BY CHESTER TOH & ALROY CHAN

INVESTING IN MYANMAR – NOT WHEN BUT HOW

From a macroeconomic perspective, Myanmar still remains one of the fastest growing economies in the world

DECADES of stunted development under military rule gave way to Asia's newest democracy after victory by Aung San Suu Kyi's National League for Democracy (NLD) in 2015. This, along with the lifting of country-based sanctions by the US government, was supposed to be the turning point for Myanmar, thought to be the "last economic frontier" in Asean.

Four years later, however, the economy has been underperforming and confidence in the government is low. Sluggish growth can be seen in various sectors. Construction and real estate have been adversely affected by office rental declines and low take-up rates for newly constructed condominiums in Yangon. Hotel occupancies are also trending downwards, and premium hotels have had to drop their room rates as business travellers declined.

Critics point to the NLD's poor implementation of the economic policy, underdeveloped infrastructure, financial mismanagement leading to widespread kyat depreciation, as well as rising labour costs spurred by inflation and premature increase of minimum wage as reasons behind the decline in foreign domestic investment (FDI) numbers.

The negativity is not just limited to the economy. In August 2017, the military led a security crackdown after attacks by Rohingya Muslim insurgents on security forces in Rakhine State. Cries of genocide and ethnic cleansing were heard as stateless Rohingya Muslims fled into Bangladesh. The UN's findings on the humanitarian crisis, imposition of Western sanctions on military personnel involved, threat of withdrawal of Myanmar's Generalized System of Preferences (GSP) benefits by the EU and outcry in international media over the imprisonment of two Reuters journalists investigating the human rights violations in Rakhine State, together with the recent failed repatriation efforts for the first batch of Rohingya refugees back to Myanmar all point to a gloomy picture for Myanmar.

Despite this, we see a silver lining and maintain that investing in Myanmar is not a matter of when, but how.

PHOTO: ISTOCKPHOTO

First, the Myanmar government has continued with legal and regulatory reforms. The overhaul of Myanmar's tax system such as reduction or elimination of selected withholding taxes, implementation of the new Myanmar Companies Law, liberalisation of foreign participation in sectors such as education, wholesale and retail are all positive developments. Myanmar is also looking to introduce a new set of intellectual property laws, and liberalisation of insurance sector can be expected in the coming months.

To ensure that the country is not left its neighbours' wake, the government established a new Competition Commission and plans are going ahead with the reform of insolvency laws as well as the drafting of new laws covering cyber security, e-commerce and e-government.

Regulatory processes have also been streamlined. It no longer takes months to incorporate a company, and investors can now utilise the online registration system MyCo to register their companies and undertake searches. A self-assessment system has also made tax administration easier. Myanmar has even done away with arrival and departure cards at its airports. The systems are admittedly still in need of fine-turning but it is a clear and vast improvement over the paper-based processes that were commonplace up till last year.

Second, the Myanmar government is conscious that it needs to address and improve the economy on an urgent basis. While the NLD's prior focus was on security issues and the peace process, it realises that it cannot take its eyes off the economy and job creation. In that regard, the NLD published the Myanmar Sustainable Development Plan in August 2018, which sets the policy priorities for developing the economy.

With the 2020 elections in mind, there is a growing awareness among the NLD leadership that it can no longer campaign on being an alternative to the junta or military-linked government. Myanmar's corruption rankings have also improved, following a number of high profile cases against government officials. The government has also formed a new ministry dedicated to overseeing investments in the country called the Ministry of Investment and Foreign Economic Relations. To improve liquidity, the Central Bank of Myanmar is also undertaking a number of regulatory initiatives including permitting foreign banks to lend to local businesses.

Third, any talk of additional sanctions has so far been limited to targeting those responsible for the Rakhine State crisis, recognising that any widespread sanctions can severely impact Myanmar's economy. While there may be reputational issues for investors who could be seen as endorsing the government's handling of the crisis, Myanmar as a whole is best seen as an undeserved punching bag, given the lack of control that the NLD government has over the military whose oversight is carved out from the civilian government under Myanmar's constitution.

Fourth, from a macroeconomic perspective, Myanmar still remains one of the fastest growing economies in the world. In a space of a few years, it has developed from one of the most isolated countries to one where mobile phone penetration rate is close to 90 per cent. With 40 per cent of the world's population in its immediate neighbouring countries, Myanmar has the potential to be a low-cost manufacturing hub for the region. More importantly, Myanmar has a sizeable and young population and raft of natural resources.

For Singapore companies, Myanmar is also a member of Asean and part of the Asean Economic Community (AEC). It has a double tax treaty with Singapore, and the two countries are also looking to finalise the bilateral investment treaty shortly. With the Asian Development Bank (ADB) and World Bank forecasting growth in the region of 7 per cent for the next few years, Myanmar remains a compelling investment destination.

How then should an investor look at Myanmar? As a start, it may be good to focus on priority sectors such as health care, education, manufacturing and infrastructure. With the recent liberalisation, Singapore companies are also well-positioned to participate in the wholesale and retail sectors given Singapore's role in regional and international trade.

It goes without saying of course that doing one's homework by way of a market study, having a good local partner and working with experienced professional advisers are key to increasing the prospects of success as with any investment. A dose of expectation management would be useful. Legacy issues due to 50 years of economic mismanagement and isolation cannot be solved over a few years. While it may be tempting to *chiong*, perhaps a better suited approach would be *seit shay shay htar par* ie be patient and suss out the right opportunity. ■

Chester Toh co-heads the Myanmar practice of Rajah & Tann and is a director with Rajah & Tann's Yangon office. Alroy Chan is a partner with the Myanmar practice of Rajah & Tann and was based in Myanmar from 2012 to 2013.

PHOTO: AFP

"WITH 40 PER CENT OF THE WORLD'S POPULATION IN ITS IMMEDIATE NEIGHBOURING COUNTRIES, MYANMAR HAS THE POTENTIAL TO BE A LOW-COST MANUFACTURING HUB FOR THE REGION. MORE IMPORTANTLY, MYANMAR HAS A SIZEABLE AND YOUNG POPULATION AND RAFT OF NATURAL RESOURCES."