Myanmar’s robust economic growth and untapped potential have led many investors to name the country as “Southeast Asia’s last frontier”. After decades of isolation under military rule, Myanmar has been going through a series of political and economic reforms since 2011. In mid-2012, then-president Thein Sein announced economic reforms, vowing to reduce the government’s role in sectors including education, energy, forestry, health care, finance and telecommunications.

Since 2011, Myanmar’s economy has grown steadily by an average of 7.2% per year. In 2016, growth slowed to 6.4% as the transition to a new government, which took power in March 2016, brought uncertainty about the country’s policy direction. A 2017 report by the World Bank projects that Myanmar’s economy growth will overcome this slowdown, recovering with an average growth of 7.1% per year in the next three years.

For foreign investors, the democratization of the country along with significant economic and political reforms, introduced since 2011, offer new opportunities for entry. The country abounds with untapped potential, having a large, youthful population; a rich supply of natural resources; investment opportunities in a range of sectors; deep potential for renewable energy, particularly hydro power; and not least, the country’s strategic location between Asia’s giants India and China.
FDI in Myanmar

Top FDI sectors and countries

In November 2012, Myanmar’s parliament passed a new investment law that opened up foreign ownership of business ventures and offered tax breaks to increase foreign direct investment (FDI). According to the World Bank, Myanmar’s net inflow of FDI increased from $900 million in 2010 to $4.1 billion in 2013. In March 2015, the government announced that the amount reached more than $8 billion.

FDI dropped by nearly 40% in 2016-17 fiscal year, reaching a recent low of USD 5.8 billion. This is largely explained by confusion over the transfer of power after a new government took office in March 2016. The Myanmar Investment Commission (MIC), which had the authority to approve foreign investment application, was disbanded in March 2016 and no new commission was established in the first three months of the new government. The commission is now up and operational, but it is still making up for its slow start.

Myanmar is a major natural gas exporter, with 60% of the country’s total export earnings coming from natural gas sales. Other major export earnings include oil, teak, and precious and non-ferrous metals. The extractive resource sectors – such as natural gas, timber and mining as well as power generation – are all sectors with significant foreign investment. Data from the Myanmar government shows that the total amount of foreign direct investment from 1988 to April 2017 reached $71 billion. Under its national economic development plan, the government aims to attract $140 billion of FDI by 2030.

FDI hits its record high of $9.4 billion in the 2015-16 fiscal year. Over 50% of that was in oil and gas ($4.8 billion), followed by transport and communication ($1.9 billion) and manufacturing sector ($1 billion).

Myanmar draws a diverse bevy of investors. At the top of the list is China. It is closely followed by other Asian countries: Singapore, Thailand and Hong Kong. Japan, a longtime investor, continues to take part in several projects in Myanmar. Outside of Asia, European countries – especially the UK, the Netherlands and France – have shown strong interest in investing in this new untapped market.
In an attempt to further boost FDI to the country and restore relations with key partners, Aung San Suu Kyi, who is Myanmar’s de facto head of state, completed a round-the-world trip in 2016 to meet government leaders and discuss opportunities in Myanmar. A major milestone for the country came in late 2016 when then-US president Barack Obama lifted all sanctions against Myanmar, opening the door to US investment.

Focus: Chinese FDI

China is the largest investor in Myanmar. Data from April 2017 show that it had plied Myanmar with $18.6 billion of FDI since 1988. This accounted for 26% of Myanmar’s FDI.

Much of this Chinese investment came in recent years. Between 2008 and 2011, the figure jumped from $1 billion to nearly $13 billion. This increase was concentrated in the resource industries – power, mining and oil and gas. Over $8 billion of investment were poured into just three projects: the Myitsone Dam project, a pipeline project with China National Petroleum Corporation and a Monywa copper mine project with the China North Industries Corporation (Norinco).

In particular, the Myitsone Dam project, with $3.6 billion of investment from China, has received national attention in both countries. The 6,000-MW project on the Irrawaddy River has been carried out despite the opposition of Burmese locals, who are concerned about disruption to regional farms, potential damage to historical sites, as well as the fact that power generated by the dam was mainly for China’s consumption rather than Myanmar’s.

The democratization of Myanmar has increased public scrutiny of the Chinese projects. Norinco’s Monywa coppermine project has faced strong local protests. Then-president Thein Sein suspended the Myitsone Dam project in 2011 in part due to local opposition, a major move that has unsettled Chinese investors.

Subsequently, FDI from China has been wildly uneven. It plummeted to $231 million in the fiscal year 2012–2013 and further to $56 million in the next year. It shot back to $3 billion in 2015–16 only to fall to $482 million in 2016–2017.

The relationship between Myanmar and China seemed to take a positive turn after Aung San Suu Kyi’s visit to Beijing in summer 2016. While the Myitsone Dam’s project remains suspended, other China-backed infrastructure projects have been jump-started. A bridge in Kunlong, a town in northeastern Myanmar, just 30 km from the border with China, is designed to better connect Myanmar and China. Projects have also included hospitals in Yangon and Mandalay, Myanmar’s two largest cities. This marks a shift by China from resource extraction to sectors seen by some as less controversial in Myanmar.

The state of the Myitsone dam project rings a warning bell for Chinese investors: They must be increasingly conscious of corporate social responsibility.

Focus: Japanese FDI

Japan has long played a significant role in Myanmar’s history—sometimes as a friend and sometime as a foe. During World War II, the Empire of Japan invaded what was then Burma, occupying the country from 1942 to 1945. In the subsequent decades, Japanese economic assistance to Myanmar began in the form of war reparations. This foreign aid continued, albeit at a lower level, even during the military rule of Myanmar, when the US and European countries ceased their foreign aid programs.

Aid from Japan opened the door for Japanese businesses to become early investors in post-war
Investing in Myanmar: Southeast Asia’s Last Frontier

Myanmar by taking part in the implementation of reparation projects. They established automobile manufacturing plants, constructed water supply networks and other infrastructure, discovered oil reserves and built the Baluchaung Hydropower Plant, which provided about 40% of the country’s electricity. Japanese companies of various industries and sizes, including powerhouses such as Itochu, Marubeni, Mitsubishi, Nihon Koei and Sumitomo Corporation, have been involved in official development assistance (ODA) projects since the Cold War.

In 2016, Japan ranked 8th in the size of its investment in Myanmar and 3rd in the number of projects, according to the Myanmar Investment Commission (MIC). These numbers do not include Japanese investment made via third countries or investment in the Thilawa Special Economic Zone (SEZ), which is Myanmar’s first SEZ, developed with the Japanese government. Japanese investment in this SEZ is substantial, with most of the factories Japanese-owned and located in Thilawa port.

![Japanese FDI in Myanmar](image)

Much of Japan’s investment in Myanmar is in manufacturing. Investment in manufacturing constituted about two third of all Japanese investment in Myanmar from 2012 to 2017. This investment was concentrated especially in the textile and the food and agricultural products-processing industry, meant to reduce Myanmar’s heavy dependence on oil and gas exports.

With a new government in place and further economic reforms on the way, Myanmar’s FDI market looks ever more promising to Japan. As Aung San Suu Kyi said to Japan Prime Minister Abe, “Japan will continue to walk side by side with us as a good friend and trustworthy partner.”

New Investment Law and Companies Law

In 5 January 2017, the Myanmar government approved a new Myanmar Companies Law (MCL) to replace a century-old company law. MCL was drafted with an eye to encourage FDI in Myanmar as well as foreign participation on the Yangon Stock Exchange (YSX), which opened in December 2015. The new law improves standards of corporate governance and provides greater shareholder protection. It is expected to significantly reduce compliance costs and regulatory burdens for firms. Further, it will allow, for the first time, foreign investors to own up to 35% of the shares in a local Myanmar company. The MCL is yet to be approved by Myanmar’s parliament, but once it passes, foreign merger and acquisition activity in Myanmar is expected to rise.

In April 2017, Myanmar implemented a new investment law designed to promote and facilitate both foreign and domestic investment, increase investor protections and open more sectors to private investment. The new investment law, which replaces the Foreign Investment Law of 2012 and the Myanmar Citizen Investment Law of 2013, is expected to create jobs and help diversify an economy heavily concentrated in the agriculture and extractive industries.

Under the new investment law, foreign investment in either the form of 100% foreign ownership or joint venture is allowed. Foreign firms are entitled to a tax exemption in the first three to seven years of operation. Other forms of reliefs for income taxes or customs duties are also available. Further, foreign investors will be able to lease land directly from the government or authorized private owners for up to 50 years and renew for up to 25 years.

Investment Risks

As with any market, there are investment risks that investors need to be aware of. Myanmar’s many exciting opportunities come with several risks and challenges for the prospective investor.
Investing in Myanmar: Southeast Asia’s Last Frontier

- **Poor infrastructure:** Basic infrastructure remains a major challenge, with just one-third of the population having access to electricity and road density standing at just 220 kilometers per 1,000 square kilometers of land, according to the World Bank.

- **Lack of skilled labor:** Unskilled labor is cheap and widely available, but skilled labor is expensive and hard to find. The average Burmese citizen has only four years of education. As such, Myanmar’s productivity rate is 70% below that of regional rivals Vietnam and Thailand.

- **Slow introduction of reforms:** It will take time before Myanmar’s reforms relating to foreign investment become fully effective. The new administration has little experience in government, so businesses that require a supportive regulatory environment or responsive policymakers may run into obstacles.

- **Crony capitalism:** Myanmar’s economy is top-heavy, dominated by longtime elites. These elites have been the only players equipped and allowed to deal with the influx of capital into the country. A few large foreign companies have found space to operate independently, but most still have to deal with the established elites. The removal of US sanctions on Myanmar as well as the investment reforms will help ease these pains, but it may be some time before they effect significant change.

- **Political risks:** Political instability, including an ongoing civil war, may impact business operations in Myanmar. In November 2016, border trade at the China border was suspended for a few days after rebels attacked the trade zone at the northern state of Shan, affecting many businesses’ operations.

- **Corruption and fraud:** Many foreign investors see corruption and fraud as major barriers to investment and trade in Myanmar. In 2016, Myanmar ranked 136th out of 175 countries in the Corruptions Perceptions Index, which compares countries based on how corrupt they are seen to be. Transparency International, an NGO that runs the index, found that over 30% of respondents had paid a bribe to courts and over 45% to the police. Fraudulent practices are also a major concern, with several cases of companies misreporting their financial statements to avoid paying taxes. There have been few investigations of fraud and other white-collar crimes, owing to a lack of resources and political commitment. While the new NLD government led by Aung San Suu Kyi has pledged to clamp down on corruption, any change to deep-rooted malpractices is likely to be slow. It is therefore critical that investors are aware of their exposure to corruption and fraud, and the risks involved.

### Outlook

Few countries in Asia present as much untapped economic potential as Myanmar. Its neighbors – China, India, Bangladesh, Laos and Thailand – have a combined population size of nearly 3 billion people, or 40% of the world’s population. Their economies collectively account for about $15 trillion, or 20%, of global GDP. A 2016 report by BMI Research lists Myanmar among “10 emerging markets for the future” – the countries that are set to become new drivers of global economic growth over the next 10 years.

The country has positioned itself to seize on this potential alongside foreign investors. The recent removal of US sanctions on Myanmar provides a foundation for Western banks to reengage with Myanmar and for Myanmar to regain full access to the international financial system. The government looks set to continue its policy of economic liberalization and political democratization.

Investment in Myanmar stuttered in 2016 when the new government took power. Now that they have seen Myanmar’s economy move in the right direction, many investors are now renewing their interest in Myanmar. The last frontier market of Southeast Asia awaits the astute investor.
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