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LEADING THE WAY

PwC THAILAND

Myanmar's smooth transition to its first elected government under the National League of Democracy (NLD) has been applauded by the international community and investors alike. In May 2016, the US announced elimination of most remaining sanctions against Myanmar, marking the near-end of one of the country's last political barriers to investment.

Foreign business is moving into Myanmar in a big way, and the country is experiencing Southeast Asia's highest growth at over 6% amid a regional and emerging-market slowdown. The economy is deemed one of the world's last untapped frontiers, and as it emerges from decades of closed, socialist-style micromanagement, nearly every key area of the economy is ripe for development and growth.

As political risk lessens, the type of investment in Myanmar is also changing. The initial flood of foreign investment in 2012 into lower-risk areas such as consumer goods and automobile importing is leading to interest in higher-risk areas such as mining, property development and construction.

But with Myanmar's more open, internationalist government comes significant challenges for both new and existing foreign investors.

As is often the case in emerging markets, political change can bring uncertainty as powerful figures associated with the past come under added scrutiny by the new powers that be (such as in Indonesia after the fall of the Suharto government and Argentina after the Carlos Menem administration).

Myanmar's NLD has not publicised a comprehensive economic plan, but the authorities have verbally committed to increasing transparency, fighting corruption and challenging many of the "crony capitalist" characteristics of the old system.

This could mean that tycoons and their associated companies that flourished under the Thein Sein government and its State Peace and Development Council (SPDC) predecessor could come under the microscope as the NLD consolidates authority over the civil service — potentially leaving local elites without the political "patron saints" that protected them in years past.

Government contracts, land deals and tax arrangements that may have been tolerated under the military or the reformed post-2011 government could be re-examined as the new authorities settle in and respond to public demands. For existing foreign investors subject to ever stricter anti-corruption requirements, the new political realities may force them to examine their relationships and the possibility that their local partner could have their public works projects, tax records and other past conduct revisited.

New investors need to take a close look at the way in which their local partners attained their level of wealth, the government relationships they may have cultivated and the degree to which they benefited from those networks. Local companies engaged in sensitive or highly regulated sectors with significant "government touchpoints" such as natural resources, arms or rice exports (pre-2010) could be especially prone.

Other issues such as tax compliance may also become an issue as the government modernises. At the time of the 2015 election, the Thein Sein-led government was in the beginning stages of reforming the tax system from its socialist-style roots. As Myanmar improves its auditing and tax collection capabilities under the NLD, local businesses may face hard questions about how they attained their level of wealth and success.

Property speculation is also a potential issue that could come under scrutiny. During the waning years of the pre-2011 military government and its successor under Thein Sein, property values in Yangon and Mandalay spiralled at world-record levels, making land in many cases more expensive than in Manhattan or Singapore. The exorbitant prices were driven not just by strong GDP growth but by the country's overwhelming cash economy that forced tycoons to plough money into property instead of unreliable local banks and a shaky Myanmar currency.

High land values priced many locals out of the market, potentially leading to demands that the government clamp down not just on the price of land, but also the wealth that led to the overheated market in the first place. Moving forward, both local and foreign investors may well find that "what happened under the military doesn't necessarily stay under the military".

This article was prepared by George McLeod, a manager at PwC Consulting (Thailand). We welcome your comments at leadingtheway@th.pwc.com