmar port of Kyaukpyu with the Chinese city of Kunming. Natural gas from Myanmar's offshore gas fields and crude oil shipments from the Middle East will be funneled through the pipeline. The parallel crude oil pipeline is expected to start next year[86].

However, opportunities lie in transforming part of these exports by looking inwardly to develop power infrastructure for domestic consumption, which would eventually strengthen economic development and provide more external investment opportunities for Myanmar.

Mining

Myanmar is rich in metallic minerals such as chromium, copper, gold, lead, silver, tin, tungsten, and zinc; industrial minerals such as barite, clays, dolomite, feldspar, gypsum, limestone, precious stones, and salt; and mineral fuels such as coal, natural gas, and crude petroleum. It used to be a significant producer and exporter of lead, silver, and zinc within the region before it collapsed into military rule after independence from the British colonial rule, in 1948.[87] It also produces a significant number of precious and semi-precious stones, such as diamonds, jade, sapphires, and rubies which are exported. Burma's gemstone industry is a cornerstone of the

Burmese economy with exports topping $1 billion. Ninety percent of the world's rubies, come from the country, whose red stones are prized for their purity and hue. Thailand buys the majority of the country's gems. Mogok Stone Tract was famous for producing the finest rubies ("pigeon blood") in the world for over four centuries. When the military took over in a 1962 coup, gem mining and selling was banned as part of the nationalization of all industries.[88] Exploration, extraction, or export of gems still remains in state control, and it does not form part of the trade liberalization program. Mines are located at different regions as shown in Table 2.2.

The mining industry was state-owned before the government opened it up for FDIs in 1994. Contracts were awarded to Australia, Canada, Singapore, and the United States, and mining income has increased significantly since then.[89] It is the second largest sector for FDI after energy and its GDP contribution has remained constant at 1% from 1994 till 2010.

However, a proposed new Mining Law aims to replace an almost two-decade old mining law, which existed since 1994, and was introduced at the second Myanmar Mining Summit in January 2013. It has lured many international groups from the United States, Australia, Malaysia, and India. The law reform, which is due to be completed by the end of 2013, promotes accountability, transparency, and reliability at the highest level,

Table 2.2 Locations of mines at different regions

Region	Location	Minerals
North of Yangon	Monywa Mine, Mandalay Mine, Kyaukse Mine	Copper, barite, feldspar, manganese, and talc
Northern Myanmar, near to China	Mine in Shan State	Lead, silver, and zinctin, tin, rubies, sapphires
Central Myanmar	Shwegyin and Kyaukpahtoe Mines	Gold
Southern Myanmar, near to Thailand	Mawchi, Heinda and Tavoy, Pyinmana	Tin and tungsten
Northeastern Myanmar	Chin State	Chromium and nickel
Eastern Myanmar	Mongshu	Rubies
Northwestern Myanmar	Khami	Jade

Source: Adapted from The mineral industry of Burma (Myanmar), (2013). Retrieved July 25, 2013, from http://www.ibiblio.org/obl/docs2/MIB92.pdf without compromising on the impact it would have on the environment and forestry. The new revised law would attract more foreign investors, especially Russia, the leading producer and exporter of copper and nickel, who has been eagerly seeking new resources to expand their output.[90]

The Letpadaung Copper Mine is one of China's largest investments in Myanmar. The habitants near Monywa, where the copper mine is located, staged protests, which drew international scrutiny in early March 2013. The people were unhappy with the commission's conclusion to allow expansion of the project through displacement without adequate compensation, and environment protection.[91] The contract between the Chinese-backed copper mine and Myanmar Economic Holding Limited (MEHL) was revised on July 25, 2013, to restructure profit and cost sharing ratio. The new terms give the government 51% of the profits. In addition, it commits 2% of net profits to corporate social responsibility to reach out to immediate communities. It also allocates $2 million per year to compliance measures to ensure international standards of environment protection.[92] The revision received a cordial and respectful response from the Chinese and the military-owned company.

Indonesia's state controlled gold and nickel miner Aneka Tambang has already started to apply for a permit to explore for a gold mine.[93] Although no official figures about the amount of investment in this potential project were given, it announced to the news media of its intention to seek for $2.6 billion in investments through 2014, so as to finance projects in the country.[94] It is evident that joint cooperation with renowned international mining companies will escalate when the new revised mining law comes into effect. The government has done research to ensure that this second most important sector for FDI would provide jobs to its people. It is a labor-intensive industry and requires technical know-how in its execution, which is the specialization of foreign partners.

Telecommunications

The Myanmar Post and Telecommunications (MPT) Company was formed toward the late 19th century, 8 years after Sir Alexander Graham Bell invented the telephone. Upon its inception, Yangon had about 1300 telephone lines, which grew considerably by 1937 with 50 towns in provincial areas getting connected. The government agency has evolved, albeit slowly, to develop telecommunications infrastructure in Myanmar by adding more telephone networks as well as upgrading its services in light of the new open market economy.[95] Fixed line penetration rate stood at slightly above 1% and mobile penetration was just below 4% at the beginning of 2012.[96] The majority of the population uses make-shift phone kiosks to connect with friends and relatives.[97] According to the World Bank Group's data, the number of subscribers per 100 people remained at 1 from 2008 till 2010. In 2011, there was a triple increase of subscribership to 3 per 100 people. Internet users per 100 people stood at 0.2 in 2008 and increased to 1 in 2011. Although the increase is significant over the 3-year period, Myanmar is still one of the least undeveloped telecommunications markets and the poorest country within Asia (Figure 2.4).[98] Despite added coverage, the existing networks are slow and lines are congested frequently. Cell phone data services are limited, roaming is nonexistent, and price is high for most people to afford it. Myanmar has the world's second lowest cellphone penetration after North Korea. SIM cards are deliberately overpriced so as to prevent usage and lessen the incidence of line congestion. International tourists visiting the country face challenges of getting their rented SIM card connected.[99] Certainly, the existing telecommunications networks have hampered

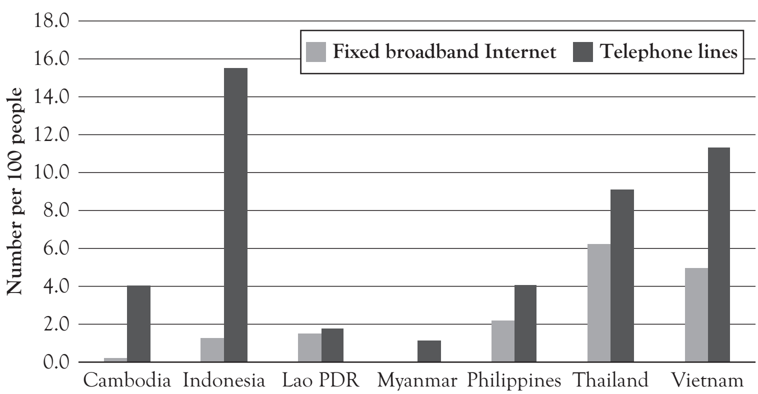


Figure 2.4 Communication indicators 2012

Source: Adapted from ADB. (2012b). *Myanmar in transition: Opportunities and challenges*. Retrieved January 2, 2013, from http://www.adb.org/publications/myanmar-transition-opportunities-and-challenges economic expansion in all major sectors and especially in banking services and tourism, which rely heavily on inter-connectivity to integrate transactions for the services rendered.

The telecommunications sector has been lingering for quite some time after the new government took over in 2011. Discussions and deals with local operators were futile and the government took progressive steps to liberate the telecoms sector by first approving foreign investors to become consultants and prepare for a telecoms license tender in August 2012.[100] In early 2013, the sector was further liberalized when the government invited foreign and local investors for proposals for nationwide telecommunications services, including telephone and Internet connectivity. The government aims to increase penetration from 75% to 80% by 2015 through 2016 as only 10% of the market is tapped. At the end of June 2013, licenses were awarded to Norway Telenor and Qatar Ooredoo to launch telecoms services in Myanmar. The investment is estimated to be between $1 billion and $1.5 billion for each license operator.[101] It is hoped that liberalization of the telecoms sector will increase penetration rate from 75% to 80% by 2015 through 2016 and the public is secured a choice of reliable services at a low price.[102]

The country needs thousands of kilometers of fiber infrastructure and in excess of 15,000 towers to be installed by 2015 in order to meet the target level of penetration. It is estimated that the investment on infrastructure network is about $4 billion.[103] The potential in the telecommunications sector is immense in light of the minute outreach in terms of tangible ownership of telephones, mobile phones, and computers. The intangible aspect lies in the number of telephone and mobile lines to reach out to the rest of the 90% of the population. Ownership and usage of mobile phones is slightly above 5%, and the Ministry of Communications and Information Technology (MCIT) plans to have 30 million mobile phone lines available by 2016.[104]

Agribusiness

The agricultural sector has historically formed the basic core of the national economy of Myanmar. About 70% of the population resides in the rural areas and is engaged in agriculture and animal husbandry. As it has been the main vehicle for overall development, it has received strong government support through appropriate long- and short-term plans, policies for self-sufficiency in national food requirements, and the generation of a substantial surplus for exports.[105] The agricultural sector contributed 36% (2010–2011) of the GDP; 28.1% of the total export earnings; and employed 61% of the labor force. The country has over 17 million hectares of cultivable land of which about 60% is currently under cultivation. The country is divided into four regions: the Delta Region, the Coastal Region, the Central Dry Zone, and the Mountainous Region. The Delta region is most productive as it has the highest population density, the most alluvial soil, moderately high rainfall, general flat topography, and is best suited for planting rice. The major agricultural product is rice, which covers about 60% of the country's total cultivated land area. Rice accounts for 97% of total food grain production by weight. Myanmar is the second largest producer and exporter of pulses and sesame in the world and the largest exporter to ASEAN countries. Other crops are peas, onions, groundnuts, corn, Niger seeds, sugarcane, ginger, coriander, turmeric, red chili, cotton, rubber, jute, and livestock.

Myanmar is well endowed with natural forests. Of the total land area, about 338,500 sq. km (57%) is forest; of that area, 103,600 sq. km is

Rice cultivation in Myanmar

Source: Adapted from Wikipedia. (2013e). Retrieved August 5, 2013, from http://en.wikipedia.org/wiki/File:Rijstvelden_Myanmar_2006.jpg reserved forests and 284,900 sq. km is unclassified public forests. The forests comprise several timber species, including the most valuable timber, teak. The other important hardwoods are Pyinkado and Paduk. It is also a major producer of bamboo. Out of a total of 1,200 timber species, only about 45 species are currently being exploited.[106] Myanmar's neighbors China, India, and Thailand have depleted most of their forests and Burma is still considered to be relatively rich in forests and the resources they provide.[107] The government terminated granting of logging concessions and the export of logs in 1993. The sale of logs in foreign currency is, however, done occasionally through a systematic tender system by the Myanmar Timber Enterprise.[108] The forest policy has been formulated according to the principles of sustainability adopted by the UN Conference on Environment and Development. The focus is on the development of a wood-based industry.[109]

The livestock and fishery sector is ranked 5th in contribution to the country's economy. Myanmar has an abundance of marine resources. An area of 486,000 sq. km in the coastal regions has been demarcated as an economic zone for the fisheries. The country also has an ocean area of around 163,000 sq. km suitable for trawling. The fishery sector consists of four types of freshwater fishing and three types of marine fishing. Freshwater fishing includes pond and river fisheries (leasehold), both conducted by private and state sectors, and open and flood fisheries run by the private sector.[110] It is estimated that 1 million ton of fishery resources could be exploited annually on a sustainable basis. Present exploitation is estimated to be only 60% and contributed around 8% to GDP in 2010 to 2011. Production, processing, and marketing of fishery-related activities are carried out by the private sector. All state-owned fishing and transporting vessels, ice plants, processing plants, cold stores, fishmeal plants, and such are sold or leased to the private sector by the government, and the Ministry of Livestock and Fisheries encourages and supports the expansion of the private sector.[111]

Productivity of Myanmar's agricultural sector is considerably lower than its neighbors and competitors. The causes include a highly skewed land distribution leaving approximately half of rural households landless; a poor water control system; a high-cost transportation system; weak rural financial institutions; low public investments in agricultural research; and weak links between government services and farmers. The country needs to make key reforms (improve infrastructure and land titles policy) as well as allocate greater resources to meet these challenges. Since 2012, the MIC is seeking foreign investment in agribusiness. It is now permitting the lease of land for an initial 30 years, extendable to two consecutive terms of 15 years. This includes seasonal crop cultivation, fish and prawn aquaculture, and livestock breeding.[112] There is a growing potential for investment in agro-based industries such as rubber, cotton, and jute plantations and processing plants, sugar mills, and agricultural machinery and farm implements. Opportunities also exist in production of forestry products.[113]

Education

Due to historical developments, Myanmar lacks the necessary level of education and professional and technical skills to support its economic ambitions. The GDP spending by the government on education is extremely low, at 1.3% as compared with 8% in Malaysia and 5% in Thailand. The poor state of universities also means that the majority of those achieving advanced levels are over 50 years of age.[114] Myanmar provides equal education regardless of gender. At the primary education level, the ratio of boy and girl is at par, but the ratio is geared to more girls than boys at the secondary level at a ratio of 1 boy to 1.06 girls. This ratio becomes significantly higher at the tertiary level at 1 boy to 1.37 girls, as at 2011.[115] The culture in a traditional Myanmar's family advocates better education for their daughters so as to provide them with a better life, which results in higher enrolment of girls than boys at the tertiary level of education.[116]

The literacy rate of the youth population at 15 to 24 years of age is very high at 95.8%.[117] The tradition of education at monasteries since the time of the Myanmar king contributes to the high literacy rate. It provides poor families and children without guardians an access to free education. However, many do not study beyond the primary education of 4 to 5 years mainly due to deployment to work so as to take care of their siblings and financial constraints as most of their parents are working in the agricultural fields. The Ministry of Education has implemented programs to ensure that all citizens receive free compulsory primary education and to build a society to comprise a base of learned and knowledgeable human capital.[118] Apart from developing local programs, the Ministry convenes with international organizations, which help to lift up the level of education to world standards. Furthermore, as a sign of its commitment toward the path of higher education, it allows foreign professors to teach at the university level.[119]

Teachers have a unique position in the Myanmar society and are considered with high esteem and prestige due to the "Confucian" culture.[120] They are considered the soil necessary to harvest the future generation into an educated class with both hard and soft skills. The Ministry has set long-term goals till year 2030, which cover the essential framework that is needed to improve the basic education system of the country. Training colleges are being set up to ensure high-quality teaching professionals with proper certification.[121]

The new government understands the critical role of education, which is the keystone to help galvanize the stages of economic and political transformation so as to bring the country out of poverty. In November 2012, the government and the development partners signed a letter of agreement to strengthen the education system of the country through a Comprehensive Education Sector Review (CESR).[122] They are already engaging other governments to reform their higher education system. Some initiatives have already been implemented by the international community. Open Society Foundations is providing grants for scholars to teach at the University of Yangon and the University of Mandalay, and to help Burma build an electronic library database. India is lending a helping hand to assist in education, information, and technology. The United States and European Union have held conferences with the Burmese ministers to discuss higher education cooperation with Myanmar. It is hopeful that universities would be independent and are allowed to plan their own curriculum.[123] This provides opportunities for international universities and world educators to expand their programs into Myanmar.

Banking and Insurance

Myanmar is one of the poorest countries in Southeast Asia after being for nearly a half-century under military control. Its per capita income was approximately $832 in 2011. It remains a cash-based economy. Credit cards and ATMs as financial tools are not well-known, let alone their minimal presence felt. In a country of around 60 million people, there are only four state-owned banks and 19 private banks, with only around 200 ATMs.[124]

The current situation was perpetuated by a stagnant economy with minimum growth for over four decades. International financial sanctions prevented Myanmar banks from conducting regular international financial transactions, including letters of credit and credit card payments.[125] The majority of the population sustains their living derived from employment in the primary sector, mainly agriculture and animal farming and fishery. This sector does not generate value-added productivity but contains a large group of very low-income earners who do not have the propensity to provide their basic needs, let alone put extra money in banks. As a result, the financial sector is significantly underdeveloped with limited services provided. In addition, the public has very little trust in the banks due to three past demonetizations and the serious banking crisis in 2003.[126] Money is not kept in the bank to earn interest but rather for protection against house fire.[127]

Private banks' activities in Myanmar are limited to providing a few services comprising of fixed deposits and 1-year loans. For banks offering domestic remittance service, they are located in the urban areas and alienate the majority of the poor who are served by informal lenders, who charge interest rates of 10% to 20%, very much higher than the market rate. There was an absence of international banking business operations in the private banks and only recently they were allowed to perform international banking services. Eleven banks are in the application process of installing "SWIFT" to begin with international remittance operations. International banks who want to use technology to increase access face severe limitations. Only 1% of the population has access to the Internet, and 5% have access to a phone.

Foreign banks are only allowed to set up local representative offices in Myanmar. Although foreign banks are eager to start business in Myanmar, they are constrained by the Financial Institutional Law. However, this set of conditions is not expected to last as the civilian government is expediting the revision of backdated laws ahead of ASEAN financial integration in 2015 where Myanmar has committed to open up its financial sector.

As a result, 17 foreign regional banks have already opened representative offices in preparation of the ASEAN financial integration.[128] According to one official from the Central Bank of Myanmar (CBM), the new monetary policy will allow foreign JVs for banks.[129]

During the banking conference held in Yangon in July 2013, the head of the CBM Daw Naw Eh Hpaw took pride in announcing that Myanmar is going to add more ATM machines to its current stocks of over 200 locations, through its banking reforms.[130] With the help from the IMF, CBM switched the exchange rate system from a grossly overvalued official exchange rate to a managed floating exchange rate on April 1, 2012.

A study conducted by the World Bank Group on microfinance sector assessment in Myanmar concluded that microfinance is at the infancy stage of development in Myanmar. It is served by six key providers: informal and formal sectors; banks; cooperatives; NGOs; specialized agricultural development companies. The government passed a new Microfinance Law (MFL), which allows local and foreign investors to establish wholly privately owned microfinance institutions in the country. The new law offers astronomical opportunities in this untapped market, which has 54% of the population working in the agricultural sector, but only 2.5% of all outstanding loans are made to this sector. Based on estimates from the Myanmar Agricultural Development Bank (MADB), microfinance has a potential of $195 billion for local and foreign investors whose target audience comes from the agricultural sector. In addition, too few institutions are equipped with resources to reach a large scale, considering an overall market size of total loan portfolio of $283 billion and a microclient base of 2.8 million, as estimated by the World Bank Group's study. This market is currently served by informal lenders, including friends and family members who charge high interest rates.[131]

The only state-owned insurance company in Myanmar is small in scale and outreach and does not provide insurance for any form of agricultural sector activities such as flood, crop, and livestock.[132] The government has allowed private insurance companies conditional approval to set up operations in the country. This is a landmark decision as insurance was nationalized in 1962. Some local companies have met the stipulated requirements. The privatization of the insurance sector would open up opportunities in an untapped financial market.

Myanmar is a late bloomer in almost all areas among the members of the ASEAN community. The new government has jump-started the economy with amazing policy changes conducive for developed countries as well as its rich Asian neighbors to reciprocate by way of direct investments in the country. At the same time, it has a large base of untapped natural resources in exchange for the investments. The external environment is favorable; as a member of ASEAN, it can capitalize on the free trade agreements. It is surrounded by members who have comparative advantage to invest in the country. Singapore and Malaysia have established themselves to become strong financial centers with reputable financial products and services to offer. They would have inherent investment interest in the emerging Myanmar financial market to expand and grow. Thailand and Vietnam are economic powerhouses who have transited from agrarian economies to higher value industries in manufacturing and services.[133] Moreover, India has recently expressed interest to provide $150 million of credit for projects that export to the current SEZ project in Sittwe, on the Bay of Bengal. India hopes that Myanmar would allow their two biggest banks to establish business to strengthen ties in banking and commerce between the two countries.[134] The interest of regional governments in Myanmar's undeveloped banking and insurance sector is tremendous. The government has a pivotal role to respond spontaneously in a balanced manner.

In late developments (July–August 2013), a new law was signed giving the Central Bank more autonomy from the Finance Ministry and opening the way for development of the fledgling banking sector. The president announced that in the future, the governor and three deputy governors of the Central Bank would be nominated by the president and approved by parliament. The new regulations, which take effect later in 2013, are expected to include details of how JV banks could be set up with foreign lenders. More than 30 foreign banks already have representative offices in Myanmar. Subsequently, interbank currency trading has also been allowed. This is another step toward financial reform.[135]

Tourism

The cultural and historical beauty of Myanmar was not completely unveiled to the world until 1992, when the government began to encourage tourism into the country. It is ethnically diversified and produces 90% of the world's rubies, sapphires, and fine-quality jade. At the 48th emporium held in Nay Pi Daw, the capital city of Myanmar in 2011, sales hit an all-time high at $2.8 billion. It was double the increase as compared to 2010.[136] This industry is controlled by the government who has vested interest in promoting their endowed natural resources to interested Asian traders who are mainly from China, Taiwan, and Thailand. However, the lifting of trade sanctions by both the United States and European Union will stimulate growth of the industry through expansion of commercial customers' base and private tourism.

During the period of military controlled leadership, the hospitality industry remained largely underdeveloped. There is still no international hotel brand present that tourists can identify. Neither is there any presence of classic consumer brands like Starbucks or McDonalds. The country lacks convenience in terms of infrastructure, accessibility to banks, comfort food, and political instability that are paramount for tourism. The release of opposition leader Aung San Suu Kyi from house arrest in November 13, 2010, stirred international confidence in the government of Myanmar. The world media is eager to seek out her news after her long captivity. Her voice has been heard and her presence has been felt in her

Temples in Bagan, Myanmar

Source: Adapted from Wikipedia. (2013f). Retrieved August 5, 2013, from http://en.wikipedia.org/wiki/File:Bagan,_Burma.jpg official trips to Asia, Europe, and North America. Myanmar has been put into the world's spotlight again but from a divergent angle for maintaining political peace and stability, developing economic and social reforms, promotion of democratic practices, equitable governance in respect of laws, environment, people, and at the same time, welcoming the world to partake in its developments.

As Myanmar opens up to the world for business and leisure in the 21st century, this has been reciprocated by the world. It is attempting to accelerate its reforms to ensure that they meet the demand in accommodations and its people are ready in skills and adequate training to serve this service-oriented industry. It is at its infancy stage of supply but overwhelmed by international demand. Funded by the government of Norway, a Tourism Master Plan of $500 million was launched in May 2013. It has set aside $45 million in new opportunities and partnerships targeted at training tourism workers for competitiveness. It includes reviewing current tourism laws and legislation with revision to various licensing formalities for all participants in the industry. The plan covers logistics projects to ease air and pier arrivals.

The number of tourist arrivals for both business and leisure has increased in leaps and bounds since 2008. Based on the statistics from the Ministry of Hotels and Tourism, the arrival of tourists excluding border tourism, increased by threefold to almost 600 million[137]. In 2012, more than 1.06 million tourists arrived in Myanmar. It is expected that the total tourist arrivals by the end of 2013 would reach 1.8 million. Income from tourism provided Myanmar with a revenue of $500 million in 2012. While income from investment including uncompleted projects amounted to $ 1.4 billion, the forecast in international visitor arrival is expected to reach 7.5 billion and has the potential to provide up to 1.4 million jobs by 2020, if Myanmar continues the current pace of economic and political reforms.[138]

There were 787 star-rated hotels serving a total of over 1 million tourists in 2012. This works out to an average of 1,270 occupancies per hotel per year. Half of them are certified and less than 14% are above two stars. Most of them are fully booked. The tourism authorities admitted that only a fraction of the existing hotels are suitable for international tourism. After the lifting of the U.S. sanctions, Hilton International resumed its construction project halted 7 years ago, and would be the first U.S. hotel chain to be opened in Myanmar.[139] The lack of hotel supply and the rapid increase in tourism create tremendous investment potential to international hotel chains and franchises to set foot into Myanmar.

Dozens of colonial buildings are about to be put on auction for developers who want to demolish and rebuild or restore them as boutique hotels. According to the tourism authorities, the country is in need of more international food and beverage outlets, car rental agencies, airplanes, and English-speaking tour guides to absorb the huge influx of tourists, especially from North America and Europe.[140]

Regional aviation services have also been beefed up. All Nippon Airways (ANA), Korean Air, Eva Air, and Qatar Airways are starting services to cope with the peak season, which begins early October and ends in April. Local-owned carrier Myanmar Airways International (MAI) is adding Seoul, Hong Kong, and Laos to their current list of destinations that include Singapore, Gaya in India, and Guangzhou in China. The increase in aviation services provide opportunities for foreign tour operators to promote Myanmar as the top must see country. The Ministry of Immigration is set to roll out visas on arrival at Mandalay and Nay Pi Daw airports and this will ease the immigration traffic upon tourist arrival.[141] The current airport infrastructure in Yangon, the largest city, is too small to accommodate tourist capacity. Civil aviation director Tin Nain Tun confirmed optimistically that a second Yangon airport is scheduled to be completed in 2016.[142] Myanmar's untapped soil to tourism is now planted with a seedbed of vital ingredients to magnetize travelers to experience the country, which takes pride in its cultural and historic traditions. It offers leisure activities ranging from hot air balloons, yachting, to riverine cruises. Pristine white beaches, sparkling blue lakes, and serene Buddhist architecture are all present in the country. It is primed to become a major tourist destination within the ASEAN by the end of the decade.[143]

The Myanmar government together with the ADB and the Government of Norway put forth a Tourism Master Plan, which outlines 38 development projects valued at nearly half a billion dollars, that "will help increase Myanmar's tourism competitiveness, protect environmentally important areas, and safeguard ethnic communities."[144] International visitor arrivals are forecast to rise as high as 7.5 million in 2020—a sevenfold increase from current figures. Receipts could be worth $10.1 billion and the tourism industry could provide 1.4 million jobs by 2020.[145] The master plan was funded by the Government of Norway and identifies $44.5 million in new opportunities and partnerships aimed at training tourism workers. The Tourism Law of 1993 will also be reviewed and updated to streamline licensing formalities for hotels, restaurants, tour operators, and tour guides, as well as amend sections governing gaming, labor, and outbound tour operations for Myanmar citizens. A Tourism Executive Coordination Board, chaired at the vice-president level, will be established to draw together various tourism-related agencies, ministries, and federations. New police divisions will also be set up for safeguarding tourists, and preventing child trafficking and sex tourism.

A recent report illustrates the mammoth investment opportunities in Myanmar awaiting business persons. Entitled "Gold Rush to Mandalay,"[146] the report detailed a major development (industrial park and business district) for investment in tourism, construction, transportation, infrastructure, housing, and retail. The Tada-U Hotel Zone project near Mandalay will include hotels, shopping malls, banking and financial services, bus stations, train stations, harbors, gold course, vocational training schools, a night market, handicraft village, entertainment zone, and sewage treatment factory. The zone covers 2,221 hectares (ha) and is expected to draw $560 in investment. Land is allocated for foreign investors to build 100 hotels (236.5 ha) and 192 hotels (410 ha) for local investors. The development will be managed by the Myanmar Tourism Development Company Limited. 24.6 ha are set aside for shopping malls and 13 ha for banking and financial services.[147]

The International Business Times (IBT) reported on July 11, 2013, that foreign investment in Myanmar had reached more than $42 billion from 32 countries. In June alone, $423 million was invested by 14 enterprises: $379 million came from Thailand, $23.6 million from Singapore, $15.8 million from Britain, $4.1 million from China, and $9.6 million from India. June's investment went into production and hotel sectors, according to the Myanmar DICA. This marks a change in perception of Myanmar's development potential. In previous years, foreign firms invested in sectors such as oil and gas, mining and electric power. Now, it seems, international firms are pouring money into Myanmar with the intention to stay. Both production and hotel represent fast-growing industries in the country. In 2012, 94 enterprises invested over $1.42 billion in Myanmar. "The significance of last year's FDI was that 78 out of 94 proposed enterprises were in the labor-intensive manufacturing sector, mostly garment factories," said Myanmar President Thein Sein. In conclusion, IBT noted that "Interestingly, Myanmar's wealthier neighbors in Southeast Asia, including Indonesia, Malaysia, the Philippines, Thailand and Vietnam, countries that have for years boasted booming economies, are now seeing the opposite trend."[148]

CHAPTER 3

Recognizing and Mitigating Risks

There are as many risks of doing business in Myanmar as there are opportunities, which were listed in the preceding chapter. The World Bank does not rank Burma in its *2012 Doing Business* report at all. The U.S. Department of State in its *Doing Business in Burma 2012* study finds that "political intervention, corruption, and central state control continue to obstruct most economic sectors." It further finds poor policymaking, minimal rule of law, inadequate infrastructure, and a weak education system to hinder economic growth in Burma. In the same vein, it finds that "the government is taking tentative steps to remove or amend restrictive trade and investment policies."[1]

Yet, the country is at the heart of the world's fastest growing region. It has the potential of quadrupling its economy to $200 billion by 2030. Spending is expected to triple from $35 billion to $100 billion and an estimated consuming class is expected to rise from 2.5 million (2010) to 19 million by 2030. Most importantly, the 500 million people living in neighboring ASEAN countries as well as the closest parts of China and India constitute a huge potential market.[2] This chapter discusses some of the pitfalls that may be encountered while doing business in Myanmar. It also suggests ways of succeeding in Burma using an early-mover and a long-term approach.

Political Uncertainty: Slow Road to Democracy

Democracy remains a work in progress in Myanmar. The country is finally emerging from five decades of isolation, both politically and economically. The military has dominated Burmese politics consistently since 1948. In 1962, the army staged a coup against the democratically elected government and created a one-party state led by the Burma Socialist Program Party (BSPP). The constitution was abrogated, all opposition groups were jailed, and all attempts to organize were suppressed. The *Tatmadaw* (national military) usurped all state functions and control of all aspects of political, economic, and social life in the country.[3]

In 1988, large-scale protests against the Tatmadaw broke out against the government with protestors demanding democracy and reform. A bloody crackdown on demonstrators resulted in the regime being forced to organize general elections in 1990. The opposition pro-democracy party, the National League for Democracy (NLD), led by, Nobel Peace laureate, Aung San Suu Kyi won by a landslide. The regime refused to recognize the results and refused offers by the international community for a tripartite dialogue among the military, the opposition, and ethnic groups. The regime continued its political oppression and military campaigns in ethnic areas.

Finally in 2011, after more than 20 years of direct rule, a new political system was introduced. Following the adoption of a controversial new constitution in 2008 and national elections in 2010, the ruling council known as the State Peace and Development Council (SPDC) was dissolved. The military transferred formal authority to a nominally civilian government as part of a transformation of the political system to a presidential republic. Within this new arena, though, electoral manipulations and constitutional stipulations have brought to power a government consisting mostly of former military officers who are closely aligned to the military. This has radically changed the nature and organization of the ruling regime from that of a military one to an electoral form.

Elections now have become the main conduit to accessing power. A number of developments over the past few years are tentatively positive signs that Myanmar is undergoing a fundamental political change distinct from the years of military rule. The new government has reached out to the democratic opposition led by Aung San Suu Kyi and to the ethnic groups. The government has legalized trade unions, relaxed censorship, pursued currency reform, and released hundreds of political prisoners. The lower chamber of the legislature (*Pyithu Hluttaw*) has become much more than just a rubber stamp for the military's agenda. The government has even formed oversight committees and encouraged the opposition to propose bills. The military itself has largely stayed out of politics and military MPs vote with their legislative leaders, not as a unified bloc.

In addition to the legislation of new laws on freedom of association and assembly, the present government in Myanmar has initiated a number of steps to expand freedom of expression over the last year. Restrictions on Internet sites as well as social media, such as Facebook, Twitter, YouTube, and many others, have been lifted. Censorship of the print media has been eased. In December 2011, some 54 publications, many of them business magazines, were permitted to publish without submitting their articles to the censor board in advance.The Myanmar government is working toward passing a new more liberal media bill by end 2014.

A Myanmar National Human Rights Commission (MNHRC) has recently been established by the president. Its aim is to meet the "Paris Principles" on national human rights institutions, although some more steps are still needed. The commission has moved quickly to carry out its functions, receiving more than 1,000 complaints in its first 3 months of operations to the end of 2011. However, the commission still faces questions about its independence from government and about the extent to which it can deal with abuses by the military. It also has some resource and staff limitations.[4]

Ultimately, the willingness of the old guard in the military to abandon its "praetorian ethos" (the belief that they are the only institution capable of defining and protecting the interests of the state in a perceived hostile environment of multiple threats) of directing the political process, will determine whether the system remains primarily in the hands of an authoritarian regime or becomes an arena of increasingly diverse, free, and fair political discord with the possibility that power will always remain in the hands of the nonmilitary. Parliament is still dominated by the military, whether in the shape of the 25% of seats reserved for its representatives, or of the pro-military party, the Union Solidarity and Development Party (USDP), which holds the majority of the seats. Combined, the military and USDP occupy 84% of the legislature.

However, the reforms are being driven by more than just President Thein Sein. There is almost a consensus among the key power holders in the country, including pressure from the international community as well as the population as a whole, which are the driving forces. Such broad agreement on the need to pursue the path to democracy makes reversal much more difficult. The momentum of the process has now moved so far forward that reversing it seems rather improbable. The people of Myanmar have now tasted reforms and can see the progress made by neighboring countries, especially the other nine members of the ASEAN. The new found optimism has raised expectations to a point not to allow the military or any other reactionary faction to turn back the clock.[5]

Burma does have some things going for it. These include an extraordinary democratic leader with broad moral authority in Aung San Suu Kyi; a passionate aspiration for democracy on the part of a society that has risen up repeatedly and courageously to demand it, most recently in the 2007 Saffron Revolution; an emerging civil society that is now blossoming with programs to educate, mobilize, and prepare citizens for democratic self-rule; and the dominance within the authoritarian government of soft liners who now appear to have a compelling mix of strategic incentives to sustain political reform. Burma has one other advantage: time. National parliamentary elections are not due again until around November 2015. This means there are 2 more years to address the formidable structural and institutional problems that stand in the way of successful democratization.[6]

A stable and predictable political environment is vital for achieving economic success. After half a century of authoritarianism, it would be unrealistic to expect a Western-style liberal democracy to emerge overnight. In the case of Myanmar, the road to democracy seems quite steady with few major obstacles in the short run. The train has left the station and can only move forward, albeit at a pace slower than many would like. Investors must take this into account when planning to do business in Myanmar. Political uncertainty is to be expected and one needs to be patient and persevere for long-term gains.

Ethnic Conflicts: Toward Peace and Reconciliation

Myanmar is an artificial product of colonial rule and its borders were drawn mainly for the convenience of British administrators. The country is one of extreme ethnic diversity. Ethnic minorities account for about 40% of the population. The government recognizes 135 different ethnic groups divided into eight major "national ethnic races." The ethnic groups never wanted to be part of the new country as minorities and agreed to do so only on the basis of the *Panglong Agreement* between them and General Aung San in 1947. This agreement promised "full autonomy in internal administration for the frontier areas," envisaged the creation of a separate Kachin state and guaranteed that "citizens of the frontier areas shall enjoy rights and privileges which are regarded as fundamental in democratic countries."[7]

Most of the majority Burman population and predominantly Buddhists are located in the central plains and valleys. In contrast, most ethnic minority groups live in the rugged hills and mountains surrounding the central lowlands and a significant number are Christian or animists. Some minority groups, such as the Shan, Mon, and Rakhine, are also Buddhist and occupy the valleys and plains, where they were independent kingdoms. The seven "ethnic states" are Mon, Karen, Kayah, Shan, Kachin, Chin, and Rakhine. The seven ethnic states comprise 57% of Myanmar's land area and none are monoethnic.[8]

The Panglong Agreement was meant to be the glue to hold together one of Asia's more ethnically diverse countries. But this did not happen. The Burman majority has always controlled national politics and the accord was abandoned by General Ne Win's military regime in 1962. The minorities have felt sidelined. Their main grievances have been their exclusion from the political decision-making process, the lack of economic and social development in their homelands, and the repression of their rights and religious freedom. Their response was to form armed wings to fight for greater autonomy and even outright independence. The various military regimes made only sporadic attempts to arrange ceasefires with the armed groups, most notably in the 1990s and again in the late 2000s, but none of these ceasefires proved permanent, nor did any of them lead to political talks.[9]

The uncertainty of the ceasefire situation also allowed for unsustainable economic development, including uncontrolled logging and mining activities, leading to loss of livelihoods among local communities and environmental degradation, causing new grievances to develop. Meanwhile fighting continued against ethnic forces in other borderlands where ceasefires had not been agreed. Military campaigns of the Burmese armed forces against these ethnic forces have been accompanied by severe human rights abuses and have directly targeted the civilian population, causing large numbers of people to be displaced or seek refuge in neighboring countries.[10] Decades of underinvestment in Myanmar's hinterlands have contributed to massive economic and educational marginalization of these ethnic groups.

The formation of a new government has caused a significant change in the political atmosphere in Myanmar, raising the prospect of the most fundamental reform and realignments in national politics in decades. Since the end of 2011, the government has held peace talks with all major ethnic armed opposition groups in the country. The talks represent a much needed change from the failed ethnic policies of the last decades. They are an important first step by the civilian (and military-backed) government toward achieving national reconciliation and peace in the country. By February 2012, initial peace agreements had been reached with most ethnic armed opposition groups. The breakdown of the ceasefire in Kachin State with the Kachin Independence Organization (KIO) in June 2011, represents a major failure in national politics, and serves as a clear reminder that the long-standing ethnic conflict in the country will not be solved easily.

By February 2012, the government had signed initial peace agreements with the majority of ethnic groups: the United Wa State Army (UWSA), National Democratic Alliance Army (NDAA), Democratic Karen Buddhist Army (DKBA), Shan State Army-South (SSA-South), Chin National Front (CNF), Karen National Union (KNU), New Mon State Party (NMSP), and Karenni National Progressive Party (KNPP). Truces were also agreed with some smaller organizations. The agreements are similar to each other, and contain four basic points: ending the fighting and reaching a ceasefire; establishing liaison offices; informing each other in advance in case of troop movements outside each other's zones; and conducting further talks in the future. Some also contain pledges on working together on issues such as drug control, education, development, and the resettlement of group members.[11]

On May 30, 2013, the KIO signed a tentative peace agreement with the Myanmar government—the last of the 11 major ethnic armed groups to do so since 2011. The Kachin conflict is one of the longest-running ethnic insurgencies in Myanmar and in the world. This represents a major opportunity to secure lasting peace in Kachin State and in the country as a whole. Reaching a peace agreement between the government and the KIO has been one of the biggest challenges of the overall ethnic peace process. This has been due to high levels of mutual distrust after the previous ceasefire broke down less than 2 years ago leading to a resumption of often intense fighting. The context is very different from the last ceasefire agreed by the KIO in 1994. This new agreement comes after a period of unprecedented political and economic reforms in the country.[12] This is a major step toward the search for peace and reconciliation for all segments of Burmese society.

Just as the Kachin, Karen and others have suffered decades of discrimination at the hands of the Burman state, so too have hundreds and thousands of Muslims. The attacks by Buddhists on Muslims in Rakhine state in 2012, which spread to central Myanmar in 2013, reflect a hatred of non-Burman Muslims, and dates back to early colonial times. An archaic law passed in 1982 denies any form of citizenship to the Muslim Rohingya, the victims in Rakhine state, on the grounds that they are not an "indigenous race" like the Kachin, Karen, and others.[13]

The most workable solution in resolving the numerous ethnic conflicts in order to achieve national unity requires political resolve to share power for the benefit of all parties. At the recent World Economic Forum (WEF) meeting on "The Future of Myanmar" held in Nay Pyi Taw, Myanmar in June 2013, Daw Aung San Suu Kyi and others gave briefings at the WEF's 22nd East Asia Forum. Two contested visions of Myanmar's future were discussed. First, a Myanmar governed by a Burmese, Buddhist majority. Second, a Myanmar governed under "the spirit of Panglong" where a truly federal system affords ethnic groups equality and rights of autonomy and gives member states of Burma rights of self-determination and political autonomy. The solution needs to be political with institutionalized protection of ethnic minority rights. Some minority groups have called for a "New Panglong Agreement." In doing so, they have postponed discussions of secession and kept their demands to calling for human rights and equality, decentralization of government, political and fiscal autonomy, and true federalism.[14]

Though things remain in a flux, change is in the offing. There is a concerted effort toward drawing up a proper federal constitution for the country, based on the principles of power- and resource-sharing between the Burman center and the ethnic groups. The constitution is being reviewed by a parliamentary commission, initiated by the army itself through the USDP. Encouraged by the willingness of reform-minded ministers to reexamine every aspect of life in Myanmar, exiles have been returning to provide much needed technical expertise.[15]

Freedom House, the U.S.-based independent watchdog organization dedicated to the expansion of freedom around the world observes in its 2012 "Countries at the Crossroads" annual analysis of Burma's government performance thus: "It is realistic to hope that Burma's future will be defined by regular elections, with democratic and ethnic political parties offered full opportunities to campaign without obstruction. Such an outcome would allow Burma to vault in front of many of its Southeast Asian neighbors. Various configurations of semi-democratic or undemocratic rule dominate the region. Burma is starting from a very low base, but it has the potential to break the regional pattern in its evolving process of political reform and liberalization."[16] This should come as encouraging news for all intending to do business and invest in the newly emerging Myanmar.

Corruption and Bureaucratic Roadblocks

Corruption is a major problem in many developing countries and Burma is no exception. Corruption is identified as the top impediment to conducting business in 22 out of 144 economies, as measured in the WEF's Global Competitiveness Report. According to the World Bank, corruption adds up to 10% to the cost of doing business globally. And, in response to the 2012 Global Compact Annual Implementation Survey—the largest survey on corporate sustainability practices with input from over 1,700 businesses—39% of respondents ranked corruption as a major obstacle to sustainable development.[17]

In the latest Corruptions Perceptions Index (CPI) released in December 2012 by Transparency International (TI), Myanmar is ranked 172nd out of 176 countries reviewed. It is at a level of 15.00, up from 14.00 a year ago, with a positive change of 7.14%. In 2009, it stood at 19.00.[18] Most indicators on Burma are not very reliable and based on fewer expert reports and surveys than is the case in other countries. After many years of military rule and international isolation, significant political and economic reforms have been initiated in Burma over the last 2 years. However, the legacy of military rule and isolation remains, including the challenge of corruption.

Due to the closed nature of the former military dictatorship there are very few independent sources of data on the state of governance and corruption in Burma. The available sources and observers agree that rampant corruption pervades all levels of the political and administrative systems. Personal relationships seem to play an important role in the country's public sector. As there are no competitive selection processes for entering the public sector, personal connections and bribery are often more important than qualifications. The privatization process which took place in 2009 to 2010 also shows that the close relationship between the government, the military, and its close friends counts. There is evidence that numerous state assets were sold to the military, family members, and associates of senior government officials at fire sale prices.[19]

There are no data available on sectors that are most affected by corruption in Burma. The country appears to be plagued by traffic in narcotics, people, wildlife, gems, timber, and other forms of contraband that flow through Burma's permeable borders.[20] Burma's border regions are indeed difficult to control. In some remote regions active in smuggling, continuing ethnic tensions with armed rebel groups hamper government control. Collusion between traffickers and Burma's ruling military junta also allegedly allows organized crime groups to function with virtual impunity. Large quantities of timber are being smuggled out of the country across the Chinese borders. A logging ban in Thailand has also resulted in Thai loggers crossing illegally through Burma. The sanctions imposed by the European Union and United States on the Myanmar military regime were extended in 2007 to prohibit the import of all timber products, but teak products from Myanmar are allegedly still being imported to the United Kingdom through other countries such as China or Indonesia.[21]

According to the United Nations Office on Drugs and Crime (UNODC), nearly all of the world's illicit opium and heroin production is concentrated in Afghanistan, Burma, Mexico, and Colombia. Burma is also a primary source of amphetamine-type stimulants in Asia. However, the country's share of opium production on the global market is declining, and although the Burmese government has expanded its counter-narcotics measures in recent years, production and trafficking of narcotics still remain major issues in the country. While the Burmese government has actively pursued mid-level and independent traffickers, it remains reluctant to investigate, arrest, and prosecute high-level international traffickers.[22]

Illegal trade across Myanmar's border is a serious concern for the country. It is estimated that it is nine times as high as legal commerce. Illegal trade just across the Burma–Thailand border reached more than $1 billion in 2012. Figures from China are unavailable. There are more than 20 routes into Myanmar along the borders with China and Thailand. Products smuggled in from Thailand are mostly petroleum, palm oil, consumer goods, machinery, electrical appliances, vehicles and their spare parts, LPG gas, cigarettes, and cosmetics. Illegally exported items include jade and gems, wildlife, timber, and mining products. This includes elephants (for tourism in Thailand) and big cats, pangolins, reptiles, birds, and elephant ivory. This illegal trade is driven by the demand for rare plants, bones, scales, and other ingredients for traditional medicines.

Myanmar is currently one of the world's biggest exporters of teak, but illegal logging remains a major concern. Around 70% of Burma's rural population of at least 30 million depends heavily on forests for their basic needs according to a UN Food and Agricultural Organization (FAO) report in 2009. Half a million rely on forests for employment. The Burmese government has decided to ban completely timber exports in 2014 in a bid to stop the destruction of the country's forests and their unique wildlife. China and Burma signed an agreement in 2006 to halt the illegal timber trade but were not successful. At least 1 million cubic meters of timber was illegally shipped into China in the peak year of 2002. The log export ban will have a very positive impact on stopping illegal logging especially in border regions as the ban provides a clear legal basis that defines that all transborder log movements are illegal. It is expected to drastically reduce illegal logging by Chinese companies in northeast Kachin State. All this has a direct impact on the country's economy as it greatly reduces customs revenue and damages the environment. The Burmese government response has been to liberalize trade policy and trade in 19 banned items has been allowed. These include canned food and drinks, chewing gum, seasoning powder, and 32 different kinds of alcohol. It has also cut commercial tax to 8% and has begun issuing licenses to small traders.[23]

Burma's president has promised to join the Extractive Industries Transparency Initiative (EITI), a global standard for governments and companies to voluntarily report how much is paid for extracting natural resources. A possible Burmese candidacy to EITI could mean a big push to hold the government to account and increase transparency in the sector. To ease investors' fears, the government has been working on a Draft Anti-Corruption Law and ratification of the UN Convention against Corruption (UNCAC). The United Nations has reviewed the Draft Anti-Corruption Law and provided comments to ensure compliance with UNCAC.

Transparency International (TI) notes that anti-corruption laws have existed since 1948 and corruption is officially a crime that carries a jail term. Laws against corruption-related offences include the Burma Penal Code Volume 8, Public Property Protection Volume 2, the Money Laundering Law, and the Anti-Drug Law. However, instead of using these anti-corruption laws for the common good, they were often misused by ruling generals as a means of ousting political opponents.

Under the present government, significant reforms are being instituted to fight corruption. These include the requirement for all public officials to publicly declare their assets. A fully independent anti-corruption institution has yet to be created. The body in charge of corruption cases is the Bureau of Special Investigations at the Ministry of Home Affairs. Burma enacted a Control of Money Laundering Law and established the Central Control Board of Money Laundering in 2002 and an investigating Financial Intelligence Unit (FIU) in 2003. The government also established a "Department against Transnational Crime" in 2004 staffed by police, customs, bank, and budget department officials. The regulations were further amended to cover narcotics activities, human trafficking, arms trafficking, cyber-crime, fraud, and terrorism. These regulations were further amended in 2006 to cover banks, customs officials, and the legal and real estate sectors.

Myanmar National Human Rights Commission (MNHRC) was established in 2011. Burma is a party to the UN Convention against Transnational Organized Crime and has ratified the UN International

Convention for the Suppression of the Financing of Terrorism in August 2006. Burma signed the UN Convention on Corruption in December 2005, but has not yet ratified it. It is too early to say how effective the reforms to combat the serious problem of endemic corruption in Burma have been. Subsequent to the passing of the Anti-Bribery Law of 2012, a task for eradicating corruption and bribery. An Anti-Corruption Committee, led by Vice President Dr. Sai Mauk Kham, under a Presidential Order was formed in early 2013 to deal with the issue. The major areas where investors run into corruption are when seeking investment permission, in the taxation process, when applying for import and export licenses, and when negotiating land and real estate deals. International business people and investors will need to take this into consideration when planning for their operations in Myanmar.

As is usually the case for developing countries that have been under extended periods of either direct or indirect military rule, Myanmar's civil bureaucracy has long been characterized by a high degree of centralization, a weak degree of administrative and managerial autonomy, and an almost nonexistent consultative process. Burma's civil service has drawn procedural and cultural influences from many sources, including the precolonial monarchy, the system of British colonial rule, and the period of Japanese occupation during the Second World War. Senior military officers have special influence, even with respect to what might elsewhere be considered basic civilian functions. Within the armed forces, merit of various kinds has been used to determine promotions and assignments. In the civilian components of the bureaucracy there has also been an effort to ensure that the most effective administrators are promoted. Nonetheless, the bureaucracy at all levels remains handicapped by a lack of human and technical resources. Nepotism and other forms of patronage still help determine promotions to the very highest levels, but the system as a whole cannot be characterized as entirely lacking in merit-based appointments.[24]

The civil service in Myanmar has served under successive military governments. The authoritarian regimes have favored loyalty over capability. With the added problem of brain drain, there is left only limited policy-formulation capacity in the government and bureaucracy. This limitation is severely evident at the lower and middle levels of administration, especially in the decision-making process and in the implementation of reforms. Bred in a culture of top-down instructions, the need for initiative and drive among the bureaucracy is glaring especially when major political and economic reforms are initiated by the government.[25] The few recent studies that examined Myanmar's civil bureaucracy note several other difficulties plaguing the country's post-1988 civil bureaucracy. These include poor organization, slow and tedious decision-making processes that are at times irrational and arbitrary, mismanagement, undertrained and underutilized staff, weak accountability mechanisms particularly in the higher ranks dominated by deputized military personnel, poorly designed public policy programs, and badly implemented public services. Almost all bureaucratic processes are still cumbersome and susceptible to political interference at many levels.[26]

Foreign business people can expect loads of obstacles in dealing with government agencies while operating in Burma. This can be expected to be a major impediment as the government's limited capabilities are reaching a boiling point due to the explosion of reforms currently being implemented. The *Financial Times* in January 2012 reported that while not long ago, a single regulatory reform might have taken a year or more to implement in Myanmar, now bureaucrats appear to be working at a frantic pace to cope with policy changes and implementation. "The government is in a hurry and it wants everything to be done yesterday."[27] The report noted that "officials are not getting much sleep trying to negotiate with ethnic rebels, draw up everything from land reform to financial regulations and liaise with Western organizations—while fighting a rearguard action from people who benefited from the status quo." Myanmar presently lacks the institutional capacity needed to effectively serve both local and international clients, and it will take a few years for the country to reach acceptable standards. Investors need to recognize this reality and plan appropriately with regard to time and cost outlays.

Rule of Law, Protecting Intellectual Property, and Enforcing Contracts

There is a high correlation between a country's adherence to the rule of law and its prospects of achieving economic development. It is imperative for all investors to ascertain if their investment, be it direct or indirect as well as their assets in the host country, is provided reasonable safeguards under existing laws.

Much of the law that serves as a foundation for the legal system of present day Myanmar can be traced back to English origins. The British, following the annexation of Burma to Britain on January 1, 1886, administered Burma as a province of British India. Consequently, the English common law that had been codified in India was introduced to Burma in the form of The Myanmar Code. Likewise, the Burma Companies Act has similar origins as the Myanmar Code. The parliamentary government that administered Burma between 1948 and 1962 introduced the Burma Acts while the socialist government, between 1962 and 1988, introduced further laws including a new constitution. Under the SPDC, the law was simply another mechanism for increasing government control and authority, legitimize political priorities, punish dissidents and opponents, and exercise ruthless speech and criticism. As a result, the legal system did not enjoy widespread respect and popular acceptance. Civilian control over the armed forces is yet to be firmly established.[28]

Freedom of the Press

Under Burma's five decades of military rule, the country's media environment became one of the most restrictive anywhere on earth. The 1962 Printers and Publishers Registration Act (PPRA) established "Press Scrutiny Boards" to scrutinize all material prior to publication, or in some cases after publication. Burma remained in the top 10 of Freedom House's "least free" countries with regard to press freedom from 2002 to 2010. The New York-based Committee to Protect Journalists (CPJ) considered Burma the seventh most censored country in the world.[29]

Myanmar is on the cusp of major reforms and is currently undergoing rapid transformation. The rule of law is a major concern to the government. Like the democratization process itself in Myanmar, the government has scaled back censorship gradually. In June 2011, articles dealing with entertainment, health, children, and sports were taken off the list of subjects requiring prior censorship. In December, economics, crime, and legal affairs were removed. Education topics were taken off the list in March. The only two topics remaining on the list—religion and politics—were freed from censorship in August 2012. The government completely stopped requiring newspapers and magazines to submit for inspection and now allows them to publish them without prior approval. Reporters Without Borders' *World Press Freedom Index* for 2013 ranked Myanmar 152 out of 179 countries surveyed. This is 18 places higher than it was ranked in 2012. It had been in the bottom 15 every year since 2002. Even though the new ranking still leaves Myanmar in the bottom half, it is not unusual for this part of the world. It is a lot closer to its ASEAN neighbors Cambodia, Malaysia, the Philippines, and Singapore, which all ranked in the 140s.[30]

Press freedom is slowly becoming a reality and a proliferation of journals and magazines that began in 2008 has led to greater diversity in the local media market. Foreign journalists who previously had to work discreetly or faced blacklisting now enjoy greater access to the country and can generally report without interference, even if they are traveling on tourist visas.[31] The media in Burma is free now than at any point in the last decade. However, in July 2013, a controversy began brewing when the lower house endorsed the Printing and Publishing Enterprise Draft Law submitted by the ministry of information. Journalists and watchdog agencies have unleashed heavy criticism of the bill for containing provisions that pushed authoritarian measures that would allow for the continuation of censorship. The government has yet to dump the 1962 Printers and Publishers Registration Law, the 1950 Emergency Provisions Act, Article 505-B of the criminal code, the 1996 Television and Video Act, the 1996 Computer Science Development Act, the 1923 Officials Secrets Act, and the 1933 Burma Wireless Telegraphy Act, which are still menacing press freedom.

Civil Liberties

Burma's long record of civil rights abuses still tarnishes its reputation and influences perceptions of its current conditions. During the years of military rule, Burma's law enforcement and security agencies sought to quell popular dissent through highly politicized legal mechanisms. Government crackdowns against protestors and dissenters were often harsh and even brutal. There is still no effective protection against arbitrary arrest, though the number of such incidents has dropped. Around 2,000 people were imprisoned for political crimes, and many were given long sentences to deter others from risking their freedom for political causes. The government's approach to freedom of association has changed since November 2010. Until the elections, restrictions on collective action and travel were widespread. Independent trade unions were inconceivable. However, in October 2011, the president announced reforms to the trade union law, and he has signaled that a range of other measures designed to limit opportunities for political organization will be removed.

Burma has a Theravada Buddhist majority and many religious minorities. The state actively supports the Buddhist *Sangha* (clergy), and for ethnic Burmans this support gives Buddhism the character of an official religion. The government has funded the construction of countless religious buildings and monuments across the country. However, since Buddhist monks played a leading role in the 2007 protests, those who are considered politically subversive have been subjected to surveillance and harsh treatment. Harassment of religious minorities is most common where other political and cultural rights are being restricted. Since June 2012, violence between Muslim and Buddhist groups in western Burma's Rakhine State has also tested the government's commitment to religious freedom. The uncertain place of the Rohingya, a Muslim minority group, in Burmese society provides fuel for uncompromising politics on both sides. The Rohingya are not recognized as a minority group and continue to be denied citizenship. Discrimination is widespread in ethnic minority areas, as are claims of abuse of power, mistreatment, and lack of respect for human rights by government officials. Educational discrimination is still an issue, especially regarding the use of ethnic minority languages.

Burma performs fairly well on gender equality. Women are prominent in business, education, health, and cultural activities, though they do not enjoy similar advancement in the bureaucracy, the armed forces, or religious orders. The education of girls has been a consistent social and political priority, and the ongoing civilianization of politics has allowed more women taking leading roles. Discrimination against women usually takes subtle forms, with implicit references to homemaking responsibilities. Gender discrimination is built into traditional Buddhist practice, with ingrained anxiety about women's capacity to diminish male spiritual potency. Homosexuality is still illegal, and some claim that Burma's homosexuals are subjected to systematic abuse and ill-treatment. However, the laws against homosexuality are unevenly enforced, and in many parts of Burma, large homosexual communities are at least partly tolerated by the authorities. There are also significant numbers of transsexual people.[32]

Legal restrictions on the right to freedom of peaceful assembly remain. Although the government on January 28, 2013, repealed Order 2/88, which banned public gatherings of more than four people, the Peaceful Assembly and Peaceful Procession Law, enacted in December 2011, prohibits public gatherings without official permission.[33]

The world's leading organization of international legal practitioners the International Bar Association's Human Rights Institute (IBAHRI) in its assessment of Myanmar's Rule of Law status in 2012 noted that "The IBAHRI delegation was struck by the extent to which different parties appeared to share a common outlook on Myanmar's future. Grassroots activists described a political climate, which though imperfect, was palpably improving. Police officers spoke of the importance of civilian oversight. Leaders of the NLD emphasized the need to work with the army. Although there was considerable uncertainty over what terms, such as checks, balances, and rule of law, might require in practice, everyone seemed to welcome the predictability and greater stability that they implied. Some people thought that they would enable relatively disfranchised individuals to know and claim their legal rights. Others observed that an enhanced respect for legal certainty could promote economic growth, because foreign investors tend to avoid arbitrary regimes in favor of those in which rights are clarified and regularly enforced."[34]

Regulation of the Internet

The Internet has developed more slowly in Myanmar than in the other countries of Southeast Asia. The government has been concerned about the subversive potential of network computing platforms. This is exacerbated by the country's lack of infrastructure including lack of constant supply of electricity. Very slow connection speeds were a major deterrent. The number of Internet cafes was restricted and often, during periods of unrest (such as in 2007) Internet access was stopped. Many websites, especially foreign and exile-based media outlets were banned. Until 2011, the Internet was heavily censored by the government. Investment in Internet infrastructure is now in full swing and connection speeds are improving steadily. Basic web tools that were once blocked, such as common chat and email programs, are now publicly available. The same is true for social media like Facebook, which is fast becoming the preferred tool for citizens' sharing of information with each other as well as the government. Wireless Internet connections (*Wi-Fi*) are now increasingly used in the country's urban centers. They were impossible to find in the past. Use of mobile telephones has changed the entire landscape of communication within and outside the country. This is an area where Burma lagged far behind its Southeast Asian neighbors. Freedom House reports that "As the cost of accessing mobile and Internet services continues to plummet, the government appears more comfortable with greater public access to mass communications technologies of all kinds."[35]

Myanmar, with rapidly rising citizen demand for technological freedom, is poised for change and is at a crucial juncture. Currently, the proposed government regulation is set to improve communication infrastructure and increase freedom of information, both of which underlie many of the free speech challenges existing within the country today. The debate has shifted from whether these changes will occur, to how soon they will be made. Myanmar's current government has yet to relinquish operational control of the communications industry and harness the type of private sector investment necessary to modernize its infrastructure. In 2012, the government released a draft law intended to expand the telecommunications sector by attracting outside investment. The law, though, proposes to maintain the government's broad powers limiting citizens' freedom of speech. Despite these points of concern, recent investigations into corruption within the state-operated telecommunications entity support the government's commitment to change. It remains to be seen whether the government can improve citizens' freedom of speech and security, and increase levels of private investment.

Protecting Intellectual Property

Myanmar lacks the legal protection and transparent judicial processes for the protection of intellectual property (IP) of foreign investors. There is presently no functioning system of patent protection in Myanmar. Myanmar generally does not recognize trademarks or copyrights from other countries. There are no procedures for registering foreign copyrights in Myanmar. The existing rights are based on British law including the Copyright Act of 1911 and common law. Protection was limited to the filing of a declaration of ownership under the Registration Act of 1908, which was taken to be prima facie evidence of ownership. Burma's political leadership has acknowledged the cooling effect that the lack of proper intellectual property rights (IPR) legislation is having on willingness to invest in the country, and the implementation of a strengthened IPR regime has been named as a top priority by government officials. The country is presently overhauling its IP regime.

Myanmar joined the World Trade Organization (WTO) in 1994. It became a member of the ASEAN in 1997 and of the World Intellectual Property Organization (WIPO) in 2001. The country is required to observe and be in compliance with the provisions of relevant treaties of such organizations, particularly, the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and the ASEAN Framework Agreement on Intellectual Property. Myanmar has obtained special exemption of time for preparation to apply the TRIPS Agreement till July 2013. The Myanmar Attorney-General Office, with the close cooperation of Ministry of Science and Technology that is designated as the focal point ministry to handle IP matters, is drafting new IP laws to have wide and efficient protection and promotion, being demanded by the regional and global IP regimes. As a member of the WTO and thus a signatory to TRIPS, Burma has agreed to conform to the provisions of the agreement by 2021 at the latest. This includes awarding *de minimis* protection for trademarks, patents, copyright, and industrial designs. To fulfill these obligations, Burma will have to completely revamp its IPR system, including the drafting of a new patent law, which presently remains a work in progress.

Enforcing Contracts and Conflict Resolution

There is no useful domestic means to enforce contracts or obtain damages for breach of contracts in Myanmar. There are also currently no domestic laws which permit foreign commercial parties to have their disputes with

Burmese parties submitted to foreign or international arbitration.[36] No international arbitration cases have been conducted under the Myanmar Arbitration Act of 1944, which is based on English law. Myanmar is a party to the Geneva Protocol on Arbitration Clauses of 1923. The country has finally ratified the Convention on the Recognition and Enforcement of Arbitral Awards (New York Convention) as a means of resolving contractual disputes. This has been in force on July 15, 2013. In order for the Convention to be effective in Myanmar, it must be implemented by amending existing domestic legislation or enacting new domestic legislation to provide a framework for the enforcement of foreign awards.

However, the Foreign Investment Law (FIL) 2012 does specifically stipulate that a foreign investor is entitled to have its dispute settled by foreign arbitration. Thus, foreign investors are guaranteed certain forms of investment protection. The ASEAN Comprehensive Investment Agreement (ACIA) also provides investment protection to participating enterprises, though its scope is limited to five sectors: manufacturing, agriculture, fishery, forestry, and mining and quarrying. Both the FIL and ACIA protect the investor against expropriation and for the free repatriation of profits in a free convertible currency. It is recommended that investors should consider it prudent to secure a foreign arbitration clause in any commercial agreement.[37] Local courts are neither independent nor impartial, so local arbitration is not reliable. There is no bankruptcy law in Myanmar. Foreign companies have the right to bring cases to and defend themselves in local courts. As the courts are tightly controlled, foreign investors involved in conflicts with the government are unlikely to receive compensation.[38]

Lack of Infrastructure: Transport, Energy, and Telecommunications

Poor infrastructure impedes a nation's development. It is also vital for foreign investment. There are significant gaps in Myanmar's infrastructure development. According to the Logistics Performance Index (LPI) published by the World Bank, Myanmar was ranked 133 out of 155 in 2012.[39] The Asian Development Bank (ADB) reported that Myanmar lags behind many of its regional neighbors in "availability and quality of key infrastructure and related services."[40] The country scores more or less on par with Cambodia and Laos but worse than other countries in the region for both logistics performance and the quality of infrastructure. Many investors remain wary of jumping in too soon due to the sorry state of infrastructure and logistics in Myanmar. Special attention is required in areas of transport, electricity, and telecommunications. "The national transport networks, including road, railway, and inland waterways, are outdated and remain insufficient to support growing economic activity. Only about 26% of Myanmar's population had access to electricity in 2011, and even then they faced frequent power outages. Similarly, teledensity (both fixed and mobile) and Internet access are among the lowest in the region: for every 100 people in Myanmar, only 1.26 had access to fixed telephone lines and 0.03 have broadband Internet subscriptions."[41]

Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. The transport sector is considerably underdeveloped. According to a recent study of Burma's infrastructure problems and possible solutions by the Brookings Institution, a Washington-based think tank, Burma is unconnected to any of its five neighboring countries by a single railroad or highway.[42] Investment in the sector during the last 20 years has been mainly focused on major highways and new railways, with much less attention on operations and maintenance in lower level networks.

Burma's challenge is to improve its transport links to its natural markets. Myanmar's economy has been dominated by the agricultural sector with around 40% to 50% of GDP. Around 70% of its population lives in rural areas. The economy still relies on resource-based industries with the biggest contribution to the GDP coming from extractive industries, especially oil and gas, mining, and forest products. Myanmar is a large country (largest in mainland Southeast Asia) covering over 676,000 sq. km. It shares borders with Bangladesh, China, India, Laos, and Thailand, and is thus strategically located at the crossroads of China, South Asia, and Southeast Asia. The country's proximity to Asia's largest and fastest growing markets offers great opportunity for Myanmar to become the land link between China, India, and the ASEAN countries. Myanmar's transport sector is considerably underdeveloped for a country of its size, population, and potential.[43]

The country has a total road network of about 130,000 km and roads are the dominant transport subsector. Road density in Myanmar is low (40 km per 1,000 sq. km) as compared with Vietnam (480), Thailand (350), Cambodia (200), and Laos (60). Only 20% of the roads are paved to all-weather standard. Myanmar has 18 vehicles per 1,000 people when compared with Indonesia (250) and Thailand (370).

The railway network in Myanmar is also underdeveloped. It expanded from about 2,000 miles in 1988 to only about 3,500 in 2010. Most of the expansion has been in the remote areas as part of the government's plan to connect all parts of the country. Most of the new lines carry very little traffic and were very expensive to construct, as they are typically in mountainous terrain. As a result, there remained insufficient funds to maintain and improve the core network. The network's infrastructure remains in a very poor condition.

Myanmar has about 5,000 km of navigable waterways of which 2,400 km makes up the primary inland waterway network. A majority of power vessels are old. Most river ports are little more than landing beaches where vessels are loaded over a simple gangplank. A few locations provide specialized cargo handling facilities for bulk commodities such as petroleum, cement, and fertilizer. River channels and navigation aids for safe vessels need improving.[44]

The Myanmar Port Authority (MPA) manages the port in Yangon and eight coastal ports—four on the west and four on the southeast coast. The facilities at all these ports are simple pontoon-based and lack mechanized handling facilities. The construction of a deep-sea port at Kyaukpyu, on the Rakhine coast, was completed in June 2013. Kyaukpyu boasts the shortest trade route connecting China and the Mekong basin to India and the Middle East. A second deep-sea port, at Dawei, would form part of a special economic zone, a 250 sq. km industrial estate with sea, land, rail, and pipeline links to the country's neighbors. In particular, it could connect to Thailand's eastern seaboard via the Laem Chabang deep-sea port at Chonburi.[45]

Myanmar's civil aviation subsector consists of three international airports at Yangon, Mandalay, and Nay Pyi Taw and 70 local airports, many of which are unpaved. The Department of Civil Aviation (DCA) wants to complete the upgrading of Yangon International Airport by 2015, and build the Hanthawaddy International Airport at Pegu, also known as Bago, by 2016. The Pegu project was suspended in 2004. The Ministry of Transportation recently called for bids to build Pegu, and both projects need investment. Domestic air services are provided by Myanma Airways, a state enterprise under the Ministry of Transport. Its fleet consists of a few jet and turboprop aircraft. Other airlines providing domestic services are Air Mandalay (joint venture between Myanma Airways and Singaporean interests), Air KBZ, Air Bagan, Asian Airways, Yangoon Airways, and Golden Myanmar Airlines.[46]

The urban sector in Myanmar is dominated by its two largest cities, Yangon (4.6 million) and Mandalay (1 million). The core constraint to Myanmar's urban development is inadequate infrastructure and poor quality of services. There has been chronic underinvestment in water supply and environmental infrastructure, including drainage, wastewater, and solid waste management. Power shortages in Myanmar have been common, since the country has never produced enough electricity for local consumption due to the previous junta's poor economic management. Myanmar has some 29 power stations across the country—18 hydropower stations, 1 coal-fired station, and 10 gas-fired stations—and they supply electricity to all regions nationwide. Only people in major cities and towns can access the power supply. Three-quarters of the population are left in darkness for long periods due to the lack of grid coverage. The ADB put the country's installed electricity generating capacity at 3,360 MW. But Burma's actual generating capability is much less because of dilapidated infrastructure and aging and inefficient plants. That problem is exacerbated by hydroelectric systems, which cannot deliver at full capacity in the dry season due to low water levels. In comparison, Burma's eastern neighbor Thailand, with a population of about 60 million, has a national generating capacity of around 27,000 MW. The government targets increasing capacity by 16,000 MW by 2030, or approximately four to five times the capacity now installed. Protests by the local people led Myanmar's government to invite foreign firms to invest in the country's electric power system for the first time in an effort to solve dire electricity shortages.

Myanmar remains one of the last undeveloped telecommunications markets in Asia with fixed line penetration standing at slightly over 1%

and mobile penetration rates at just below 4% at the beginning of 2012. However, penetration rates would be higher than reported figures if they took into account the actual usage of fixed line and mobile connections. The country's mobile phone penetration is low at just below 4% in 2012, compared with 57% in Cambodia, 64% in Laos, and more than 100% in Thailand. Telecommunications services are out of reach for average Myanmar citizens, with call rates at nearly $0.60 per minute. While close to 70% of the population lives in rural areas, the telecommunications infrastructure is biased toward cities. Poor coverage outside urban areas limits the usage of phones when users are travelling into rural areas.[47]

The Ministry of Communications, Posts and Telegraphs (MCPT) has for many years acted as Myanmar's telecommunications regulator and owns the primary telecommunications operator, MPT. It has also established Yataraporn Teleport (YTP), a joint venture between local private companies and MPT. However, in order to encourage foreign investment and to ensure a fair marketplace for operators, an agreement has been made to separate the regulatory entity from MPT and YTP. This activity is in the early stages of planning and no timeline has been announced publicly at this stage. It is most likely that the split will be linked to the release of the Telecommunication Law that is currently under review. The government has expressed its desire to transform MPT into a corporate entity that will be independent of government funding when the regulatory entity is split from MPT and YTP. There are currently 14,000 km of fiber in Myanmar and around 1,800 towers. Over 80% of the fiber infrastructure is owned by the military, while MPT owns the rest. Recognizing the need for infrastructure improvement, MPT is currently laying a new link over 2,000 km long from Yangon to Mandalay. However, in order to achieve the target of 75% to 80% penetration by 2015—bearing in mind that the majority of the population lives outside the major cities—an estimated 15,000 towers and hundreds of thousands of kilometers of fiber must be deployed in order to significantly increase the telecommunications uptake and generate revenues for investors. Undoubtedly, foreign participation will be the key to achieving these goals.

Burma is still a country languishing about half a century in the past in development terms. Doing business in Myanmar will require detailed planning and lowering of expectations in terms of time and delivery.

Human Capital Limitations

The Human Development Index (HDI) is an average measure of basic human development achievements in a country. Myanmar's HDI value for 2012 was 0.498. This is in the *low human development* category. HDI ranks Myanmar at 149 out of 186 countries and territories and is similar to the HDI of Cambodia and Laos. Between 1980 and 2012, Myanmar's HDI value increased from 0.281 to 0.498, an increase of 77% or average annual increase of about 1.8%. Like all averages, the HDI masks inequality in the distribution of human development across the population at the country level. Between 1980 and 2012, Myanmar's life expectancy at birth increased by 10.6 years to 65.7 years, mean years of schooling increased by 2.2 years to 3.9 years, expected years of schooling increased by 3.2 years to 9.4 years, and Gross National Income (GNI) per capita increased by about 405% to $1,187.[48] Between 2005 and 2010, Myanmar's HDI value increased from 0.406 to 0.451, an increase of 110%. The GNI per capita increased by 45% during the same period.[49] The United Nations Development Program's (UNDP's) Gender Inequality Index (GII) reflects gender-based inequalities in three dimensions—reproductive health, empowerment, and economic activity. Myanmar has a GII value of 0.437, ranking 80 out of 148 countries in the 2012 index. In the country, 4.6% of parliamentary seats are held by women, 18% of adult women have reached a secondary or higher level of education compared with 17.6% of their male counterparts. For every 100,000 live births, 200 women die from pregnancy-related causes, and the adolescent fertility rate is 12 births per 100 live births. Female participation in the labor market is 75% compared with 82.1% for men. In comparison, Cambodia and Laos are ranked 96 and 100, respectively.[50]

The UNDP estimates that the average citizen in Myanmar has only 4 years of schooling. Labor productivity is only 30% that of neighboring Asian countries. If productivity growth remains on the path of the past 20 years, annual GDP growth could be less than 4%. This is clear evidence that human capital development in Myanmar is below par.

The educational system of Burma is operated by the Ministry of Education. Universities and professional institutes from Upper Burma and Lower Burma are run by two separate entities, the Departments of Higher Education (Lower Burma and Upper Burma), whose office headquarters are based in Yangon and Mandalay, respectively. The education system is based on the United Kingdom's system, due to nearly a century of British and Christian presence in Burma. Nearly all schools are government-operated, but recently, there has been an increase in privately funded schools (which specialize in English). Schooling is compulsory until the end of elementary school, probably about 9 years old, while the compulsory schooling age is 15 or 16 years at the international level. The annual budget allocated to education by the government is low; only about 1.2% is spent per year on education. Dropout rates remain a concern with 74% of enrolled students reaching only Grade 5, although this is greatly improved from 24.4% in 1990.

English is taught as a second language from kindergarten. There are 101 universities, 12 institutes, 9 degree colleges, and 24 colleges in Myanmar, totaling 146 higher education institutions. There are 1 sport academy, 10 technical training Schools, 23 nursing training schools, and 20 midwifery schools. There are substantial disparities in access to educational availability to those in remote areas. Net enrolment rates in secondary and tertiary education are very low. This raises concerns about the availability of skilled manpower in the coming years. The quality of education at all levels remains a serious challenge.[51]

When student protests in 1988 spread across the country, the military nationalized universities and banished undergraduates from urban campuses damaging the higher education system. Graduate students are still not allowed to stay on campuses in major cities. Scholars lost touch with the outside world and were fired if they conducted research unacceptable to the state. The government has increased educational spending from $340 million in 2011 to $1 billion in 2013 to 2014, which now constitutes 5% of the national budget. With support from the World Bank and other partners, a study of the teaching system was conducted and recommendations are to be made in 2014. Parliamentary committees led by Daw Aung San Suu Kyi, the opposition leader, are working on higher education reform law and the revitalization of Yangon University. Another priority is allowing students the freedom to choose academic disciplines. Under the old system, they were required to choose majors based on test scores. Consequently, students ended up studying fields that they had no interest in nor fit the job market. Teachers are also reviving associations to advocate for faculty rights.[52] Universities from the United States, Europe, Australia, and Japan are providing much needed assistance in upgrading the quality of higher education as well as providing skills training in Myanmar.

The McKinsey Global Institute's report on Myanmar (2013) notes that Myanmar does have the advantage that trends in working-age population are likely to remain a "positive contributor to growth at least until 2030."[53] This is in contrast to many economies whose GDP growth is already constrained by an aging population. They estimate that Myanmar's working-age population numbers 46 million or 76% of the population. This is among the highest percentages in ASEAN. Estimates suggest that the country's working-age population will continue to grow at an average annual rate of 1% to reach a total of 57 million in 2030. Myanmar could further benefit from the repatriation of its large skilled diaspora now working and settled in Southeast Asia (mostly Thailand and Singapore) and the West. They could number 3 to 5 million, which is more than 10% of Myanmar's current workforce. They are mainly employed in semi-skilled and low-skilled positions in labor-intensive manufacturing, construction, agriculture, dockyards, seafood processing, retail shops, hotels, restaurants, and as domestic help. "Many of these workers have useful skills that probably currently outstrip those of the majority of Myanmar's domestic population. If there were more economic opportunities and a guarantee of political stability in Myanmar itself, a share of members of the diaspora and migrant workers might choose to return. Their skills would be a valuable resource as emerging sectors grow."[54] There is evidence of this already happening. Global companies setting up shop in Myanmar are addressing the shortage of skilled labor by tapping workers who left the country following the military takeover in 1962. In June 2013, Unilever repatriated 20 workers from Thailand to work in the consumer-product maker's new manufacturing plant in Myanmar.[55]

Estimates vary on the scope of unemployment in Myanmar. The Central Intelligence Agency (CIA) lists it as 5.4% but a parliamentary committee recently put the figure at 37%. Accurate figures are hard to come by but it is generally conceded that serious youth underemployment and unemployment exist. The young people lack the skills, training, and jobs that will help them benefit from the reforms. While wages are likely to remain comparatively low when compared with other countries in the region, Myanmar's workforce is becoming increasingly dissatisfied with wages and working conditions. The relaxing of government controls and the right for labor to unionize and strike (part of the 2011–2012 reforms) have meant that strikes are becoming more common as is job-hopping between factories. The government responded by setting a temporary minimum wage of $32 per month ($65 including overtime and allowances), with a bill to make this wage a new minimum wage currently with parliament. Realistically, as has happened throughout the region, the cost of labor in Myanmar will start to rise. Invest Myanmar's factsheet on *Cost of Labor in Myanmar* estimates 2013 salary levels ($1 = 863 kyat) with the average monthly salary of $180, and the average monthly salary for sectors as follows: construction $130, transportation $200, agriculture $150+, fishery $150, telecommunications $350+, and finance $250+.[56]

The shortage of skilled labor is keeping some companies from getting a toehold in the rapidly developing country. Companies investing and operating in Myanmar are taking proactive measures to provide the required training both in their home and host countries for their unique needs. Myanmar's new FIL—which gradually raises the required proportion of domestic workers whom international companies must hire—will likely help create a more substantial pool of skilled labor. The policy encourages foreign companies to invest in training domestic workers. Machut Shishak, the first economic secretary at the U.S. Embassy in Yangon, Myanmar, feels that Myanmar workers have some English proficiency and are exposed to the world. Even when they closed the country, many of them watched TV via satellite, so they know everything that's going on outside. In terms of potential, Myanmar has a great workforce.[57]

CHAPTER 4

Strategies for Success in Emerging Myanmar

Emerging economies are home to over 80% of the world's population and constitute the major growth opportunity in the evolving world economic order. According to the IMF, the year 2013 will be the first in which emerging markets account for more than half of the world's GDP on the basis of purchasing power. This is unprecedented and marks the biggest economic transformation in modern history.[1] They have attained such a critical mass in the world economy that experts recommend investors and corporations should have a 25% to 40% allocation in a global equity portfolio. Emerging markets have typically been described as being with rapid economic growth but with vexing problems not limited to poor infrastructure, rampant corruption, and weak intellectual property rights.

Myanmar has been called the "last large frontier" in that it is one of the last emerging and untapped markets in South and Southeast Asia to open up to foreign investment and trade. Myanmar's population is similar in size to South Korea's. Myanmar is also the first country to emerge when most technologies have become so much cheaper and better. This allows for the potential of development to be accelerated exponentially. This chapter discusses various strategies that can contribute to successful ventures in emerging Myanmar, including market entry, prospects for direct investment, dealing with the government, marketing, and human resource management.

Market Entry Strategies

Any strategy for entry into Myanmar must take into account the greater context of Asia's, and particularly Southeast Asia's, growth trends and potential. The tendency to view Myanmar as a possible low-cost production base, and presently only a limited market with potential in the long term is to be expected. However, entry into Myanmar will give the investor immediate access to the ASEAN Free Trade Area, which in 2015 will become the ASEAN Community comprising 10 countries with a total population in excess of 580 million people. The other ASEAN member countries are Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Together they cover a land area of 4.5 million sq. km—almost half the size of the entire United States. The combined GDP in 2012 was $2.3 trillion and total trade was worth $2.5 trillion. ASEAN is the fourth largest consumer of U.S. goods after Canada, Mexico, and China. If ASEAN were a country by itself, it would rank 12th in the world for total GDP.[2] Myanmar will be the first Asian country to develop in a free trade environment.

Over and above the ASEAN Community as a market unto itself, the numerous trade pacts signed by ASEAN with China, India, Japan, and South Korea allow for access to a huge economic bloc that rivals the European Union. This is the most dynamic and fastest growing region in the world. The ASEAN countries are mostly experiencing substantial growth and industrial development, which is creating a middle class that is beginning to have a meaningful purchasing power. Understanding this will allow investors to broaden their vision and take into account the potential markets that entry into emerging Myanmar facilitates. Another factor to consider in deciding strategy is the incentives provided for companies operating in two or more ASEAN countries under the ASEAN Industrial Cooperation (AICO) Scheme. This allows for economies of scale, reduction in production costs, and efficient use of human and material resources.[3]

The next market strategy for entry into Myanmar involves taking advantage of the various “industrial zones” that the government has established close to large cities and with easy access to labor supply. Details of these special economic zones, export processing zones, and sub-trading zones have been provided earlier in Chapter 2 of this book under the section on Manufacturing. The most important incentives include a 5-year tax holiday; 50% income tax relief on items exported overseas for 5 years; 50% income tax relief on reinvested profits from overseas exports for 5 years; a 5-year exemption on custom duties on approved products; and the granting of 30-year land leases. The infrastructure provided in these SEZs is of particular relevance as this is an important impediment to many businesses, especially light-industry manufacturers that need constant power supply, warehousing, access to transportation, and even customs processing facilities.

Of direct relevance to strategy is the decision regarding entering the market with or without a partner. Typically, emerging markets experience "institutional voids" in that there is an absence of institutions that facilitate the bringing together of sellers and buyers.[4] In such markets, the strategy of going-it-alone may not be the best as local knowledge would serve the business better. Myanmar is such a market. Due to lack of infrastructure, and of existing businesses and established companies, acquisition and merger opportunities are limited. Wholly owned Greenfields require major investments and time and may be the way to go for resource seeking industries. An applicable form of JV is most suitable for success in entering Myanmar. Partnering with a local allows capitalizing on the partner's knowledge as reliable information is a scarce commodity in Myanmar. Connections also help as it is a culture based on who you know. It is important to note that the local partner may not have sufficient capital for their portion of equity required. There are relatively few firms that have experience in dealing with Western companies. Also it is extremely difficult to find potential partners due to lack of relevant market and financial data or publicly available company ownership records. U.S. corporations and individual business persons are required to conduct due diligence to ensure that they do not deal with individuals or companies on the Specially Designated Nationals (SDN) list. This list is compiled by the U.S. Treasury Office of Foreign Assets Control (OFAC) and is meant to prevent *bad actors*, such as corrupt, drugs-related, and former military regime linked individuals, from benefiting economically off U.S. investments in their country.[5] The challenge will be to find local partners with hands clean of corruption and cronyism.

The final strategic decision involves timing of entry. Should one enter Myanmar early or delay entry? It is true that early entry would mean maximum exposure to risks of political uncertainty, and lack of meaningful infrastructure including an efficient distribution system and effective IP protection. But first-mover advantages cannot be overstated: establishing market presence and brand recognition; early attainment of critical sales volumes; pre-emptive success in dominating distribution and communication channels; favorable government relations; and a lead on the learning curve.[6] What needs to be considered in deciding timing of entry are the cost benefits relevant to your particular industry. It is most likely that a wait-and-see strategy would not be the way to go in Myanmar. The pace of reforms taking place is leading to tremendous growth and opportunities for early entrants. The opening of the country has led to a general rush by participants from the West and many investors from the East have already been present for some years. This could result in strong competitive presence for late entrants.

A step-by-step entry with long-term strategy would serve in succeeding in Myanmar. An early entry with in-country presence is essential as it conveys the commitment to long-term intentions toward customers, partners, and the country.

Prospects for Direct Investment

Myanmar is hungry for capital in virtually every sector of the economy. Global management consulting firm McKinsey & Company reported that Myanmar needs $650 billion of investment by 2030 to support growth. Prospects for investment exist in infrastructure, transportation, telecommunications, tourism, hotels, agriculture, natural resources, professional services, and labor-intensive manufacturing. Prospects for direct investment are becoming more prevalent as government reforms open new areas for foreign participation. It is important to be fully conversant with the new Foreign Investment Law (FIL) signed by the president in November 2012. It is considered to be pro-business and provides investors with the necessary protection and limits investment in very few sectors. Foreign Direct Investment (FDI) and ownership of up to 100% in enterprises are permitted in most areas. Participation of a local partner is only required in a limited number of activities, and even in restricted sectors foreign ownership up to 80% is permitted. Retail and wholesale lending is permitted. Land can be leased from government and private parties. The main restricted sectors are food and beverage production, mining, plastics, real estate development, and some chemical industries. Specific rules governing investment in a particular area need to be determined by individual investors.[7]

The government of Myanmar welcomes FDI, which supports the following stated specific objectives: extraction and export of natural resources of the state for the benefit of the people; the development of human resources; the development of infrastructure, including banking and finance, modern roads, interstate highways, production of electricity and energy, and modern IT; transportation of rail, water, and air via an international standard to enable citizens to do business throughout the world; and the creation and accumulation of jobs for the people. Other than investing under the FIL, companies and individuals also have the option of registering as a fully owned foreign company (100%), a joint venture, or a representative office under the Myanmar Companies Act 1991. This will mean that such investors agree to forgo the benefits offered under the FIL.[8]

Myanmar has drafted a 30-year development plan. The strategy focuses on five key areas during the development period, which are electricity and power generation, communication and transport, mining and natural resources, tourism as well as property development. In the period up to 2017, the plan targets an annual average GDP growth of 7.7%. Specific investment prospects exist in the following sectors:

- **Infrastructure development:** Myanmar offers numerous prospects for direct investment to meet the overwhelming need in developing its infrastructure. The government is seeking help from foreign firms in diversifying production of electricity and power. A 600 MW stand-alone power plant is an immediate necessity to meet the existing shortfall. Investment potential also exists in developing a transportation system. This includes road, rail, and air transport, ports, container depots, and warehousing. Investment is also sought in urban development, including construction of office buildings, residential housing, hotels, and resorts; development of telecommunications and Internet networks; water treatment and sewage plants; and an enhanced utility supply system. The country also needs investment in medical and educational facilities. Infrastructure investment is estimated at $320 billion over the next 20 years.[9]

- **Finance and banking:** Myanmar is consulting with institutions, such as the World Bank (WB), the International Monetary Fund (IMF), and the Asian Development Bank (ADB), in the development of a modern financial system. It is committed to allowing foreign bank entry to participate in the banking sector in the form of a JV, and the Central Bank of Myanmar (CBM) is in the process of finalizing the policy of admitting foreign banks.[10] Eighty percent foreign ownership will most likely be allowed. In the long term, it is expected that full ownership will be established. The finance and banking sector is developing rapidly. Myanmar is preparing to open its first stock exchange in 2015. Private equity interest is growing, though much of the initial capital is flowing to foreign firms with significant stakes in the country—and not to Myanmar companies directly. ATMs are becoming increasingly common. Foreigners can now withdraw $10,000 in cash daily. Numerous Asian banks have opened representative offices in Myanmar. A major impediment to JV investment is that many local banks have political linkages that are tainted or remain on the U.S. sanctions list. The opening of the country necessitates investment and growth for foreign and local banks.
- **Natural resources development:** The oil and gas industry is seeking foreign investment to exploit an estimated 3.2 billion barrels of oil reserves. The government also seeks capital and technology to build oil and coal refineries.[11] Production sharing contracts can be negotiated with the government in the extraction of gold, copper, lead, zinc, tin, tungsten, nickel, manganese, coal, marble, antimony, and industrial raw materials. A new mining law is being enacted to facilitate involvement by foreign investors.
- **Agriculture and food processing:** Myanmar seeks investment in farming technologies to upgrade its large agricultural sector covering crop production, livestock, fisheries, and forestry. The Ministry of Agriculture and Irrigation (MOAI) invites foreign

investment in sugar mills, canning factories, production of pesticides, herbicides, and fertilizers, and hybrid seeds. Prospects for investment also exist in large-scale cultivation of palm oil in the Tanintharyi region in the south, rubber in the north, rice in the Irrawaddy delta, and fruits and vegetables in the highland areas. Processing and packaging of food for export, including sealed, durable foodstuff also has investment potential.[12]

- **Manufacturing industry:** Today, Myanmar's manufacturing sector is small in absolute terms—less than half the size of Vietnam's—but it has the potential to be Myanmar's largest by 2030. Labor costs remain low in comparison with China and the other ASEAN countries. Advanced production methods are in demand to replace the existing cut, make, pack (CMP) system system. The SEZs are a major incentive for export-oriented manufacturing operations to move into Myanmar. Prior to sanctions imposed by the West, 85% of the exports were apparel and textiles with about 25% going to the United States. With the recent removal of sanctions by the European Union and the United States, Myanmar's textile industry is poised once again to becoming a new production base for those seeking lower costs than now available in China. Japan, Hong Kong, and South Korea are already looking at Myanmar as a profitable manufacturing base. Imported machinery and equipment is exempt from customs duty and can now be written off against the $500,000 investment capital required for new FDI. Prospects for investment exist also in manufacture of wood products, paper, automobiles, pharmaceuticals, food processing, bottling, packaging, and machinery production. The Ministry of Myanmar Industrial Development is a new ministry and is promoting investment in mechanical, electronic, and aviation and aerospace industries. It must be remembered that Myanmar's domestic market for most consumer items is quite small. Any industry that is subject to increasing returns to scale needs to develop an early capacity to export a substantial part of its production.

Government Bureaucracy and Corruption

Myanmar's government is not unique among developing countries in its inefficient civil service. As is usually the case in developing countries that have been under extended periods of either direct or indirect military rule, Myanmar's bureaucracy has long been characterized by a high degree of centralization, a weak degree of administrative and managerial autonomy, and an almost nonexistent consultative process. Myanmar's civil service is plagued by the country's post-1988 civil service: poor organization; decision-making processes that are at times irrational and arbitrary; mismanaged, undertrained, and underutilized staff; weak accountability mechanisms particularly in the higher ranks dominated by deputized military personnel; poorly designed public policy programs; and badly implemented public services.[13] The civil service in Myanmar has served under successive military governments and all authoritarian regimes prefer loyalty to capability. A patronage system has been in place for many years.

The military reinvention of the civil bureaucracy resulted when many civil servants were involved during the mass protests of 1988. As a result, the Tatmadaw took over all of the traditional roles of civil service "including the initiation, co-ordination, and implementation of policies in almost all areas of government."[14] The military thus became the direct administrators of the state and in the process marginalized the role of the civilian bureaucracy. Though the return to civilian run democracy has become a reality, the military's role in government is expected to continue. Former senior military officers and serving officers dominate Myanmar's executive branch at both the national and provincial levels. The armed forces are also involved in numerous commercial activities via the Union of Myanmar Economic Holdings Ltd. (UMEHL) and the Myanmar Economic Corporation (MEC). An affiliation with these entities can help foreign firms receive business permits when setting up JVs. However, there have been cases where the military partners have made unreasonable demands from investors.[15]

Myanmar has had a reputation of being one of the most corrupt countries in the world. Transparency International (TI) ranked it 172 out of 174 in its 2012 survey. The country lacks regulatory and legal transparency. However, things are beginning to change rapidly. The president is committed to making the government more transparent, accountable, clean, and effective. The new administration, therefore, recognizes that such an image is a threat to the reform process and to growth and development, hence the move to strengthen the legal framework for fighting corruption. Between April 2011 and December 2012, thousands of bureaucrats were nabbed by the government and punished for inappropriate behavior. Action was taken against 16,952 government employees. Some 380 workers were jailed, over 4,900 were dismissed, 80 were forced to return money, and 689 police officers were punished. The government also opened a probe into alleged high-level corruption in its telecommunications ministry and ordered state loans totaling millions of dollars to be clawed back from private businesses.[16]

A new anti-corruption law was recently enacted. It will enable authorities to "investigate and rigorously prosecute those involved in corruption in both the public and private sectors." It came into effect on September 17, 2013, replacing the 1948 Suppression of Corruption Act. The new law provides for the formation of a 15-member anti-corruption commission to lead the process of fighting corruption in the country. It also requires all officials in the executive, judicial, and legislative branches of the government to declare their assets and provides for various penalties for those found to have broken the law under the Act.[17]

The public administration lacks personnel with skills and capacity to cope with the increasing demands placed due to the rapid changes and reforms taking place. The relatively small number of professional civil servants is rather bogged down with enormous workload and, as a result, implementation of policies is slow and inefficient. However, with the implementation of the Framework for Economic and Social Reform (FESR), which sets out policy priorities until 2016, as well as the guiding principles for longer-term development plans, the bureaucracy has a set of guidelines to follow. The priorities set by the FESR have become the reference point for the bureaucracy in decision making and implementation of the reforms.[18]

The government has made and is continuing to make efforts to improve transparency. In the past regulations, including those covering foreign investment, import–export procedures, licensing, and foreign

Table 4.1 Myanmar: Millennium Challenge Corporation (MCC) policy indicators, Transparency International (TI) Corruption Index, and Economic Freedom

Measure	2012	2013	% change 2013/2012
T1 Corruption Index by rank	172/174	n.a.	n.a.
Heritage Economic Freedom by rank	173/179	n.a.	n.a.
MCC Government Effectiveness	9%	11%	+2%
MCC Rule of Law	13%	18%	+6%
MCC Control of Corruption	**2%**	**29%**	**+27%**
MCC Fiscal Policy	23%	26%	+3%
MCC Trade Policy	77%	77%	Unchanged
MCC Regulatory Quality	5%	5%	Unchanged
MCC Business Start-Up	n.a.	6%	n.a.
MCC Land Rights Access	n.a.	17%	n.a.
MCC Natural Resource Management	42%	42%	Unchanged

Source: Adapted from U.S. Department of State. (2013). Retrieved November 1, 2013, from http://www.state.gov/e/eb/rls/othr/ics/2013/204612.htm

exchange, were subject to change without notice. However, new regulations and laws are now published in newspapers as well in The Government Gazette. The time required for obtaining licenses has decreased from 2 weeks to within 2 to 3 days since 2011.[19] The positive result of efforts at combating corruption is indicated in Table 4.1 where "Control of Corruption" improved by 27% from 2012 to 2013.

Since power is so highly personalized and connections are required to ensure access to processes and decisions at any major level, it is not surprising that who one knows is extremely important in ensuring the success of any business venture. Access to important individuals remains a critical element in the sphere of economics. A reduction in corruption depends heavily on economic development as wages of civil servants are very low. Myanmar is on the way to reaching that stage. The issue of corruption will, over time, become less of a burden to the country. Capacity development programs are being put in place with external technical assistance (TA) over 10 years. They will provide training in governance and public management as well as ability to formulate policy and prepare and implement development programs.

It is recommended that in planning strategy, managers respond to the ubiquitous bureaucracy with "engagement and influence" by developing proactive strategies that allow for better cooperation and productivity. Strategically, companies and managers should invest in goodwill for long-term benefits. The investor's home government can also be approached to influence policy decisions of the host country. This can be achieved by routinely monitoring the policymaking process.[20] In the case of emerging Myanmar, being sensitive to local issues and concerns will certainly go a long way in gaining the confidence of the bureaucracy and decision makers. Public institutions and industry associations can serve as a critical bridge between the private sector and government, and should be used. The Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), founded in 1919, is playing an important role in the new market-oriented economy. There are 36 trade associations affiliated with UMFCCI, from the Myanmar Forest Products and Timber Merchants Association to the Myanmar Petroleum Trade Association.

Myanmar is in the process of building trust in its government with foreign investors and the local business community alike. This will be a long-term endeavor, and patience and resolve on the part of all stakeholders will be required. Though red tape and bureaucratic roadblocks continue to be a serious impediment to investing in Myanmar, one must be prepared to deal with these *minor* inconveniences for long-term gains. Things are improving, and naturally not as fast as they could be, but the reality of the slow progress has to be contended with. It is possible to do business in Myanmar without engaging in corruption. Many companies are doing it and finding it worth their while.

Marketing Strategies

Marketing in an emerging country like Myanmar can be very challenging. Typically, such markets lack basic marketing infrastructure: little or no marketing data; relatively few marketing channels; a poor and underdeveloped distribution system; uneven purchasing power within the country; lack of regulatory discipline and propensity to change business regulations frequently leading to unpredictability. The population of Myanmar is widely dispersed between the few urban centers such as Yangon, Mandalay, Nay Pi Taw, Mawlamyine, and the large rural parts of the country. Transportation infrastructure is also poor. Segmenting the market is rather difficult due to lack of market data on household incomes. Yet, it must be noted that emerging markets by definition are dynamic and not static. Marketing strategy for Myanmar as such should be tweaked and adjusted in line with market development. It should also take into account the aspirations of the people of Myanmar and their needs.

Getting information in Myanmar is difficult due to lack of reliable data, official statistics, and market research. Government statistics are treated with skepticism. Solid figures on brand awareness do not exist in Myanmar. Lack of data also makes it difficult to predict future performance. Companies have had to develop their own sources for information based on local knowledge, and Yellow Pages still existing in Myanmar. However, this is rapidly changing. In the last few years, several agencies and research companies have established operations in Myanmar. Consumer studies are now being conducted and offer perspectives on attitudes and preferences at brand level.

Myanmar remains a supply-driven market due to import restrictions as well as sanctions placed by Western countries. With the opening of the country, official imports are growing. Manufacturers are also moving in to produce for the domestic market. Myanmar consumers are not as brand conscious as their developed neighbors such as Thailand, Malaysia, or Singapore. It is women who control most decisions regarding finance and spending. Myanmar remains a culture deeply rooted in religion and tradition. Myanmar consumers are more familiar with local brands. Western brands are generally well received and admired for their quality and durability. However, investors will still need to produce and market relevant and meaningful products that cater to the needs and purchasing power of the Myanmar people. The pricing in Myanmar is not standard. McKinsey estimates that a consumer class of 19 million may be produced by 2030. The large "bottom of the pyramid" market exists in Myanmar and must not be neglected.

Costs of advertising remain relatively low and it is possible to build a brand name within Myanmar in about a year. Promotion does require the harnessing of word of mouth still as traditional methods of decision making continue. TV advertising works best in Myanmar and is the best way to reach the mass market. This is especially the case for urban areas. This is followed by word from friends and family, magazines, billboards, newspapers, radio, and in-store media. TV commercials reach more than 90% of total respondents and locals spend about 25 days a month watching TV.[21] Recycling advertisements from the West and the East may not be the best way to go. Brochures and marketing campaigns must avoid using religious symbols or satires of respected local figures, events, or local culture.

Myanmar is a relatively young country with a huge percentage of the population under 30 years of age. These young people are more technologically savvy than the older generations. Internet usage is increasing exponentially and social media is slowly becoming a more accessible form of marketing. In place of the traditional word of mouth, print media, and billboards, online platforms, such as Facebook, Twitter, LinkedIn, and Instagram, are becoming more commonly used. Cultural sensitivities need to be taken into consideration when planning promotional strategy. Advertising in Myanmar works best when it is kept simple. Music, celebrities, love, and attraction work well in Myanmar as it is a family-oriented culture. The consumers also need to be educated about the products as well as be entertained in the process. Companies will need to ensure that sales literature is available both in English and Burmese where possible.[22]

Marketing channels in Myanmar are developing albeit slowly. Distribution remains mainly through traditional trade, which constitutes a majority of retail. There are around 30,000 traditional retail outlets in Myanmar that serve approximately 60 million people of the country. Traditional stores vary in size and are a part of the dual system that includes the increasing modern retail outlets and supermarkets.[23] As a strategy, producers will need to establish relationships and build trust with distributors in order to establish entry barriers for latecomers into the market. In planning strategy, it must be noted that, as an administrative practice, foreigners cannot register a company whose business scope is *trade*. This means that producers need to engage an intermediary to sell their products locally. This intermediary can be an agent or a distributor and under current law must be Myanmar citizens. Distributors are distinct from agents in that distributors are liable for the purchase price to the producer while agents are not. Exclusivity clauses can also be inserted into contracts with foreigners either restraining the producer from appointing principals in a given territory or preventing the distributor from distributing products of competitors.[24]

Human Resource Management

Under the 2012 FIL, new foreign funded enterprises are required to employ local Myanmar citizens to the amount of 25% of the total workforce by the end of the first 2 years of operating; 50% of the subsequent 2 years; and 75% by the third 2-year period. However, the law does give the Myanmar Investment Commission (MIC) power to extend the time limit to employ workers for "knowledge-based businesses."[25] A Minimum Wage Law was passed in March 2013 and remains at less than $2 per day with the exact amount yet to be determined. Each state and region is allowed to set its own minimum wage but none have done so. Only after March 2012 (with the implementation of the Labor Organization Law) were workers allowed to join unions and allowed to strike. Though roughly 800 enterprise level unions have been formed and about 50 separate collective bargaining actions taken place, there remains a very low level of awareness of labor issues among workers, employers, and even government officials.[26]

Though labor costs remain lower than its Southeast Asian neighbors, the demand for well-educated and skilled workers exceeds the supply in Myanmar. Managerial staff, in particular, is in short supply and this has resulted in high turnover for employers. As a strategy, investors need to include vocational training in their business plans. The increase in foreign investment in low-cost manufacturing in the coming years will further exacerbate the need for skilled workers in the country. It is also expected that manufacturers in neighboring countries—China, Malaysia, Singapore, and more importantly Thailand—will relocate to Myanmar because of lower labor costs. Myanmar has been a net exporter of labor to the world especially to developing economies. It is estimated that at least 10% of Burmese currently work abroad. In 2013 alone, South Korea is expected to recruit 5,000 workers from Myanmar for its manufacturing sector. There are already 6,000 workers from Myanmar there.

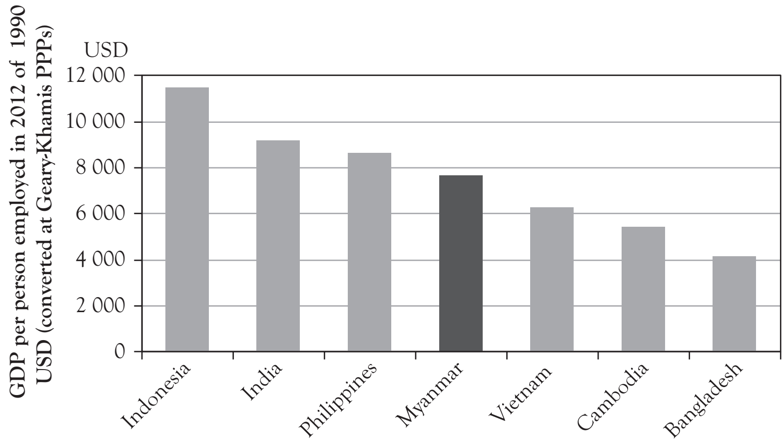


Figure 4.1 Labor productivity is relatively high in Myanmar

Source: Adapted from The Conference Board Total Economy Database™ (2013). Retrieved November 29, 2013, from http://www.conference-board.org/data/economydatabase/

Myanmar boasts a generally high standard of literacy and numeracy (95%) and the favorable position of women. In addition to lower costs, labor productivity in Myanmar is higher than in other regional economies in the same income group such as Bangladesh and Cambodia, and even higher than that of Vietnam, a middle-income country (Figure 4.1). Myanmar's education system has deteriorated over the past 50 years partly because of the exodus of teachers and the dissipation of university campuses over security concerns. The drain on education and talent is a major concern across all sectors. Numerous international groups from countries that include Japan, Singapore, India, United States, European Union, Indonesia, Australia, New Zealand, and South Korea have stepped up efforts to help Myanmar develop its human capital by improving the education system including upgrading of its universities.

The Myanmar government is also investing the required resources in this direction. Official statistics show that the number of state-operated basic education schools in the country has increased to 41,000 where a total of over 8.1 million students are pursuing education under the guidance of over 270,000 teachers. In the higher education sector, 161 universities and colleges have been opened, boosting the number of higher education institution by five times.[27] In August 2013, to create job opportunities, enhance workers' labor skills, and reduce unemployment in Myanmar, the president signed the new Employment and Skill Development Law (ESDL). This move aims to ensure that workers' skills are updated and kept relevant. Employers who employ workers in factories, workshops, or similar establishments, will further be required to contribute to a skill development fund. The rate of contribution by the employer shall not be less than 0.5% of the salaries and wages of their employees. Of particular interest are the provisions that allow foreigners to set up training schools or skills assessment entities under the ESDL. Foreigners seeking to establish a training school will be required to submit an application to the skill development team for a registration certificate. Upon approval, the foreigner will then be allowed to appoint foreign experts and to import teaching or assessment tools.[28]

Companies can use a three-pronged strategy to deal with the labor shortage. One is to repatriate the Burmese employees presently working for them abroad. Secondly, they can seek out labor that has been exported to other countries and woo them to return to Myanmar. Many companies are already doing this. Burmese are working in Thailand, Malaysia, Singapore, Hong Kong, the Middle East, India, China, Indonesia, United States, Europe, Australia, and New Zealand. Finally, there is a large Burmese labor pool in Thailand (estimated to be 2–3 million) that has shown an eagerness to return home. The exact unemployment figures are hard to determine but a high level of underemployment and unemployment does exist in non-agricultural sectors. Three basic methods of recruitment exist in Myanmar. Classified advertisements may be placed in local papers, both in English and Burmese. There are a small number of recruitment agencies operating in Myanmar that may be used. Finally, recruiting is also effective indirectly through the managerial staff as they have access to workers though personal contacts such as family and friends. The lack of detailed information of labor availability in Myanmar remains a major challenge. Both the World Bank (WB) and the International Labor Organization (ILO) have embarked on surveys to record the status of business and labor in Myanmar. By mid-2014, detailed and accurate statistics will be available for investors to use in planning strategy for investing and doing business in emerging Myanmar.

CHAPTER 5

Epilogue: Opportunities and Challenges in an Emerging Myanmar

Myanmar has been called the *last frontier* as it is one of the very few remaining countries to open itself to investment. Companies worldwide are eager to tap into the country's 60 million or so consumers as well as benefit from its wealth of resources. Inspiring investors should be ready for a tough ride—as in the nature of all things, rewards are always commensurate with risks. The ADB, in its hallmark appraisal of Myanmar's *Opportunities and Challenges* (2012), lists its strengths, weaknesses, opportunities, and threats (SWOT) with the emphasis that Myanmar's successful transition to a modern industrial economy requires concerted efforts at improving the climate for industry and business.[1] The SWOT analysis is shown in Figure 5.1. Most strengths and opportunities have already been described in the preceding chapters. Potential investors need to also consider challenges and constraints that the country will face and those that will affect their business decisions. These are outlined in this chapter.

Strengths and Opportunities

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) reported in December 2012 that "Myanmar, which is one of the 13 least developed countries (LDCs) in Asia and the Pacific, is relatively rich in natural resources, has a young workforce, and is close to the world's most dynamic trading economies, including China and India. With an appropriate policy mix, improved business environment and a

Strengths	Weaknesses
• Strong commitment to reform • Large youthful population, providing a low-cost labor force attractive to foreign investment • Rich supply of natural resources—land, water, gas, and minerals • Abundant agricultural resources to be exploited for productivity improvement • Tourism potential	• Weak macroeconomic management and lack of experience with market mechanisms • Limited fiscal resource mobilization • Underdeveloped financial sector • Inadequate infrastructure, particularly in transport, electricity access, and telecommunications • Low education and health achievement • Limited economic diversification
Opportunities	**Risks**
• Strategic location • Potential of renewable energy • Potential for investment in a range of sectors	• Risks from economic reform and liberalization • Risks from climate change • Pollution from economic activities • Tension from internal ethnic conflicts

Figure 5.1 Myanmar's strengths, weaknesses, opportunities, and risks

Source: Adapted from Asian Development Bank. (2012b). Retrieved January 2, 2013, from http://www.adb.org/publications/myanmar-transition-opportunities-and-challenges

stable, but reformed political system, the country is expected to fulfill its considerable potential and move ahead with delivering on economic development."[2]

The ADB in its appraisal of the country, also in December 2012, noted that "Myanmar emerges from decades of isolation with much hope and support from global and regional communities. The country has high potential for rapid growth and development, given its rich natural resources, abundant labor force, and strategic location between the region's two economic giants—China and India."[3]

Subsequently, in June 2013, the McKinsey Global Institute in its comprehensive review of Myanmar's progress (Figures 5.2 and 5.3) declared that "Myanmar is in the throes of remarkable change. Authoritarianism is giving way to political and governmental reform." The report anticipates that "by developing a diversified set of sectors, Myanmar has the potential to more than quadruple the size of its economy to over $200 billion by 2030. There is everything to play for—but also a major

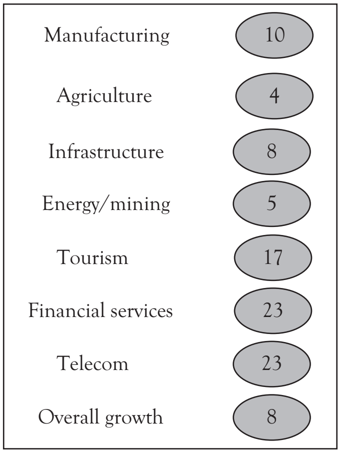


Figure 5.2 Myanmar's GDP growth (%) by sectors (2030)

Source: Adapted from McKinsey Global Institute (2013). *Myanmar's moment: Unique opportunities, major challenges*. Retrieved July 23, 2013, from http://www.mckinsey.com/insights/asia-pacific/myanmars_momenthttp://www.pwc.com/sg/en/assets/document/myanmar_business_guide.pdf

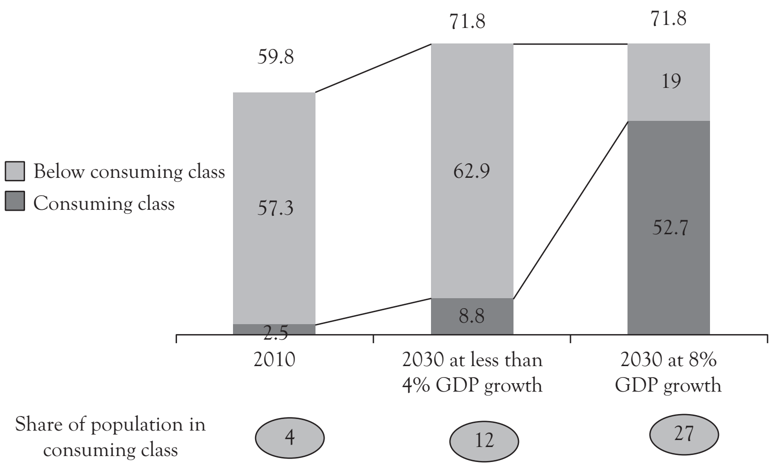


Figure 5.3 Myanmar's growth of consuming class (2010–2030)

Source: Adapted from McKinsey Global Institute. (2013). *Myanmar's moment: Unique opportunities*, major challenges. Retrieved July 23, 2013, from http://www.mckinsey.com/insights/asia-pacific/myanmars_momenthttp://www.pwc.com/sg/en/assets/document/myanmar_business_guide.pdf

risk for disappointment."[4] Heang Chhor and Richard Dobbs, lead authors of the McKinsey Global Institute's 2013 Report "Myanmar's Moment," list eight reasons to be optimistic about Southeast Asia's rising tiger. These include the following:

1. Rapid growth: It is possible for Myanmar to grow very quickly if it diversifies from agriculture, urbanizes, and increases productivity with different sectors such as manufacturing and services. Incomes in developing economies are rising faster than any point in history. In the past it took tens of decades to double per capita incomes. Booming Asian economies like China and Vietnam were able to do it in just over one decade.
2. Proximity to big and growing markets: Myanmar's location is its asset. It borders China, India, Laos, and Thailand and has access to more than 500 billion people. Many of these markets are growing rapidly. Association of Southeast Asian Nations' (ASEAN's) free trade zone begins at the end of 2015. These give Myanmar a large export opportunity. Its tourist potential increases exponentially—2.5 billion and only a 5-hour plane ride away.
3. Abundant natural resources: Rich in resources from oil to timber, gas to water, Myanmar is also the world's top producer of gems, including rubies and sapphires; it also accounts for 90% of the world's production of jade. Myanmar possesses the 25th largest area of agricultural land in the world.
4. Production capacity: Seven key sectors of the economy—manufacturing, agriculture, infrastructure, energy and mining, tourism, financial services, and telecommunications—can propel the economy multifold and create 10 million jobs outside agriculture. By increasing its labor productivity from 2.7% to 7% (as China and Thailand have done), Myanmar can expect an 8% per annum growth in the economy.
5. Relatively large workforce: The country has an estimated working-age population of 46 million. Its low wages make it an excellent destination for manufacturing. The shortage of skilled workers can be made up by returning diaspora estimated to be 3 to 5 million.
6. Urbanization: Emerging economies that have diversified away from agriculture and whose populations have migrated to urban centers have posted rapid growth. Myanmar has this growth opportunity as

87% of its population is presently rural. The shift to manufacturing will bring people into cities that would power growth, incomes, and jobs.

7. Harnessing digital age: Studies have shown a direct correlation between technology and economic growth. Myanmar's timing is perfect for entry when mobile and Internet technologies are becoming mainstream and becoming more affordable. The WB found that a 10% increase in broadband penetration correlated with an additional 1.38% in GDP growth.
8. Support from the international community: The United States, European Union, Japan, and ASEAN have stepped forward to support Myanmar's transformation efforts. The World Bank (WB), the International Monetary Fund (IMF), the Asian Development Bank (ADB), and other multilateral institutions are all reaching out to help lift Myanmar. Reintegration into the global community will have untold dividends.

Myanmar has much to gain from the rapidly developing economies in Asia. By 2050, Asia could account for about half the global output as well as half of global trade and investment. By 2030, Asia's consumption is expected to reach $32 trillion and account for 43% of global consumption.[5] Myanmar's membership in ASEAN is continuing to be rewarding. ASEAN is becoming a single market and production base. There will be continuing free flow of goods and services and a freer flow of investment with the realization of the ASEAN Economic Community by the end of 2015. The net results and benefits to all 10 members: lower business transaction costs, greater regional synergies, higher value-creation, and more competition and dynamism as a player in the global supply chain. ASEAN is an invaluable entry point for Myanmar's integration with the subregional, regional, and global economies.

Myanmar is an active participant and member of the Greater Mekong Subregion (GMS) Economic Cooperation Program. This is a natural economic area bound together by the Mekong River, covering 2.6 million sq. km and a combined population of around 326 million. The GMS is a development project initiated in 1992 by six countries—Cambodia, Laos, Myanmar, Thailand, Vietnam, and China (Yunnan Province)—with the assistance of the ADB toward greater economic cooperation, to coordinate and ensure stable and sustainable development of the region, build infrastructure, and utilize resources fully. Resources include agriculture, forestry, tourism, hydropower, and environmental protection. In 2005, the Guangxi Zhuang Autonomous Region of China also became a member. Today, GMS is considered a successful model of regional cooperation in Asia.[6]

The international community has been proactive in providing the necessary help and support Myanmar needs. Nearly 20 of the world's largest creditor countries have announced that they would be cutting nearly half of Myanmar's total foreign debt, worth some 6 billion dollars. Those countries, which include the United States, United Kingdom, and several members of the European Union, are part of the Paris Club, a group of 19 of the world's largest donors. The group declared in January 2013 that its members were aware of Myanmar's "exceptional situation" and had agreed to a 50% cancellation of arrears and a 7-year grace period for the remainder. Norway and Japan came to separate agreements to cancel additional debts amounting to around $4 billion. The Paris Club move comes just after the WB and the ADB came to a separate agreement to restructure close to a billion additional dollars that Myanmar owed the institutions. This deal, made possible by a substantial "bridge loan" from Japan, will give the country economic breathing room as it works to emerge from decades of international isolation and almost nonexistent economic and social development. Together, the accords signed in December 2012 clear up, at least temporarily, almost three-quarters of Myanmar's total foreign debt. Estimated by the IMF at around $15 billion, that debt load has been described as one of the most significant impediments to the new government's plans for reforms and development. The WB approved a new credit worth $440 million.[7]

The ADB approved a loan of $512 million and in addition is providing valuable technical assistance in capacity improvement for infrastructure, institutional, and human development. Projects include training on leadership, governance, and public management; capacity to formulate policy; preparation and implementation of programs in key sectors such as energy, water and sanitation, transport; and training of civil servants. In addition, expertise and funding are also being provided for development of a national statistical system, primary education development, development of academic institutions, national energy planning, power transmission and distribution, trade facilitation for ASEAN Community implementation, and creation of a tourism master plan.

Constraints and Challenges

The above listing is only one side of the coin. Naturally, every opportunity carries a possible risk. Myanmar is set to chart a course that takes into account its strengths and weaknesses, while "leveraging the available opportunities and avoiding the potential risks."[8] This chapter outlines the opportunities awaiting the opening of an erstwhile asleep nation that has awoken to take its place in the 21st century, as well as the necessary risks and challenges that the potential investor and business person is likely to face.

The WB has yet to include Myanmar in its Ease of Doing Business rankings. The 2013 Index of Economic Freedom prepared by the Heritage Foundation awards the country a score of 39.2, ranks Burma 40 in the region, and 172 in the world. Reasons for the low ranking are as follows: "Long-standing problems include poor public finance management and underdeveloped legal and regulatory frameworks. Weak enforcement of property rights and fragile rule of law have driven many people into the informal sector. The inefficient public sector remains the largest source of employment."[9] It is estimated that the informal sector (black market) may be equal to that of the open economy. The detailed assessment includes concerns over corruption being pervasive, tax revenue is only 5% of GDP, government spending amounts to 10.4% of total domestic output, public debt is 44.3% of GDP, much business is concentrated in state-owned companies, chronic unemployment and underemployment exist, state price controls distort domestic prices, nontariff barriers increase cost of trade, banking is dominated by state-owned banks, most loans are given to state-led projects, and access to credit remains poor.[10] The country also is fragmented along ethnic and religious lines, which are the cause of many social tensions.

There are many more challenges that one is likely to face in Myanmar. Hard data is scarce. Accurate statistics are difficult to obtain and to verify or substantiate. Everything from manufacturing, exports, to GDP figures cannot be confirmed, mainly due to lack of professionalism in gathering data and the existence of the informal economy where data is not kept. Data produced by local sources tend to be either guesstimates and at times inflated. Even the key economic indicators (including GDP, exports/imports, financial accounts, reserves, and so forth) may be inaccurate, given the lack of experience and exposure of the government technocrats and the existence of a fairly large informal economy. Myanmar has reported impressive GDP growth averaging above 10% from 1992 to 2010. The IMF estimated GDP growth to be considerably lower, averaging 4.6% for the same period instead. This means caution is to be taken and that market research and secondary data will require investment in both time and resources. Conducting due diligence on companies and individuals is also expected to be difficult.

Starting up in Burma will itself pose a challenge. The cost of doing business in Myanmar can be higher than most expect. The property sector is tightly controlled by the government. Land costs are high. There has been a five- to sixfold increase in the cost of office space in Yangon (Rangoon) in the past year alone. Availability is also limited with demand rising day by day. Myanmar remains a cash-based economy though use of credit cards and electronic banking is being introduced, albeit slowly. Moving money in and out of the country can be a challenge. Finding employees with good English and office skills is difficult. The problem is further compounded for businesses that require more specialist capabilities. While the low-wage structure may be attractive, there is a lack of skilled labor. Training will have to be provided for employees to ensure productivity. Blackouts of several hours are a daily occurrence, so companies must invest in expensive power-generating equipment. Internet access is also slow and limited.

Operating within the local political and business culture is also likely to be a challenge, after Myanmar's years of relative isolation from the West. And things certainly move slowly. Many uncertainties remain, from regulations to processes to perceptions to expectations. The experience of many has been that very little can be accomplished, from the smallest transactions to the largest, without the paying of bribes, though foreign investors are less likely to be exposed at the macrolevel from government officials. The importance of relationships at all levels cannot be overlooked. From selecting a partner to appointing an agent or representative, connections and personal relationship count. Selecting a local partner, considered a necessity, can also be arduous. Due diligence is required to ensure that the selected party has not been blacklisted as a former crony. As is the case for most Eastern cultures, signed contracts and legal documents are no substitute for trust and personal arrangements. The legal system is inefficient to say the least and should be relied upon only as a last resort. Ambiguity is a way of life and needs to be understood and accepted. Contrary to the Western practice of directness, no straight answers may be forthcoming in communicating with the Burmese. Misunderstanding due to this and language could lead to strains in relationships. Doing business the fast-track Western way is less likely to pay dividends.

Much uncertainty is to be expected in a country that has been isolated for so long. This is bound to be a challenge for the Western investor or business person. Generally, Asians tend to do better in gray environments where laws are just taking effect and implementation of new regulations has yet to be made. The Chinese, Thais, Taiwanese, Vietnamese, and Singaporeans already have a foot in the door and have been present in Myanmar for some time now. United States, European, and Japanese companies tend to be more cautious as they have been burned in the past and often have to meet corporate reporting requirements that are less forgiving. It would, therefore, be a challenge to adjust and adapt to the uncertainties that will have to be faced.

Conclusion: Going Forward

The foremost question facing investors to Myanmar remains: Will the political and economic reforms toward liberalization be derailed by the military and other parties? This concern among investors has to be significant whether the ongoing political and economic reforms being made in Myanmar are real and sustainable. Along with sweeping political reforms, Myanmar is on track with its ambitious program of economic changes, aimed at rebuilding its moribund economy and integrating it with the global system. It has instituted a managed float of the currency, and is dismantling the old system of monopolies and privileged access to licenses, permits, and contracts. It wants to ensure good governance and transparency work so as to eradicate corruption. These changes will have a big impact on the entrenched economic elite—crony businessmen, the military, and former political heavyweights linked to the government party—who will have to compete on a more level playing field and even start paying tax.

The assessment of the International Crisis Group (ICG) is that this will most likely be not the case. Given their wealth or political influence, these interests might have been powerful spoilers, but there are no indications that they are attempting to derail the economic reforms. They know, which way the winds are blowing, and appear to have accepted the inevitability of the changes. They are aware that the political risks of challenging the reforms would outweigh the likely benefits and see that they may be well positioned to benefit from a vibrant and growing economy, even if their share of it is reduced. To this end, the business elite have embarked on efforts to reposition and rebrand themselves. The military recognizes

U.S. President Obama meets with Myanmar President Thein Sein in 2012

Source: Adapted from Wikipedia. (2013g). Retrieved August 5, 2013, from http://en.wikipedia.org/wiki/File:Obama-thein-sein.jpg that its sprawling business interests, if they continue to be inefficiently run, could become a drain on its budget rather than a supplement to it.[11]

A 2012 case study compared Myanmar to Vietnam, Thailand, and Indonesia as all these countries transited from controlled economies to free markets. The finding was that Myanmar is more likely to follow the development path of Indonesia or Thailand, rather than Vietnam. Unlike Vietnam, which had the communist party as the monopolizing power in governance, Myanmar, Indonesia, and Thailand were all either directly or indirectly characterized by significant military presence, control, and influence in politics. In terms of resources, Myanmar is very much a natural resource driven economy with a relatively large population (two-thirds of working age) that brings potential for manufacturing and consumer-related industries. In this respect, Myanmar is significantly similar to Indonesia as opposed to Vietnam, which is mainly a labor-driven economy, characterized by its predominantly manufacturing-related industries. In Myanmar, Indonesia, and Thailand, major businesses are controlled on the whole by incumbent families, cronies, or the capitalist elites. In Vietnam, however, the government is the most powerful figure in business.[12]

Yet, the path of economic reconstruction will most likely not be smooth or straightforward. To achieve the objective of broad-based and equitable growth, a strong will to collaborate from the ruling party of President Thein Sein (USDP) as well as the opposition party of Daw Aung San Suu Kyi (NLD) will be required. With so much to be changed and the limited capacity at both the policy-formulation and policy-implementation levels, there is a risk that the administration will be overwhelmed.

The worst case scenario is outlined by the ICG thus: Success for Myanmar depends "on ensuring macroeconomic and political stability. Unanticipated economic shocks, social unrest or political uncertainty in the lead-up to the next elections in 2015 all represent potential risks to that stability. But if it is able to manage this complex process, Myanmar has the possibility to finally realize its enormous economic potential, catching up with its neighbors while avoiding some of their mistakes."[13] The Economic Intelligence Unit (EIU) forecasts Myanmar's annual GDP growth to accelerate from an estimated 5% in fiscal year 2012/2013

(April–March) to 6.4% on average in the period to 2017/2018.[14] This is very encouraging indeed.

In conclusion, this quote from former Myanmar ambassador to Belgium, Thaung Tun says it all: "There is a risk of entering Myanmar. There is also a risk of not entering Myanmar."[15] Pragmatic investors know that while there may be considerable risks when entering an emerging market like Myanmar, the many rewards and opportunities that await them cannot be ignored. Naturally a cost/benefit analysis has to be done on an individual basis and the risks/rewards weighed but a wait-and-see decision could mean a serious loss of early entry and first-mover advantage.

CHAPTER 6

Web Resources

Background

Guide for Myanmar
http://www.guideformyanmar.com/culture.html

Myanmar Culture
http://www.myanmars.net/myanmar-culture/

Myanmar Ministry of Health
http://www.moh.gov.mm/

Myanmar Ministry of Hotels and Tourism
http://www.myanmartourism.org/

Myanmar Ministry of Home Affairs
http://myanmarhumantrafficking.gov.mm/node

Myanmar Ministry of Labor, Employment and Social Security
http://www.mol.gov.mm/en/

Myanmar Ministry of Transport
http://www.mot.gov.mm/

Myanmar Tourist Promotion Board
http://www.myanmar-tourism.com/

Government

Central Bank of Myanmar (CBM)
http://www.cbm.gov.mm/

Directorate of Investment and Company Administration (DICA)
http://www.dica.gov.mm/Investment%20Guide.htm

Myanmar Customs Department
http://www.myanmarcustoms.gov.mm/traifflaw.aspx

Ministry for Progress of Border Areas, National Races and Development Affairs
http://www.mba.gov.mm/eng/content/organization-border-areas-and-national-races-development-committees

Myanmar Ministry of Agriculture and Irrigation
http://www.moai.gov.mm/

Myanmar Ministry of Finance and Revenue
http://www.myanmar.com/finance/index.html

Myanmar Ministry of Commerce
http://www.commerce.gov.mm/en/dot/article/trade-regime-myanmar-0

Myanmar Ministry of Education
http://www.myanmar-education.edu.mm/

Myanmar Ministry of Energy
http://www.energy.gov.mm/

Myanmar Ministry of Foreign Affairs
http://www.mofa.gov.mm

Myanmar Ministry of National and Economic Planning
https://www.mnped.gov.mm/index.php?lang=en

Ministry of Social Welfare, Relief and Resettlement
http://www.dsw.gov.mm/en

Myanmar Ministry of Science and Technology
http://www.most.gov.mm/

Myanmar Ministry of Transport
http://www.mot.gov.mm/

The Department of Human Settlements and Housing Development (DHSHD)
http://ministryofconstruction.org/housingdevelop-en.html

Institutions: International Institutions, NGOs, Trade Associations, and Media

International Institutions

Asia Pacific Economic Corporation (APEC)
http://www.apec.org/

Asian Development Bank (ADB)
http://beta.adb.org/countries/myanmar/main

Association of Southeast Nations (ASEAN)
http://www.asean.org/

Food and Agriculture Organization of the United Nations (FAO)
http://www.fao.org/countryprofiles/index/en/?iso3=MMR

EU-Myanmar Task Force
http://www.myanmar-eutaskforce.com/

Friends of Europe
http://www.friendsofeurope.org/

International Chamber of Commerce
http://www.iccwbo.org/

International Finance Corporation (IFC)
http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/east+asia+and+the+pacific/countries/ifc+in+myanmar

International Labor Organization (ILO)
http://www.ilo.org/asia/countries/lang--en/index.htm

Organisation for Economic Co-operation and Development (OECD)
http://www.oecd.org/countries/myanmar/

The World Bank (WB)
http://www.worldbank.org/

The World Health Organization (WHO)
http://www.searo.who.int/

The World Trade Organization (WTO)
http://www.wto.org/

Transparency International (TI)
http://www.transparency.org/

United Nations Educational, Scientific and Cultural Organization (UNESCO)
http://www.unescobkk.org/education/ict/countries/country-information/myanmar/

World Food Program
http://www.wfp.org/countries/Myanmar

World Travel & Tourism Council
http://www.wttc.org/site_media/uploads/downloads/myanmar2013_2.pdf

Non-Government Organizations

Action Aid International
http://www.actionaid.org/where-we-work/asia-australia/Myanmar

ACF International
http://www.actionagainsthunger.org/countries/asia/Myanmar

Agency for Technical Cooperation and Development (ATCD)
http://www.acted.org/en/Myanmar

Adventist Development and Relief Agency (ADRA)
http://www.adramyanmar.org/

Asian Harm Reduction Network (AHRN)
http://www.ahrn.net/index.php

Association of Medical Doctors in Asia (AMDS)
http://www.amda-minds.org/english/index.php/program/highlights-of-our-2012-programs/

Arche Nova
https://arche-nova.org/en/countries/Myanmar

CESVI Foundation
http://www.cesvi.eu/?pagina=pagina_generica.php&id=641

Child´s Dream
http://www.childsdream.org/?gclid=CP35uYua5LgCFUQ6QgodwE0Azw

Trade Associations

Australia-Myanmar Chamber of Commerce
http://www.a-mcc.com/

Indo-German Chamber of Commerce
http://www.indo-german.com

Indo-Myanmar Chamber of Commerce
http://www.imcci.org/myanmar.php

Myanmar-U.S. Chamber of Commerce
http://www.myanmaruschamber.org/

The Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry
http://www.umfcci.net/umfcci/index.php?__2MnJjaWc=__1dHJhZGUlMjBhc3M

U.S. Chamber of Commerce
http://www.uschamber.com/international/asia/southeastasia/Burma

Media

Asian Correspondent
http://asiancorrespondent.com/category/burma/

Burma Daily
http://burmadaily.com/

BurmaNet News
http://www.burmanet.org/news/

Burma News International
http://www.bnionline.net/

Mizzima News Agency
http://www.mizzima.com/

Myanmar News
http://www.myanmarnews.net/

Myanmar Times
http://www.mmtimes.com/

The New Light of Myanmar
http://www.myanmar.cm/newspapers/the-new-light-of-myanmar.html

The Irrawaddy
http://www.irrawaddy.org/

Business and Trade Practices

Australia-Myanmar Chamber of Commerce
http://www.a-mcc.com/

Central Bank of Myanmar
http://www.cbm.gov.mm/

Directorate of Investment and Company Administration
http://www.dica.gov.mm/Investment%20Guide.htm

Indo-German Chamber of Commerce
http://www.indo-german.com

Indo-Myanmar Chamber of Commerce
http://www.imcci.org/myanmar.php

Japan Center
http://japancenter.jica.go.jp/country/myanmar/myanmar_e.html

Japan External Trade Organization (JETRO)
http://www.jetro.go.jp/en/

Myanmar Customs Department
http://www.myanmarcustoms.gov.mm/traifflaw.aspx

Myanmar Ministry of Agriculture and Irrigation
http://www.moai.gov.mm/

Myanmar Ministry of Commerce
http://www.commerce.gov.mm/en/dot/article/trade-regime-myanmar-0

Myanmar Ministry of Cooperatives
http://www.myancoop.gov.mm/

Myanmar Ministry of Energy
http://www.energy.gov.mm/

Myanmar Ministry of Finance and Revenue
http://www.myanmar.com/finance/index.html

Myanmar Ministry of Foreign Affairs
http://www.mofa.gov.mm

Myanmar Ministry of Mines
http://www.mining.com.mm/

Myanmar Ministry of National and Economic Planning
https://www.mnped.gov.mm/index.php?lang=en

Myanmar Ministry of Science and Technology
http://www.most.gov.mm/

Myanmar Ministry of Transport
http://www.mot.gov.mm/

Myanmar-U.S. Chamber of Commerce
http://www.myanmaruschamber.org/

The Department of Human Settlements and Housing Development (DHSHD
http://ministryofconstruction.org/housingdevelop-en.html

The Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry
http://www.umfcci.net/umfcci/index.php?__2MnJjaWc=__1dHJhZGUlMjBhc3M

U.S. Chamber of Commerce
http://www.uschamber.com/international/asia/southeastasia/Burma

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