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DEDICATED TO ASEAN INTEGRATION

TOPICAL REPORT

# Is ASEAN losing out in the Myanmar investment race?



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By Sóley Ómarsdóttir

# Is ASEAN losing out in the Myanmar investment race?

Since the start of the democratic reforms and economic opening in 2011, Myanmar and the international community have been anticipating the onset of an investment race. Although Myanmar has received dozens of business delegations in the past two years, most investors have until now adopted a wait-and see attitude. Investment in 2012 was significantly lower than in the two previous years. The main reason for investors' hesitation was that the legal framework was unclear as the government and parliament debated a new foreign investment law for months. The new law was finally passed last November and details of the permitted activities for foreign investors were released in January this year. With the legal framework clarified at last, we could now possibly see the start of a real investment race.

The race has already started in some sectors. The telecommunication sector is the first to be privatised, but the government is offering four mobile operating licenses; two for local companies and two for foreign companies. Over 20 companies from all parts of the world are contesting for those two licenses and the government has now shortlisted 12 bidders, including three from ASEAN member countries Malaysia, Singapore and Vietnam. The government is also offering licenses for 30 offshore exploration blocks and over 50 companies from have expressed their interest. The government already bid out 18 blocks in 2011 but postponed the second bid until now in order to improve transparency and make sure it complied with international standards.

Many countries are set on not losing the race. China is currently Myanmar's largest investor, but China started to invest heavily in Myanmar's power, oil and gas sectors before the economic opening. Keeping its position in Myanmar is important for China, as it relies on it for resources and access to the Indian Ocean. Japan is continuously increasing its presence in Myanmar. Although it has not invested much yet, Japan is the main backer behind the Thilawa special economic zone, and several other investments are on the horizon. Western firms are also showing interest after the US, Canada, the EU, Australia, and New Zealand all either removed or suspended the economic sanctions they had imposed on Myanmar. Among ASEAN members, Thailand, Singapore, Malaysia and Vietnam are already getting involved in Myanmar, while Indonesia and Philippines have not.

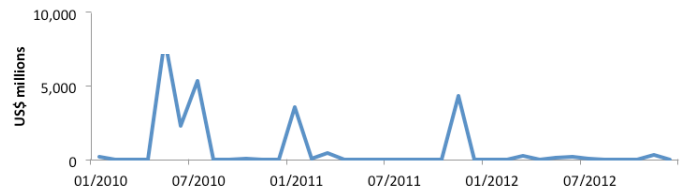
It is not surprising that many countries want to get their hands on Myanmar. It is a resource rich country, with oil, gas, minerals and timber. It is the gateway between India and China, and has access the Indian Ocean. It has a young population of 48-60 million (numbers vary but a national census will be done in March next year) and many completely untapped markets. It is not without reason that Myanmar has been called the last economic frontier of Asia.

## Taking a look at the numbers

The official data for FDI in Myanmar for the first quarter of 2013 are not yet available but taking a look at the data for the past three years does provide some interesting insights.

The foreign investment flow into Myanmar for the past three years is characterised by a few large investments in between periods of time of low or zero investment.

## FDI in Myanmar 2010-2012

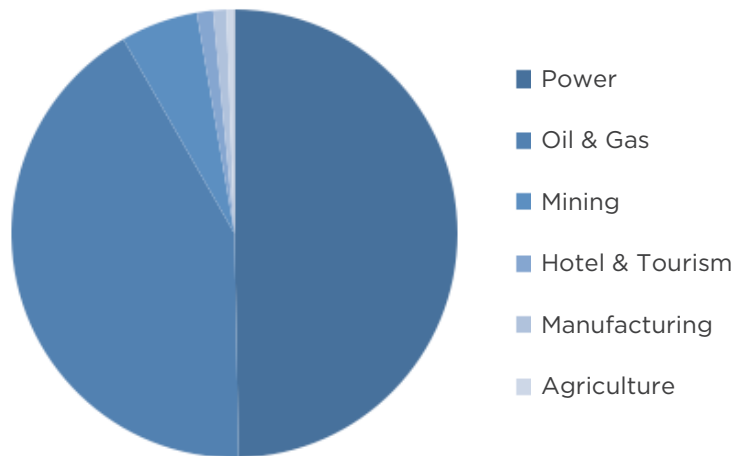


Roughly half of all FDI in Myanmar during the period 2010-2012 was invested in the power sector, or about US\$12.76 billion. The oil and gas sector received over US\$10.78 billion and US\$1.43 billion was invested in Myanmar’s mining sector.

## Total FDI in Myanmar 2010-2012

Sectors	in US\$ millions
Power	12,756
Oil & Gas	10,783
Mining	1,431
Hotel & Tourism	300
Manufacturing	243
Agriculture	148
Fisheries	6
Transport	5
Others	1
Real Estate Development	0
Industrial Estate	0
Construction	0
<b>Total</b>	<b>25,674</b>

Major Sectors



Total foreign investment in 2012 was significantly lower than in the two previous years or only US\$1.07 billion compared to about US\$8.5 billion in 2011 and US\$16.14 billion in 2010. ASEAN investment in Myanmar was also significantly higher in 2010 compared with the 2011 and 2012, or US\$3.18 billion, compared with US\$305 million and US\$436 million respectively.

## Total FDI in Myanmar 2010-2012

FDI in Myanmar (in US\$ millions)	2010*	2011*	2012*
Total	16,141	8,465	1,069
From ASEAN	3,183	305	436
From Greater China	10,476	7,936	287
From Japan	0	7	48

\*Calendar year, not fiscal year

## Who is in the race?

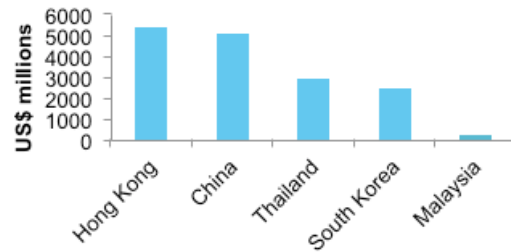
### East Asia

China is uncontested as Myanmar's largest investor, despite investing significantly lower last year compared with the two previous years. Greater China invested over US\$18 billion in Myanmar over the past three years. That is more than all other countries combined have ever invested in Myanmar, but as of December 2012 total FDI in Myanmar was about US\$38 billion.

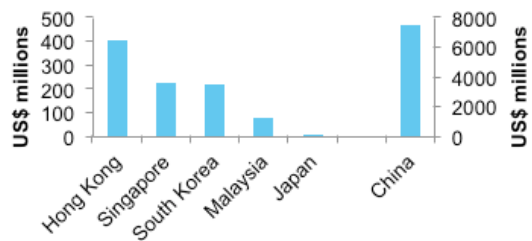
Myanmar's wariness of its reliance on China has been mooted as one of the reasons for the government's decision to reform and open its economy. President Thein Sein tried to dismiss such rumours on his most recent visit to China but Chinese investors are getting worried about their investment security in Myanmar following the suspension of the Myitsone Dam in 2011, the recent protests against the Letpadaung copper mine, and against the Shwe pipeline project - all major

## Myanmar FDI by source countries, 2010-2012

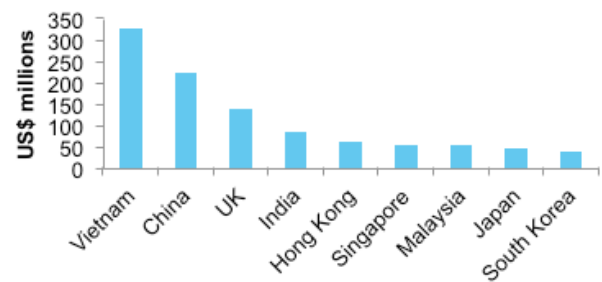
### 2010



### 2011



### 2012



Japan has lately been increasing its presence in Myanmar, challenging China's dominance. Following a memorandum of understanding (MoU) on economic cooperation between Japan and Myanmar early last year, Japan has waived most of Myanmar's debt, provided bridge loans for Myanmar to pay off international creditors, and became the main backer of the planned special economic zone in Thilawa. Japanese firms previously could not invest in Myanmar as the Japanese government supported the US led sanctions against the country. Japan still has not invested much in Myanmar or only US\$48 million in 2012, US\$7 in 2011, and nothing in 2010. That is less than ASEAN countries Malaysia, Singapore, Thailand and Vietnam. We should however soon see more Japanese investment in Myanmar as the Thilawa special economic zone is set to become operational this year.

#### **Western Countries**

Many western companies have also shown interest in Myanmar's market after western countries lifted most economic sanctions. As of December 2012, the US had not invested at all in Myanmar despite declaration of interest from several companies, including Coke, Pepsi, General Electric, Visa, and MasterCard. The UK on the other hand was Myanmar's third largest investor in 2012, after five years of no investment. The EU just lifted permanently its economic sanctions on Myanmar last week, allowing European investors to invest in the country.

#### **ASEAN**

Out of the ASEAN members Thailand is the one most involved in Myanmar although it did not invest at all in 2011 and 2012. Thailand was Myanmar's largest investor before it was exceeded by China in 2010. In 2006 Thailand promised over US\$6 billion investment for the planned TaSang dam on Salween River in Shan state. The dam would be the largest hydroelectric dam in Myanmar and the tallest dam in ASEAN if completed, but construction of the dam has been stalled since 2008. Thailand is

also the main backer behind the planned Dawei special economic zone and deep sea port, which has also been delayed due to financing trouble but could become a major logistic hub for the region if realised.

Singapore has also taken an active interest in Myanmar and signed a MoU on economic cooperation in January last year. Singapore has not made any huge investments in Myanmar yet but it invested a little over US\$220 million in 2011 and about US\$55 million in 2012. We can expect Singapore's investment to increase this year as Singapore's International Enterprise (IE) just opened its first overseas center in Yangon this month and Singaporean companies signed three agreements and two MoUs with Myanmar companies, creating partnerships in several sectors including telecommunications and hospitality.

Surprisingly, Vietnam was Myanmar largest investor in 2012 as it invested US\$300 million for a mixed-use complex in Yangon. A Vietnamese mobile company is also currently in the running for a mobile operating licence.

Earlier this month, Indonesia's Coordinating Minister for the Economy encouraged its countrymen to look for investment opportunities in Myanmar, but Indonesia has not invested in Myanmar since 2002. That could change this year as major mining company Bukit Asam is planning to build a US\$400 million coal-fired power plant.

The Philippines also have not invested at all in Myanmar, but the two countries decided to step up their bilateral relationship on the sidelines of the ASEAN-India Commemorative Summit in December last year, and the Philippines agreed on assisting Myanmar's agricultural sector in the development of rice and banana technologies. The Philippines' largest gold miner has also expressed interest in investing in Myanmar's metallic minerals and natural gas.

## Why some still might stay out of the race

Despite promising developments in Myanmar, some investors might still choose to stay away for now. Although some are tempted by the first mover's advantage, others might be more concerned about the first mover's risk involved.

Some investors worry for their investment security because of the country's political instability. Firstly, there are still so called hardliners within the government that do not support the reform process and would rather go back to the old ways. President Thein Sein has however been stern against hardliners, reshuffling his cabinet to demote and remove them. He has also made moves to fight corruption within the government and has dedicated his 'third wave of reform' to tackling corruption. A bigger problem is the increasing ethnic tension in Myanmar. The conflict between Muslims and Buddhists in the past few months, and the ongoing Kachin war in northern Myanmar might scare off potential investors.

Lack of infrastructure also deters some investors. Power outages are chronic in Myanmar despite its plentiful natural gas supplies. The poor power distribution infrastructure is a major turn-off for investors as blackouts cripple production and decrease efficiency and productivity.

Another potential hindrance is the lack of skilled labour in Myanmar. The new investment law dictates that the percentage of local workforce for skilled positions should reach 25% within the first two years of investment; 50% within the next two years and 75% within the third two-years. All unskilled labour has to be local. Finding skilled labour in Myanmar can be a challenge. Decades of neglect and suppression of the education system under the military junta has left a big portion of Myanmar's workforce lacking basic skills.

Finally, for some sectors the foreign investment law forces foreign investors to form joint ventures with local companies. These include food and beverage production; pharmaceuticals; large size mining projects (small and medium mining projects are restricted for foreigners);

construction of buildings, large bridges, highways and subways; domestic and international airlines; private hospitals; and travel businesses. Some investors might not be interested to form joint ventures with Myanmar companies, which might be lacking the right expertise or sufficient capital.

## ASEAN's role in Myanmar's future

ASEAN companies could be better positioned than international companies to deal with the drawbacks of investing in Myanmar due to their proximity and familiarity of the country. Furthermore, many ASEAN companies are used to operating in an environment of political instability and poor infrastructure. These companies should use their years of experience and know-how to invest in the many untapped sectors of Myanmar.

Given the size of its competitors, ASEAN is not doing that bad in the Myanmar investment race. But ASEAN can still do better. ASEAN is a major stakeholder in the reforming of Myanmar. A reformed Myanmar would improve ASEAN's international image, as well as strengthen ASEAN's economic position. ASEAN should use this opportunity to strengthen the regional bloc by playing a prominent role in the economic rise of Myanmar. It should support infrastructure developments in Myanmar to improve ASEAN's connectivity. Enhancing the region's infrastructure would allow for pooling of resources and would increase intra-regional trade.

The potential benefits for ASEAN to get more involved with the rebuilding of Myanmar outweigh the potential risks involved. ASEAN should not let Myanmar be a pawn in a power play between Japan, China and the West. It should organise itself and in consultation with the Myanmar government and regional private investors, find ways it can help Myanmar achieve sustainable economic growth that benefits the Myanmar public and the region as a whole.



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