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Strategy in Action

Navigating a frontier market

There are plenty of opportunities for foreign investment in Myanmar as it opens up, but challenges await

AFTER decades of economic isolation, the introduction of democratic and economic reforms by the previous U Thien Sen government from 2012–2015 ushered in a period of accelerated economic growth in Myanmar. The peaceful handover of power to Daw Aung San Suu Kyi's National League for Democracy (NLD) following NLD's landslide victory in the November 8 national election last year raised hopes that the country is finally on the path to political stability and sustained economic growth. President Obama's lifting of the remaining US sanctions last month removed the final major barrier keeping Myanmar from integrating with the global economy.

These developments have attracted heightened interest by foreign investors in one of Asia's last frontier markets, particularly in the infrastructure and consumer sectors.

"It is against this backdrop that we are bullish about the medium to long term economic outlook and business opportunities in Myanmar. The new NLD administration may have started slower in its first year than some would have liked, as one would expect given the new team and the number of challenges the country is facing. Building a nation and transforming an economy cannot be measured by quarters, or be defined by twitter-length soundbites. It is better that the government gets a firm foothold before it lunges," says Mr Jovi Seet, Senior Executive Director of PwC Myanmar and Partner at PwC Singapore.

Myanmar boasts a number of attractive strategic advantages – a youthful population and workforce, a low cost base and its strategic geo-position between China and India, as well as its ample natural resources and long coastlines.

"These hold promise for the country to become the region's new Tiger economy in time to come. In addition, with the lifting of US sanctions, we expect to see substantial increase in investments by US and other corporations," says Mr Seet.

Reflecting this trend, western food chains such as KFC and Gloria Jean's recently opened their first outlets in Yangon. MasterCard has also recently launched contactless cards in Myanmar, leapfrogging the conventional magnetic strip cards. Meanwhile, Thilawa Special Economic Zone (SEZ) – one of three SEZs in the country – opened in September 2015 and is expecting 100 companies over the next five years.



"With Myanmar being one of the last frontier markets left in Asia to expand into, the attraction is clear."

PwC Myanmar

PwC Myanmar opened its Yangon office four years ago in anticipation of the opportunities that economic liberalisation would unleash. Today, the office is a thriving operation with more than 70 local Myanmar professionals and another 10 overseas secondees, with strong technical support from PwC Singapore.

PwC Myanmar focuses on helping foreign investors enter and operate in Myanmar; as well as assisting local companies transform their business, raise capital and realise their growth ambitions. PwC offers the full suite of tax and advisory services covering mergers and acquisitions, infrastructure projects, business consulting and market entry.

Opportunities abound in infrastructure

Mr Seet expects infrastructure to be a major area of growth as it is significantly underinvested over the past several decades. "Infrastructure development is a necessary precursor for industrialisation and sustainable economic growth," he says.

These include both physical infrastructure like utilities, transport and telecommunications, as well as soft infrastructure – developing financial services, education, healthcare, all key areas that the government has unveiled as priorities in their "12-point economic policy" plan for the country. Myanmar has one of the lowest electrification rates in the region, with only 30 per cent of the population connected to the electricity grid.

Despite its strategic geographic position at the north-south east-west cross roads between India, China and Southeast Asia, Myanmar's road density of 2.48 (kilometres per 1,000 people), for instance, is among the lowest within Asean. Investment in airports, railways and ports are also needed to support the growth in travel and trade.

Special economic zones

To help spur foreign investment and drive growth, the country is developing three SEZs to attract foreign investment and drive economic growth. These zones – which host industries including manufacturing high-tech products, agriculture based industries, and livestock and fishery based industries – are located in Thilawa (Yangon), Daiwei (South) and Kyaukphyu (West).

The SEZs offer investors a host of income tax, customs duty and commercial tax incentives. The SEZ Law also allows investors to lease land for 50 years, with the possibility of extending the lease for a further 25 years. Further, investment laws are expected to be liberalised. In addition, the new Myanmar Investment Law 2016, enacted on Oct 18, 2016, is expected to be even more investor-friendly than previous regulation and will help to further attract foreign direct investment in Myanmar.

Market entry

According to Mr Seet, given the complexity of a newly opened economy and language barrier especially outside of Yangon, most foreign businesses are entering the Myanmar market by acquiring (M&A) or joint venture with an existing local business. Greenfield investments are mainly smaller businesses, or businesses in regulated sectors like banking and telecoms.

He adds, "Currently we are seeing increased interest in the retail and consumer space. With Myanmar being one of the last economies left in Asia to open up, its population of 51 million, and its rate of growth, the attraction is clear." As of March 31, 2016, the three largest foreign investors in Myanmar are China, Singapore (this includes foreign companies routing their investments via Singapore) and Thailand.

As a frontier market, those looking to enter Myanmar must be prepared to face certain challenges. This can range from the unavailability of bank financing to inefficient tax structures that can have a significant impact on profit repatriation and exit costs. PwC helps its foreign investors navigate these and other intricacies of investing in Myanmar.

"When a country has been cut off from the global economy for decades, opening up its domestic companies to foreign investors and competition inevitably raises structural challenges. Myanmar companies need to transform and restructure themselves to become stronger and more efficient, and to understand the ways of international companies. And international companies need to be confident that their local joint venture partners are robust and transparent. PwC is playing a pivotal role in enabling Myanmar to realise this potential," says Mr Seet.

Beyond the commercial, Mr Seet says his time in Myanmar has been instrumental in personal growth and development. He adds, "Although taking on this role means personal sacrifices such as seeing less of my two young children, my time in Myanmar has helped shape me into a better parent. Professionally, I have also learnt to be more confident outside my usual comfort zone, and be more adaptable and resilient. The generation before me had the opening up of China and Vietnam. North Korea is too far and too cold. Myanmar is our Last Frontier in Asia. We should capitalise on it to grow professionally and to contribute meaningfully."

■ This is the third instalment of a five-part series 'Strategy in Action', which is brought to you by PwC. The next instalment will appear on Nov 17

Major announced deals in Myanmar

- ◆ Japan's Kirin Holdings Co. bought a controlling 55% stake in Myanmar Brewery Ltd., the largest beer maker in the Southeast Asian nation, for US\$560 million. This follows the resolution of the dispute between military affiliated minority shareholder, Myanmar Economic Holdings Limited and Singapore listed F&N Limited. The dispute follows a takeover of F&N by Singapore listed Thai Beverage Limited.
 - ◆ The Myanmar government awarded the US\$14 billion Kyaukphyu Special Economic Zone project (comprising a deep sea port, industrial park, and integrated residential area spread over an area of 4,200 acres located in Rakhine state) to Chinese conglomerate CITIC which will hold an 85 per cent stake with the Myanmar state retaining the rest.
 - ◆ First Myanmar Investments Co Ltd and Indonesian conglomerate Lippo Group entered into a US\$420 million healthcare joint venture targeting up to 20 hospitals across the country.
 - ◆ Japanese mobile carrier KDDI Corp. and trading house Sumitomo Corp. committed to invest about US\$2 billion to operate Myanmar Posts and Telecommunications' mobile telephony network over 10 years.
 - ◆ Global Private Equity firm TPG Capital took a 50% stake in one of Myanmar's leading spirit makers Myanmar Distillery Company, which produces and sells popular whiskey brand Grand Royal.
- "PwC provided advisory services in all of the above transactions"*

