Doing Business in Myanmar

Session Three focused on Myanmar. The Session was moderated by ***Dr Larry Wong****, ISIS Programme Director of Technology, Innovation, Environment and Sustainability (TIES). The three speakers were* ***Dr Tin Maung Maung Tan****, Senior Research Fellow, ISEAS Singapore,* ***Mr Aung Naing Oo****, Director General, Directorate of Investment and Company Administration, Myanmar and* ***Mr Ye Min Aung****, Secretary General, Myanmar Rice Federation. ISIS Analyst* ***Zarina Zainuddin*** *reports.*

From left: Ye Min Aung, Larry Wong, Aung Naing Oo and Tin Maung Maung Tan

The first speaker, **Dr Tin Maung Maung Tan**, gave an overview of the current situation in Myanmar, which is attempting to reform both its economic and political systems simultaneously. It is not an easy task, given that it is military-ruled and had an inward-looking nationalistic-oriented policy in its recent past. On top of that Myanmar is a multiracial, multi-religion country with eight ethnic groups with their attendant inherited problems, all of which makes nation-building a difficult process.

Tin highlighted some of the challenges faced and responses (in the form of reforms) undertaken by Myanmar. While Myanmar is a resource-rich country with abundant land, water and natural gas, it is currently experiencing an electricity shortage, with frequent blackouts and brownouts. The nation has responded to these problems by allowing independent power producers (IPP) to be established. This has not only lessened the number of blackouts, but has also provided 24-hour electricity supply to some areas, particularly industrial zones.

Another challenge is the difficulty in obtaining and accurately measuring key economic indicators (including GDP, exports/ imports, financial accounts, reserves, etc) given the lack of experience and exposure of its technocrats and the existence of a fairly large informal economy. Such problems hamper the ability of the government to plan and implement proper economic measures.

Tin Maung Maung Tan

Tin continued to highlight political reforms. Among them is Myanmar's unique government structure. In Myanmar, elected representatives are required to resign from their jobs and relinquish party positions. Hence, effectively, the party 'does not rule'; instead Myanmar's President and members of his cabinet constitute an independent executive body.

About 25 per cent of Myanmar's parliament is comprised of military personnel, selected by the Commander-in-Chief. However, Tin believes the numbers are not important: what is important is how they perform. As long as they work for the people and for the benefit of the country, it is a situation that is acceptable. It is important not to alienate or cast aside the military, for such an action might cause resentment and result in tension. It is better to cooperate with and effectively utilize the uniformed personnel, thus maintaining a stable political environment. At the end of the day, Myanmar has 'a structure which has pluralism and multiple authority,' instead of top-down rule by the junta.

Tin also touched on the ethnic situation, with ethnic groups wanting more rights and autonomy, and on the effort needed to balance those needs. More problematic are those groups who want to establish their own separate military alongside Myanmar's national army. There is of course the tragedy of the Rohingya.

The Rohingya problem is one of communal violence; it is not caused by sectarian or religious conflict. It is partially fuelled by misunderstanding, segregation, corruption in the past, and illegal immigration. The situation is further compounded by the inefficient registration of citizens and issuing of national identity cards, and the failure to integrate the group into mainstream society. There are no easy fixes and it will take time and considerable effort by the government for the nation to arrive at a lasting solution.

Myanmar is a classic case of a half-full-half-empty glass. What is important though, is whether there is sufficient 'liquid inside the glass' for everybody. This is his main message. In order to fill the glass, and to advance as a country, Myanmar needs a lot of investments (particularly FDI), and it needs local development, with real support in terms of 'software and hardware' development and a collaborative, stable, political environment which does not alienate any party.

The second speaker, **Mr Aung Naing Oo**, concentrated on the economic reforms of Myanmar. Many of the reforms that Myanmar undertook aimed at improving the foreign direct investment environment, he said. Myanmar's economy presents a lot of potential for investors. It is a country rich in natural resources, precious stones, gas and teak (to name a few), it has abundant land and water, a sizable population, its literacy rate is high, it has an English-speaking work force, and it has low level wages.

There are two gateways to invest in Myanmar. The first is through the MIC (Myanmar Investment Commission) which is the sole authority for permitting business investments in Myanmar. The MIC, a body made

Aung Naing Oo

up of both the government and private sectors, screens all investment applicants. The other gateway is the Directorate of Investment and Company Administration for Company Incorporation, which issues permits and handles company registration. The difference between the two agencies is that the latter is not mandated to provide investment incentives. (See Table 1)

According to Aung, currently, numerous revisions are being made to the laws of the nation, including the foreign investment law and the special economic zone law. Various reform measures are being implemented as well. Among the highlights are added benefits for those investments beneficial to the state i.e. investments in rural areas. Investors will get additional incentives such as longer tax holidays.

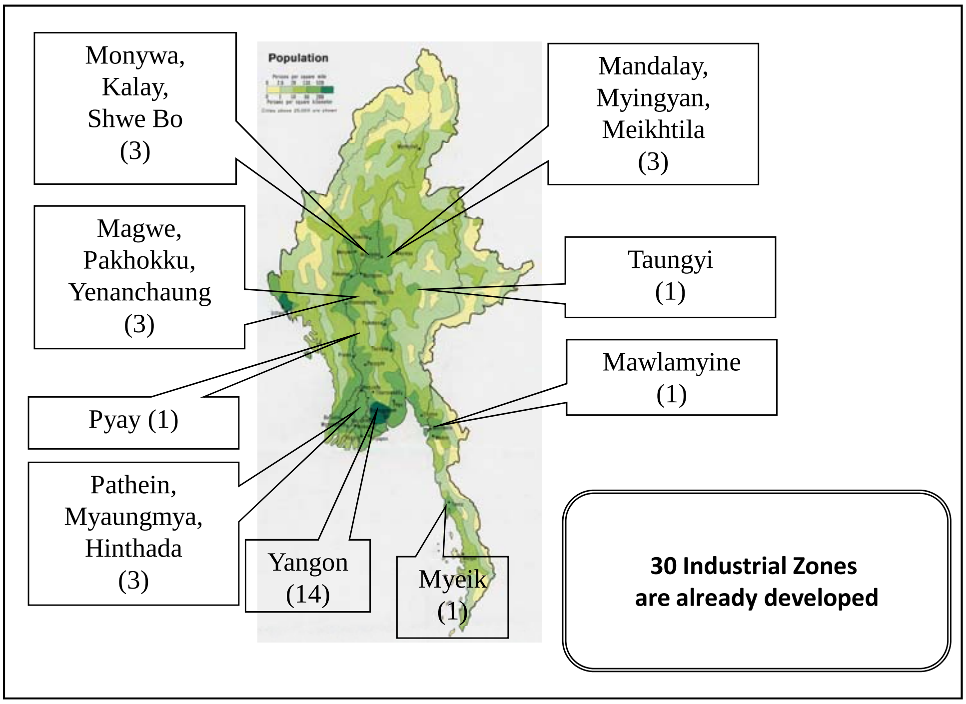
Table 1: Foreign Investments by Country

No.	Countries	Permitted Enterprises		
		No.	Approved Amount (USD in mil)	%
1	China	36	14146.529	34.41
2	Thailand	61	9568.093	23.27
3	Hong Kong	41	6372.249	15.50
4	Republic of Korea	64	2969.074	7.22
5	U.K	54	2799.185	6.81
6	Singapore	77	1853.230	4.51
7	Malaysia	43	1031.285	2.51
8	France	2	469.000	1.14
9	U.S.A	15	243.565	0.59
10	Indonesia	12	241.497	0.59
11	The Netherlands	5	238.835	0.58
12	Japan	27	225.457	0.55
13	India	8	273.500	0.67
14	Philippine	2	146.667	0.36
15	Russia Federation	2	94.000	0.23
16	Australia	14	82.080	0.20
17	Austria	2	72.500	0.18
18	Panama	2	55.101	0.13
19	Viet Nam	4	49.796	0.12
20	United Arab Emirates	1	41.000	0.10
21	Canada	15	40.791	0.10
22	Mauritius	2	30.575	0.07
23	Germany	2	17.500	0.04
24	Republic of Liberia	2	14.600	0.04
25	Denmark	1	13.370	0.03
26	Cyprus	1	5.250	0.01
27	Macau	2	4.400	0.01
28	Switzerland	1	3.382	0.01
29	Bangladesh	2	2.957	0.01
30	Israel	1	2.400	0.01
31	Brunei Darussalam	1	2.040	0.00
32	Sri Lanka	1	1.000	0.00
	Total	**503**	**41110.908**	**100.00**

Source: Directorate of Investment and Company Administration, Myanmar

Fig 1

Industrial Zones



Source: Directorate of Investment and Company Administration, Myanmar

Among the changes are the lower start-up capital, the abolishing of custom duties for machinery and other imports for the purpose of construction, the extension of land leases for up to 50 years — renewable up to 70 years — and less red tape for profit repatriation. The government has also vowed not to resort to nationalization or expropriation of assets, and not to terminate agreements midway through contracts.

Myanmar is paying more attention to developing its Special Economic Zones. The industries targeted for these economic zones are production-based industries, services, and infrastructure construction businesses. Incentives for economic zones include tax holidays, income tax relief for export production and reinvestment, and exemption from custom duties for production inputs such as machinery, imported raw materials and vehicles. Myanmar is developing three special economic zones — Dawei, Thilawa and Kyaukphyu — another seven zones are to be developed later (see Fig 1).

Aung's office, the Directorate of Investment and Company Administration, is responsible for permits, and the registration of incorporation of companies. The types of businesses targeted are industries and manufacturing, services, construction, hotels, travel, banks, and insurance representatives. Aung said it has been a remarkable year. By the end of the fiscal year, he expects about 400 foreign companies to be incorporated in Myanmar.

As for FDI, Myanmar will initially focus on labour-intensive industries before moving to Value-Added and finally High-Tech industries. Going forward, Myanmar will:

- Draft rules for foreign investment law;
- Revise the special economic zone law;
- Upgrade the company registry system (online registration), and
- Design new company laws to meet the nation's expectations.

Ye Min Aung

Mr Ye Min Aung, the third Speaker, focused on the role that the private sector plays in developing Myanmar's agriculture, specifically the rice sector. Agriculture makes up 32 per cent of Myanmar's GDP, employs 61 per cent of its labour force, and provides 17.5 per cent of its export earnings.

The private sector initiative addressed the challenges of rice and agriculture sustainability, based on a vision of agribusiness as a positive contributor to food security, environmental sustainability and economic development. It is imperative, said Ye Min that the private sector-led and market-based solutions that are to be implemented are explicitly linked to national development priorities.

The three priority areas of the new vision are comprehensive supply chain mechanisms, value addition (value added) and investment in food and energy production industries. The new vision business strategies have a two-pronged approach:

- To transform farming from a means of livelihood to a business – in essence a transition from small-scale to commercial-scale farming;
- To transform rice processing and milling operations into food and energy production.

To implement the first approach, the various measures include forward sales arrangements for agriculture commodities, contract sales arrangements, commodity exchanges and commodity futures markets.

The second requires upgrading or investing in new facilities that would transform current rice processing and milling facilities into modern integrated complexes that will not only produce rice but will also utilize by-products to produce a range of goods ranging from animal feed to rice crackers. The facilities will be powered by the burning of rice husk which is expected to be able to generate enough electricity for the running, not only of the plants, but the surrounding townships as well. These complexes will be able to offer related activities such as farmer training centres and farm equipment rental.

Ultimately, the new vision aims at making Myanmar a rice-exporting country. Myanmar has the world's largest consumption of rice per capita, and its rice production was, until recently, sufficient only for its domestic market. The introduction of high yielding and hybrid rice crops and increasing the production of local rice, coupled with export-oriented contract farming arrangements helped to produce excess rice for export.

Contract arrangements saw five areas being zoned for planting high-yielding rice varieties, resulting in higher rice production. In 2012, Myanmar managed to produce about one million metric tons of rice in excess of local consumption, for export.

It is imperative ….. that the private sector-led and market-based solutions that are to be implemented are explicitly linked to national development priorities

> ***Making Myanmar a rice exporter …… is crucial for sustaining business activities***

Making Myanmar a rice exporter, said Ye Min, is crucial for sustaining business activities. As for the outlook for rice exports, Myanmar has been increasing rice production yearly, targeting four million metric tons in 2020. Various measures, including investment in food and energy production, increasing the area of contract farming, and increasing the number of rice terminals were additional means to turn Myanmar into a rice exporter. Higher productivity from agriculture translates to higher income levels for farmers and will contribute to the socio-economic development of rural areas.

Myanmar came out at the wrong time rued one speaker. Unlike its Asean counterparts whose economies took off during a period of prosperity and peace, Myanmar debuted into a depressed world economy, particularly with the lingering woes of the West. On the other hand, in times of difficulty, investors are more discerning and only the most promising areas of investment will be considered. In this regard, the number of visitors and investors, including the VIPs of the political and business worlds that have thronged to Myanmar in recent years, and the amount of investments flooding in, are testament to Myanmar's golden potential.