SPECIAL REPORT

MYANMAR'S OPENING: A CRITICAL JUNCTURE

August 2014

Simon S. C. Tay
Chairman, Singapore Institute of International Affairs (SIIA)

Cheryl Tan
Assistant Director (Media and Policy Research), SIIA

ABOUT THIS REPORT

This Special Report is produced by the Singapore Institute of International Affairs (SIIA) to offer our insights into the political and economic opening of Myanmar.

The SIIA was appointed in 2014 to advise on Myanmar's ASEAN Chairmanship, and made four research trips to Myanmar from January to June 2014. These visits included meetings with more than 20 high-level individuals from the public and private sectors, and workshops in Yangon and Nay Pyi Taw for officials and experts. The SIIA also organised a business and investment conference with the support of the Union of Myanmar Federation of Chambers of Commerce & Industry (UMFCCI) and two advisory firms, KPMG and Wong Partnership, for some 130 private sector participants from Singapore and Myanmar.

The SIIA's research and events reach out to policymakers, business leaders, and professionals. A global survey in 2014 ranked the SIIA as one of the world's leading think tanks and number one in Asia and the Pacific.

EXECUTIVE SUMMARY

Since 2011, the international community has applauded Myanmar's political opening. Foreign businesses have been attracted to "Asia's final frontier" and not without reason, as the country opened up for investment. The economy has grown strongly, albeit from a low base.

Three-plus years on, however, and there are reasons to see the country at an important, indeed, critical juncture in this opening. Signs are there in both political and business arenas, and 2014-15 may well prove to be a critical period.

In the political sphere, elections for the Presidency and Parliament are scheduled for 2015. Signs are that contention is heating up, not just between the ruling party and the opposition led by Aung San Suu Kyi but also between members of the military-backed establishment. Much of this centres around the call to amend the Constitution to allow Aung San Suu Kyi to run for the presidency.

Incumbent President Thein Sein has yet to clarify if he will seek another term or cede his position to another military-backed candidate. Much depends on whether his

administration can chalk up successes in the remaining time in office.

Ending the conflict with ethnic groups is especially critical. President Thein Sein's government has made great effort and aims to reach a historic ceasefire by 2014. If the 17 ethnic groups, which are armed and control considerable parts of the country, come to a settlement, this would give assurance of stability and be a significant accomplishment for the incumbent administration.

However, international concern and criticism has risen sharply over the treatment of the Rohingya ethnic minority. The conflict has already spilled over from the Rakhine state into other parts of the country, including Mandalay, the second-largest city. There is danger if this sparks a wider conflict between the Buddhist majority and Muslim minority.

In the economic realm, the government must be credited for managing key issues for the opening, such as the floatation of the Kyat and controlling inflation. But the initial excitement among investors has bumped into real issues – especially of capacity, details in implementation, and infrastructure.

While the Foreign Investment law was revamped in 2012, regulations have been slow and there have been reservations that the authority in charge, the Myanmar Investment Commission (MIC), was less than decisive and transparent. While many foreign businesses show interest, the actual implementation of investment projects has markedly lagged. The government has only recently revamped the MIC and changed its key personnel.

The situation is similar for the Special Economic Zones (SEZs). They are now governed by a new law passed in 2014, and come under an SEZ Central Authority, which allows for attractive tax exemptions and other incentives. The government hopes to introduce measures to by-pass red tape and bureaucratic delays which have dogged implementation thus far.

Another key area for Myanmar is in the financial sector, which is now recognised as key in assisting businesses to access capital and to support the real economy. The government has created an autonomous Central Bank and is preparing to launch a stock exchange, with the assistance from Japan's Daiwa Securities Group.

A critical step in the financial sector is to allow foreign banks to enter the market, with the first entrants expected to be announced by the second or third quarter of 2014. Although many Myanmar banks already exist, these are insufficiently capitalised and lack sufficient expertise. Yet, while international banks are keen and willing to enter, there has been a nationalistic backlash. It is likely that the international banks will be limited at first, both in number and in their lines of business.

Domestic expectations are running high. Property prices have already soared, and so has consumption by the elite and upper middle class. The government faces mounting pressure to show that the reforms help society broadly, and to soothe nationalistic concerns that the country's opening benefits the Myanmar people. In this context, ensuring the survival and the growth of small and medium-sized enterprises (SMEs) is a priority issue, as are the adequate provision of good-paying jobs. Labour issues and environmental harms are hot-button issues.

International perceptions may also be changing. The Obama administration has continued with its sanctions, rather than rolling them back as some had hoped. There remains a long blacklist of Specially Designated Nationals (SDN), which includes many of the country's leading businesses, who have capacity and capital to be best partners of foreign investors. There are mixed signals whether this SDN list might be shortened.

Hence, Myanmar is at a critical juncture in the opening that began in 2011. With the elections approaching in 2015, the government must deliver on its promises. Visible signs of growth, in terms of jobs and benefits for ordinary Myanmar people and businesses, will need to be prioritised. Otherwise, the country may see growing criticism and nationalistic resentment against foreign investors.

1. INTRODUCTION: FROM 2011-2014

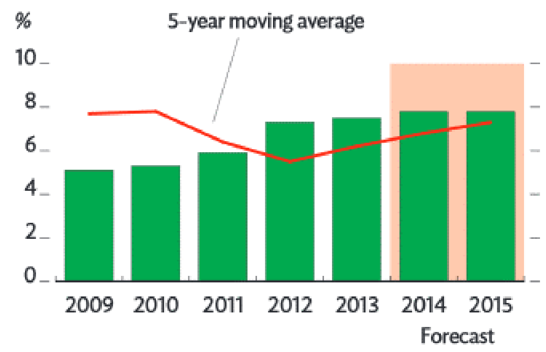
Ever since Myanmar first opened up in 2011, foreign investors from Asia and the West have shown keen interest to enter what has been called "Asia's final frontier".

This is not without reason. The country's size, strategic location and natural resources are strong fundamentals. The government of President Thein Sein must also be credited to have taken the right initial steps both in diplomacy and economics.

The country has gone from having pariah status to being well received by Western and other major powers. Its chairmanship of ASEAN, previously shelved, has been accepted and, to date, is well received.

The economy has grown strongly, albeit from a low base. According to the International Monetary Fund (IMF), Myanmar's economy could grow by 8.5 per cent during the current fiscal year ending March 2015, up from the previous estimate of 7.7 per cent[1]. Such robust growth is driven by rising gas production and investment. According to Asian Development Bank (ADB) projections, if Myanmar maintains its annual growth rates, the country can leapfrog to upper-middle income status in the next two decades. Its real per-capita income will also quadruple[2].

Figure 1: Myanmar's GDP Growth[3]



Note: Years are fiscal years, ending 31 March of the following calendar year.
Sources: International Monetary Fund; ADB estimates.

[1] Ferrie, Jared (2014), Myanmar's economy can grow 8.5 pct in current fiscal year – IMF, *Reuters,* 17 June 2014, Available: http://uk.reuters.com/article/2014/06/17/myanmar-economy-growth-idUKL4N0OY2NE20140617 Retrieved: 16 July 2014.

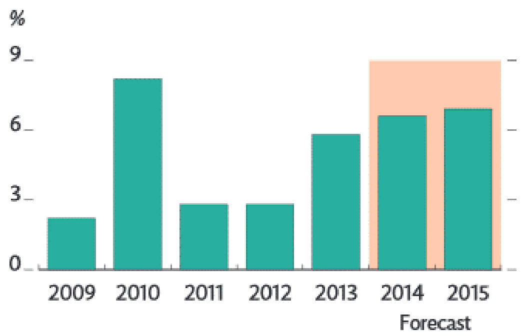
[2] Capannelli, Giovanni (2014), ASEAN's first 'Myanmar' summit moving beyond 2015, *East Asia Forum,* 11 May 2014, Available: http://www.eastasiaforum.org/2014/05/11/aseans-first-myanmar-summit-moving-beyond-2015/ Retrieved: 16 July 2014

[3] Asian Development Bank (2014), *Asian Development Outlook 2014*, Manila, Available: http://www.adb.org/countries/ myanmar/economy Retrieved: 17 May 2014.

Early concerns about the currency value and inflation have also been well managed. Myanmar's inflation rate has declined significantly to settle at a moderate rate of 6.6 to 6.9 per cent. This was due to the adoption of a new floating MMK/USD exchange rate in April 2012, as well as a reformed fiscal policy to control the government's budget.

High inflation rates of more than 23 per cent ravaged the Myanmar economy between 2001 and 2010, as the Central Bank of Myanmar financed the country's fiscal deficits. But inflation rates are expected to be stable and well controlled during Myanmar's transition period of economic reform, which will boost public revenue.

Figure 2: Myanmar's inflation rates[4]



Sources: International Monetary Fund; ADB estimates.

However, while Myanmar's days of hyperinflation are over, the country's inflation rates are expected to creep upwards as it liberalises further and grows its economy. The country is likely to report an increase in basic commodity prices, especially food. The Central Bank is closely monitoring inflation rates to ensure that it remains below the country's bank savings rate, which is about 8 per cent a year[5].

Myanmar's gross reserves have increased steadily over the past three years. This is in line with the government's goals to improve economic stability and strengthen its economy's resistance to external shocks. The Central Bank of Myanmar announced in November 2013 that foreign exchange reserves had hit US$8.19 billion (S$10.15 billion) at the end of October 2013. The amount is small compared to the reserves of other ASEAN countries. But the potential inflow of foreign direct investment (FDI) and capital could increase Myanmar's external reserves and further buttress macro-economic stability.

Yet while Myanmar has done well so far, we believe the country is at an important, perhaps key, juncture in its opening. More questions and less positive signs remain in both politics and business. The period up to next year's election will likely be dynamic and critical to the future.

Looking first at the politics and then at economic policy, this report will focus on the questions that are emerging and the efforts that the government will make to further progress in Myanmar. A number of emerging issues to watch are also identified.

[4] (2013), *The World Bank: Myanmar*, Available: http://data.worldbank.org/country/myanmar Retrieved: 26 March 2014.

[5] Zaw, Htike (2014), Inflation a growing problem, says World Bank, *The Myanmar Times,* 28 April 2014, Available: http://www.mmtimes.com/index.php/business/10185-government-needs-to-address-rising-inflation-rate-world-bank-economists.html Retrieved: 17 May 2014.

2. POLITICS: HEATING UP

Myanmar's political and economic opening are intertwined and with the presidential elections expected in 2015, there are concerns about change. Much depends on the outlook and character of the president elected.

Incumbent president Thein Sein has not openly declared whether he intends to offer himself for election or step aside for another ex-general in charge. He has left open the possibility of seeking another term in office, saying that his choice to run will depend "on the needs of the country"[6].

There is also the real possibility that Aung San Suu Kyi's party, the opposition National League for Democracy (NLD), will gain the majority of elected seats.

For the Lady herself, political and legal impediments currently prevent her from running for the presidency. This has been a key issue to watch, but it seems more likely than not that the rules will not be amended to allow her candidacy.

2.1 Amending Constitution Not a Priority

The constitutional provision that prevents the candidacy of Aung San Suu Kyi is Article 59 (f). It states that the president and his immediate family shall "not owe allegiance to a foreign power" or be a "citizen of a foreign country". Only if this provision is amended can Aung San Suu Kyi run for the presidency; she continues to emphasise the need for change.

However, President Thein Sein announced during his monthly radio address at the end of May that constitutional reform should be initiated once the government has signed a nationwide ceasefire agreement with all 17 ethnic groups[7].

According to an English translation on the President's Office website, President Thein Sein said: "We must all accept the basic rule that a living, breathing Constitution is always evolving and the changes must be made under the right conditions and at the appropriate time that is compatible with society's political economic and social needs." He also added that "any amendment (of the Constitution) should be based upon agreements made in the political dialogue… as part of the peace process".

> ***"(Amending the constitution) must be made under the right conditions and appropriate time that is compatible with society's needs."***
>
> ***– Myanmar President Thein Sein***

On 6 June 2014, soon after that announcement, a strong majority of the parliamentary committee[8] tasked to review constitutional changes voted against amending Article 59 (f)[9]. While the

[6] (2013), Myanmar's Speaker Shwe Mann says he'll contest Presidency, *Radio Free Asia,* 10 June 2013, Available: http://www.rfa.org/english/news/myanmar/shwe-mann-06102013161202.html Retrieved: 25 March 2014.

[7] Shwe Aung (2014), Charter reform should come after ceasefire agreement: Thein Sein, *Democratic Voice of Burma,* 2 June 2014, Available: http://www.dvb.no/news/charter-reform-should-come-after-ceasefire-agreement-thein-sein-burma-myanmar/41169 Retrieved: 16 July 2014.

[8] A total of 26 out of 31 members, or about 83 per cent of the Joint-Committee for Reviewing the Constitution, which is a parliamentary committee tasked with reviewing changes to the constitution.

[9] (2014), The Lady's losing game, No Chance? The Lady's hopes for the presidency, 26 June 2014, *Mizzima Business Weekly*.

NLD will continue to lobby for change, only a slim chance remains to convince the parliamentary committee[10] otherwise. The committee will submit its constitution amendment proposal to parliament in February 2015[11] for voting.
Without the support of this committee, there is an alternative route to amend the charter through parliament, via Section 436. This, however, requires the support of more than 75 per cent of lawmakers.

The military, which takes up 25 per cent of parliamentary seats, hold veto power and are not likely to support an amendment to allow the change.

While popular support for Aung San Suu Kyi is palpable among the general population, there are those who have called for a level-headed decision to amend the constitution for the greater good of the Myanmar people, rather than in response to external pressure.

2.2 Presidential Hopefuls

In addition to the Lady and current president Thein Sein, two other candidates are in the frame.

The first and more visible is U Shwe Mann, Speaker of the Lower House of Parliament and Chairman of the Union Solidarity and Development Party (USDP). A former army general, he is considered a key architect of recent reforms in his country because of his powerful post. He has also shrewdly struck up a relationship with the Lady, to gain public favour and to ensure influence in Myanmar's government. Their friendly relations are often compared with her less amicable, and recently deteriorating, ties with President Thein Sein[12].

Somewhat a dark horse is former senior army general Min Aung Hlaing, who is now Commander-in-Chief of the Myanmar Armed Forces. His military background could give him the boost needed to help him win the country's top spot. The support of the military lawmakers is crucial for presidential hopefuls, as the military holds 25 per cent of the presidential votes[13].

However, he has recently made comments that have raised concerns about the army's ambitions to reassert its grip on the government. Such remarks have not been welcomed by those who wish to see transition to a full democracy.

The choice of Myanmar's future president and the political party he or she represents is important. The next president has the task of building on the country's plans for political and economic reform. Foreign and local investors are more likely to favour a second term of President Thein Sein, because it means predictability of future economic and financial reforms, and a more stable economy.

Other foreign businesses fear economic uncertainty if the NLD gains more

[10] Ferrie, Jared (2014), Suu Kyi races to change Myanmar constitution before 2015 elections, *Reuters,* 30 June 2014, Available: http://www.reuters.com/article/2014/06/30/us-myanmar-constitution-idUSKBN0F515S20140630 Retrieved: 16 July 2014.

[11] Ibid.

[12] Aung, Thu Ra (2014), Trust goes missing in Myanmar, *The Bangkok Post,* 3 September 2014, Available: http://m.bangkokpost.com/opinion/398930 Retrieved: 15 May 2014.

[13] Tha Lun, Zaung Htet (2013), Military MP says army chief could become candidate for president, 1 November 2013, Available: http://www.irrawaddy.org/min-aung-hlaing/military-mp-says-army-chief-become-candidate-president.html Retrieved: 15 May 2014.

influence[14]. Aung San Suu Kyi's call for responsible investment and development of SMEs diverge from the current regime's focus on large-scale and lucrative infrastructure and energy projects. In addition, although her party is popular, it is made up of old generals, many of whom have spent a lot of time in prison and have no experience managing the economy and government.

Yet while personalities will matter, the desire of the Myanmar population to move forward is strong. A majority of the people are not likely to support another military dictatorship and various isolationist policies. President Thein Sein has moved the country in a direction that is different from what another military generals would have done, and it is unlikely that the general population will tolerate a radical step backwards.

2.3 Current Administration's Deliverables

Myanmar's political opening has built up domestic and international expectations about peace and stability in the country's transition to full democracy. There are three issues that are critical for the government to deliver on. Two relate to ethnic minorities: the government's peace process with ethnic groups, or Myanmar's Nationwide Ceasefire Agreement, and the handling of the Rakhine state issue. The third is the freedom of the press.

<u>Myanmar's Nationwide Ceasefire Agreement</u>

The peace process with the ethnic groups has been successful up to a certain extent, especially considering there are long entrenched differences. But rebel groups such as the Kachin Independence Army and groups in the Shan State continue to clash with government troops.

The government has set the goal of reaching a Nationwide Ceasefire Agreement by the end of President Thein Sein's five-year tenure in 2015. Therefore, the emphasis on seeing success over the peace process will grow even greater as he nears the end of his presidency.

The president and his team have managed to negotiate a historic set of 17 ceasefire agreements with different armed groups. Over the past few months, they have also worked hard to move these bilateral agreements toward a Nationwide Ceasefire Agreement – a move that will be historic.

If signed, the Nationwide Ceasefire Agreement will represent the first time since 1948 that Myanmar will have no more incursions anywhere in the country. It will also include the framework for political talks, which are aimed at a permanent peace at demilitarised areas of Myanmar.

The army is very much engaged in the peace talks, along with a high-level task force led by U Aung Min, Minister of the President's Office in charge of the peace talks. The task force also includes other ministers, special advisors from the Myanmar Peace Centre - a non-governmental organisation - senior parliamentary representatives as well as leaders from the different armed groups.

The deadline to move bilateral talks towards the Nationwide Ceasefire Agreement has been set for the end of

[14] Mahtani, Shibani (2013), Myanmar's Suu Kyi urges more investment in jobs, *The Wall Street Journal,* 22 September 2013, Available: http://online.wsj.com/news/articles/SB10001424052702303983904579090990819321468 Retrieved: 25 March 2014.

July – an important milestone in Myanmar's history that is worth watching. If successful, a broad range of political talks will begin immediately. These talks will involve the government, army and ethnic armed groups, as well as political parties, major civil society organisations and business leaders – all of whom will work towards a comprehensive peace settlement.

While it is unlikely that a major settlement will be settled by the end of this government's term, it is hoped that some sort of interim agreement will be reached before the next presidential elections to help give the new government a foundation to work on.

Managing escalating religious clashes

Issues regarding the Rakhine state have been less well-handled and have flared up instead. Indeed, anti-Muslim violence has spread from the Rakhine state into major cities including Mandalay. These religious attacks have escalated as neither President Thein Sein nor opposition leader Aung San Suu Kyi has condemned them[15]. The sectarian fighting between Buddhists and Rohingya Muslims in the Rakhine state has drawn international attention, especially from those in the West.

A population prone to protests and outbreaks of sectarian and ethnic violence could result in serious, non-traditional security threats. These include narcotics production, massive refugee inflows, and terrorist group networks[16], which could

[15] Kurlantzick, Joshua (2013), The threat to Myanmar's awakening, *Council on Foreign Relations,* 22 November 2013, Available: http://www.cfr.org/burmamyanmar/threat-myanmars-awakening/p31927 Retrieved: 25 March 2014.
[16] Ibid.

affect foreign investor confidence in Myanmar.

Balancing press freedom and national security

Myanmar had been lauded for its loosening of media restrictions and the growing diversity of media outlets. In March, its parliament also passed a law providing for some protection of media freedom – marking a breakthrough in the country's reform agenda. But concerns have been raised by the international and local communities about the backsliding of media freedom and censorship rules.

The role of social media was reportedly a contributing factor that caused the religious clash in Myanmar's second-largest city of Mandalay in July this year. This prompted President Thein Sein to warn those who misuse press freedom and endanger national security that they would face harsh legal punishments[17].

The gravity of his warning was felt throughout the media industry recently when the state sentenced news journal Unity Weekly's CEO and four of its reporters to 10 years in prison with hard labour. The Myanmar journal had reported on the possible existence of a chemical-weapons factory in central Myanmar in January[18].

The simultaneous expansion and reassertion of control over Myanmar's media industry is likely to continue. The

[17] Paing Soe (2014), Thein Sein warns press against 'endangering' national security, *DVB,* 9 July 2014, Available: http://english.dvb.no/news/thein-sein-warns-press-against-endangering-national-security-burma-myanmar/42166 Retrieved: 21 July 2014.
[18] Stout, David (2014), Burmese journalists sentenced to a decade in prison with hard labour, *Time Magazine,* 11 July 2014, Available: http://time.com/2974972/burma-media-journalists-unity-weekly/ Retrieved: 21 July 2014.

government feels it is necessary and justified to defend itself against overly critical voices and to punish unfounded accusations. But this could erode the credit it has gained from freeing the press since its opening.

3. ECONOMIC REFORM AND FOREIGN INVESTORS

Just three years ago, international consumer brands such as Coca-Cola, Gap, and Singapore's Ya Kun Kaya Toast were probably only heard of, but unseen in Myanmar's everyday life. Today, their entrance into Myanmar's market hogs headlines. Their advertisements are everywhere, from billboards in Myanmar's international airport arrival terminals to the big television screens plastered on the sides of the office buildings in downtown Yangon. Besides consumer brands, the big corporate businesses are making their presence felt.

3.1. Relaxed Foreign Investment Law

The change in Myanmar's economic landscape was made possible by a new Foreign Investment Law, which was enacted on 2 November 2012. The new law eases and simplifies foreign investment restrictions and procedures to help make Myanmar more attractive to foreign investors. In addition, the release of Foreign Investment Rules in 2013, made Myanmar even more appealing to foreign investors by easing restrictions on joint ventures between foreigners and Myanmar citizens.

Yet despite the visible signs of business, the realities are less certain. Although FDI numbers hit US$4.1 billion for the 2013-2014 fiscal year[19], high-level government officials noted that economic reforms have not reached projected levels. Too few investors have come in with big money to start projects that both employ and benefit the local population, which would allow economic dividends from Myanmar's opening to trickle down to the grassroots.

The initial excitement of investors has bumped up against real issues – especially of capacity, details in the implementation of laws and policies, and the lack of infrastructure.

Electricity in Myanmar, or the lack thereof, has been a high priority for the government. Private sector observers note that Myanmar's energy sector[20] needs the Ministry of Electric Power to embark on an Independent Power Producer (IPP) process to entice foreign investors to the sector.

Too few investors have come in to fund projects that would benefit Myanmar's people.

Pricing of electricity is also an issue. The announcement of an electricity price hike earlier this year is aimed at making investment in the power sector more

[19] (2014) Foreign Investment in Myanmar totalling over US$46 billion, *Eleven Myanmar,* 20 April 2014, Available: http://www.elevenmyanmar.com/index.php?option=com_content&view=article&id=5779:foreign-investment-in-myanmar-totalling-over-us-46-billion&catid=33&Itemid=356 Retrieved: 25 July 2014.

[20] The private sector observers were at a business and investment conference co-organised by the SIIA with the support of the Union of Myanmar Federation of Chambers of Commerce & Industry, and two advisory firms, KPMG and Wong Partnership.

financially viable. But this will have to be balanced against concerns with inflation and the impact on the ordinary citizen and his vote.

Myanmar is currently highly dependent on hydropower to generate electricity. But going forward, as more capacity is added, the fuel mix is likely to turn toward greater gas generation. Coal, which is cheaper than gas, may also feature more, if the need for quick and cheaper energy outweighs the environmental costs.

The private sector has also called for a greater government role as a developer and regulator in the country's energy sector, adding that capital will only come in with pragmatism and development. The government recognises this and is now trying to respond to these issues.

What is happening in the power sector is indicative of the wider issue facing foreign investment and the SEZs. The government faces many challenges, of which the critical needs are discussed below.

3.2 Improving Transparency of Approvals

The Myanmar Investment Commission (MIC) was restructured in July this year into an independent organisation and moved from Nay Pyi Taw to Yangon[21]. An influential gatekeeper that awards licences to would-be investors in Myanmar, the MIC will no longer answer to the Ministry of National Planning and Economic Development. Instead it will make investment decisions independently. It will be chaired by Minister for Energy U Zeyar Aung, who will replace U Win Shein, Minister for Finance.

The MIC's changes reflect Myanmar's efforts to attract foreign investment to spur on economic development while ensuring that such investments bring benefits to the people of Myanmar and do not harm the local environment.

Officials and policymakers recognise the need to improve investment transparency, environmental and social standards, and the fight against corruption. One step in this direction is Myanmar's membership into the Extractive industries Transparency Initiative (EITI) which encourages responsible investments. As a member of EITI, Myanmar is opening up its resource sector industry – its primary driver of growth – to public scrutiny. This means that the government has to abide by strict and transparent processes in allocating its investment licences, ensuring that Myanmar does not fall victim to the resource curse.

3.3 Changes to SEZs

A brand new Myanmar Special Economic Zone Law (2014) was enacted on 23 January. The new law supersedes both the Myanmar Special Economic Zone Law (2011) and the Dawei Special Economic Zone Law (2008). It includes the formation of an SEZ central authority and a management committee. It also stipulates the criteria for establishing new SEZs. Under the new SEZ law, income tax exemptions are allowed for up to seven years for local and foreign investors, and up to eight years for construction companies in the exemption areas. These tax provisions are aimed at incentivising

[21] Aguirre, Daniel (2014), New Myanmar investment body faces test of resources and will, *The Myanmar Times,* 11 June 2014, Available: http://www.mmtimes.com/index.php/opinion/10645-new-myanmar-investment-body-faces-test-of-resources-and-will.html Retrieved: 18 July 2014.

foreign investors and developers to pump in money into the SEZs[22].

Under the new SEZ law, critical decision-making processes will be decentralised among each of the SEZ committees. This is aimed at speeding up the approval processes of investment licences, company incorporation and other issues relating to customs or trade licences. Foreign investors will also be able to bypass the red-tape procedures that come with applying for an investment licence under the Myanmar Investment Commission. To shorten the approval process time for investment licences, each SEZ will have a one-stop-shop service centre where foreign investors can go to directly to register and process their licences[23].

4. FINANCIAL REFORM

In addition to economic reforms, financial reform is critical. With access to finance and capital, domestic firms and big infrastructure projects will be able to operate more efficiently. At present, the difference between Myanmar's bank deposit and lending rates is still too wide. This reflects banking sector inefficiencies, which have resulted from a lack of competition, and rigidity in the rules and regulation of Myanmar's banking sector.

The government is also looking to create an alternative avenue for firms to raise capital in the form of the Yangon Stock Exchange, which is expected to launch in 2015. The Securities Exchange Certificate Transaction Law was also enacted in June 2013 to prepare for the establishment of the Yangon Stock Exchange.

4.1 A Newly Autonomous Central Bank of Myanmar (CBM)

The CBM plays a crucial role in Myanmar's new economic reform plans by providing much needed financial stability and supervision of the financial sector in Myanmar. The enactment of the Central Bank of Myanmar Law (2013) marked the legal separation of the CBM from the Ministry of Finance and Revenue.

The autonomous body is now headed by a policymaking board of directors led by Governor U Kyaw Kyaw Maung, a career banker with experience in the Ministry of Finance. The governor of the CBM has cabinet authority, on a par with that of a minister.

The bank's independence will allow Myanmar to isolate monetary policy from political interference and electoral pressure to deliver short-term economic results at the expense of longer-term inflationary cost. Thus, Myanmar will be able to maintain a more stable business and investment climate that is insulated from potential political shocks.

The CBM signed a two-year capacity building programme with the Monetary Authority of Singapore (MAS) to allow CBM officers to visit the MAS to learn about banking supervision, monetary policy management, macro-prudential surveillance, and payments and settlements systems. The programme is supported by the Temasek Foundation through a grant of about S$305,000. The CBM is also working with international institutions such as the International Monetary Fund and World Bank to

[22] Aye Thida Kyaw (2014), Myanmar gets new SEZ law, *The Myanmar Times,* 4 February 2014, Available: http://www.mmtimes.com/index.php/business/9435-myanmar-gets-new-sez-law.html Retrieved: 22 March 2014.

[23] Ibid.

improve its monetary policy affairs and foreign exchange.

The de jure independence of the CBM is a strong signal of commitment by the Myanmar government to boost its credibility among the international and domestic financial and business communities. However, the practical extent of the CBM's independence remains to be seen.

4.2 Entrance of Foreign Banks

The CBM is expected to issue five to 10 licences to foreign banks. Each foreign bank is expected to be allowed to have a one-branch operation for corporate and wholesale banking services only[24]. There are 35 international banks represented in Myanmar.

Officials say that the banks allowed into Myanmar will give the industry a "regional spread". The decision to allow only a select number of foreign banks into the country is a strategic one as it will "bring a sense of trust" to foreign investors[25].

However, this decision is also an attempt by the CBM to manage a potential flood of foreign banks into Myanmar's market, and to protect its own local banks from being forced out of the banking industry. This will also allow local banks more time and space to focus on building up their retail banking capabilities in Myanmar.

4.3 Revising the Financial Institutions of Myanmar Law (1990)

Many restrictions on the banking sector still exist and hampers the effectiveness of Myanmar's financial reforms. Steps are being taken to reform the Financial Institutions of Myanmar Law (1990), which does not make provisions for the entry of foreign banks.

A revised law is expected to clarify provisions on how local and foreign financial institutions will be controlled and allowed to operate within the country's banking sector[26]. It will also detail procedures and guidelines related to the licensing of foreign-domestic institutions formed under a joint venture. The revised Financial Institutions Law, which was drafted with technical assistance from the World Bank, is expected to be passed by the end of 2014.

4.4 Yangon Stock Exchange: Delays?

The Yangon Stock Exchange represents an opportunity for capital-hungry companies in Myanmar to raise money to expand their businesses to meet demand. It will also give foreign investors greater access to Myanmar's companies through the country's capital market, once foreigners are officially allowed to purchase shares in Myanmar companies.

However, the Yangon Stock Exchange faces multiple challenges of meeting its 2015 deadline. First, important by-laws, which were supposed to be announced within 90 days of the enactment of the

[24] Kyaw, Grace (2014), Opportunity Next Door: Top Thai banks among foreign players eagerly awaiting word on new licences in Myanmar, *Bangkok Post,* 15 July 2014, Available: http://www.bangkokpost.com/business/news/420602/opportunity-next-door Retrieved: 16 July 2014.

[25] Mr Hal Bosher, panellist, *Business and investment conference - Myanmar & ASEAN: Preparing for the next decade of growth* , 24 June 2014, Yangon.

[26] Tangmeesang, Onravee (2013), Myanmar honing investment laws to ensure a level playing field for all, minister says, *The Nation,* 7 October 2013, Available: http://www.nationmultimedia.com/business/Myanmar-honing-investment-laws-to-ensure-a-level-p-30216428.html Retrieved: 24 March 2014.

Securities and Exchange Law (2013), still have not been released. The delay in drawing up trading rules and other regulations is likely to push back the formation of the Securities and Exchange Commission (SEC) and hamper the establishment of brokerages[27]. The SEC is expected to govern the functions of a stock exchange, and educate companies on the procedures for an IPO.

Second, Myanmar officials lack the technical expertise of basic concepts of regulating a stock exchange. As a regulatory body tasked with the role of protecting investors from fraud and violation of the securities law, an inexperienced regulatory body may not appeal to foreign investors who want assurance that companies listed have undergone stringent due diligence accounting processes.

Third, local Myanmar firms lack transparency and corporate governance practices. Some 80 to 90 per cent of the country's companies, including the largest conglomerates, are looking to list both locally and overseas. But a majority do not have proper company information such as financial statements, and management background ready. At least 80 companies must be ready and listed on the Yangon Stock Exchange before it can be launched by 2015. So far, only five companies possess the essential qualities to be listed.[28]

5. EMERGING ISSUES TO NOTE

5.1 Pushback from Local Business Sector

The SME sector, which remains weak and underdeveloped in Myanmar, is concerned that an influx of foreign companies will encourage fierce market competition and lead to the dearth of local business owners.

Such concerns prompted U Win Aung, President of the Union of Myanmar Federation of Chambers of Commerce & Industry (UMFCCI), to encourage foreign investors to consider joint ventures with local SMEs. Fostering partnerships would give SMEs access to much needed capital, technology and market access – three areas that these businesses lack.

Developing the SME sector has important effects on transitional societies and emerging market economies such as Myanmar[29]. Because of their ability to be "extremely flexible" and "adapt to today's rapidly changing environment", they have the "potential to become large businesses in the future", and are thus important contributors to sustainable long-term economic growth[30] [31].

Developing Myanmar's SME sector will also help to solve social issues that the

[27] Shimbun, Nihon Keizai (2014), Burma stock exchange may take some time, *DVB.no,* 17 January 2014, Available: http://www.dvb.no/news/burma-stock-exchange-may-take-some-time-burma-myanmar/36142 Retrieved: 24 March 2014.

[28] (2013), Myanmar faces big setbacks to implement stock exchange say <says?> deputy minister, *Eleven Myanmar,* 27 October 2013, Available:http://elevenmyanmar.com/index.php?option=com_content&view=article&id=3871:myanmar-faces-big-setbacks-to-implement-stock-exchange-say-deputy-minister&catid=33&Itemid=356 Retrieved: 24 March 2014.

[29] McIntyre, Robert (2001), The role of Small and Medium Enterprises in Transition: Growth and Entrepreneurship, *UNU World Institute for Development Research (UNU/WIDER),* Helsinki, Finland.

[30] SMEs are made up of a wide variety of companies operating in the agribusiness, service, trading and manufacturing sectors. They can also range from small and family-owned enterprises to dynamic and growth-oriented enterprises.

[31] Aung Kyaw (2008), Financing Small and Medium Enterprises in Myanmar, *IDE Discussion Paper No. 148,* IDE-JETRO, pp.1-89.

Thein Sein administration has been struggling with since the country's opening.

The promotion of SMEs in both rural and urban areas has the potential to lower unemployment levels especially among those who live below the poverty line. The sector also provides skills training opportunities for Myanmar's population. This ensures a positive trickle-down effect of wealth and benefits from the country's economic opening to the rest of the country.

5.2 Cutting the Blacklist?

A special problem for Myanmar exists in the form of the Specially Designated Nations (SDN) list from the Office of Foreign Assets Controls of the US Treasury. This has barred American nationals and permanent residents from doing business or conducting financial transactions with individuals and companies on Myanmar's SDN List (or blacklist).

The SDN list matters not only to the individuals and corporations blacklisted but to their potential partners. Many believe that the list includes those who would have the capacity, capital and networks to be the best partners for foreign investors seeking entry into Myanmar.

At present, it seems likely that the restrictions of the SDN list will remain in the short to medium term. Some in the US, including influential figures in Congress, believe this offers some leverage at least until Myanmar's government sheds its military influence and resolves the country's on-going ethnic tensions. However, multiple US businesses looking to invest in Myanmar could pressure the US government to expedite the process of removing Myanmar individuals from the blacklist.

The US has also recently urged Myanmar nationals to "work harder to remove themselves from the blacklist" by demonstrating to the US that they are engaged in responsible business practices[32].

In June, US Assistant Secretary of State for Democracy, Human Rights and Labour Tom Malinowski met prominent blacklisted businessmen in Myanmar to discuss details of the processes needed for sanctioned individuals and firms, including state-owned enterprises, to get off the blacklist[33]. The meeting included individuals such as U Tay Za, founder and chairman of Htoo Group of Companies, and Mr. Steven Law, managing director of conglomerate Asia World[34]. Details of the discussion has not been made public.

Blacklisted Myanmar nationals are encouraged to demonstrate that they are engaged in responsible business practices.

The US Treasury has also attempted to smooth financial transactions between American businesses and individuals and

[32] Mahtani, Shibani (2014), U.S. urges Myanmar Nationals to work harder to get off sanctions list, *Wall Street Journal,* 29 June 2014, Available: http://online.wsj.com/articles/u-s-urges-myanmar-nationals-to-work-harder-to-get-off-sanctions-list-1404059697 Retrieved: 17 July 2014.

[33] Ibid.

[34] Ibid.

Myanmar institutions. In February 2013, the Treasury's General License 19 authorised all transactions with the still-blacklisted Asia Green Development Bank, Ayeyarwady Bank, Myanma Investment Bank, and Myanma Investment and Commercial Bank[35]. However, US individuals are still prohibited from dealing with other blocked banks such as Myanma Foreign Trade Bank, Myawaddy Bank and Myanma Investment and Commercial Bank[36].

Myanmar's blacklisted businessmen are trying to boost their international and domestic image by shaking off remnants of past ties to the military junta. For example, Htoo Group of Companies founder U Tay Za donated US$82,000 to the NLD's charity drive for education, which was publicly accepted and supported by Aung San Suu Kyi[37]. U Zaw Zaw, owner of consumer products firm Max Myanmar, is trying to build up his popularity among the local Myanmar people by heading the Myanmar Football Federation. U Win Aung of Dagon International heads the country's chamber of commerce and the private sector, and engages extensively with foreign investors.[38]

6. CONCLUSION

Myanmar has dealt with the initial period of political and economic opening dynamically, and with relative success. The speed of its opening has however exposed gaps. SMEs and larger corporations are realising that there is insufficient infrastructure – physical and financial – for businesses to develop. Other business concerns include the lack of technology and skilled workers as well as rising costs.

Moreover, even where the government has tried to respond, efforts to move faster have been handicapped by administrative incapacity and a limited ability to implement policy. The government is trying again to streamline processes, especially in the Myanmar Investment Commission and Special Economic Zones, as noted, and has replaced personnel in charge.

Even as these efforts are being made, questions of politics are heating up, especially with elections due in 2015. The political issues relate to fundamental questions of who will be in charge after 2015 and, beyond the question of personalities, how consistent the policies will prove.

Additionally, there are rising expectations of democracy among its citizens and different sectors of society. Much will depend on the country's peace settlements with its different ethnic groups and how the government deals with tensions arising from the Rakhine state.

---

[35] (2006), Beware of OFAC, *IFLR,* September 2006, Available: http://www.gibsondunn.com/fstore/pubs/Lee-Slear-BewareOFAC0906.pdf Retrieved: 25 March 2014.

[36] Burmese Sanctions Regulations 31 C.F.R. Part 537, Executive Order 13464 of April 30, 2008, Office of Foreign Assets Control, Department of the Treasury, Washington DC 20220, Available: http://www.treasury.gov/resourcecenter/sanctions/Programs/Documents/burmagl19.pdf Retrieved: 25 March 2014.

[37] Montlake, Simon (2013), Myanmar democracy icon Suu Kyi taps 'crony' capitalists for charity funds, *Forbes,* 16 January 2013, Available: http://www.forbes.com/sites/simonmontlake/2013/01/16/myanmar-democracy-icon-suu-kyi-taps-crony-capitalists-for-charity-funds/ Retrieved: 30 March 2014.

[38] Kinetz, Erika (2013), US caught in awkward embrace of Myanmar 'crony', *Associated Press,* 25 February 2013, Available:http://bigstory.ap.org/article/us-caught-awkward-embrace-myanmar-crony Retrieved: 30 March 2014.

These political issues have an impact on the economic, and vice versa. Take the decision by US President Barack Obama in May to extend economic sanctions against Myanmar for another year. This was reached despite recognition of the country's reform efforts and was, overwhelmingly, driven by concerns over the plight of the Rohingyas.[39]

Increasing criticism from the US and Europe can make would-be investors in Myanmar jittery about committing to their long-term investment plans. The Myanmar government is beginning to see the knock-on effects. Thura Shwe Mann, Union Parliament Speaker and chairman of the ruling party, noted during a recent press interview that "economic reforms have not reached the level we expected"[40].

In a separate recent interview, President Thein Sein's spokesman U Ye Htut complained that there were too few investors "coming in with big money"[41].

In the views of the international community, these trends are not the only factors that must be considered going forward.

There is increasing restiveness domestically too. Three years since its opening, Myanmar's citizens and smaller businesses are asking how they have benefited.

In this, nationalistic fervour and local sensitivities run high among average Myanmar citizens. Foreign investors need to understand this perspective, and would do well to ensure that the investments and projects they are considering are perceived as benefiting Myanmar's social economy and national development.

The incumbent administration of President Thein Sein will have to prove to Myanmar citizens and smaller businesses that the reforms have delivered. This must be done before the elections of 2015 if he is to consider running for another term and have a chance of succeeding. Otherwise, the failure to deliver on these key issues will hurt the progress of Myanmar's opening as well as the political and investment interests of the international community.

Myanmar has done well in the first years of its political and economic opening. But that progress has reached something of a plateau. The gap between reality and the expectations of citizens and foreign businesses is in danger of becoming too wide.

The government is cognisant of many, if not all, of the expectations and is trying to respond to the challenges. But whether there is the capacity and the will to do so in the time that remains before 2015 remains to be seen.

[39] (2014) Obama extends some sanctions against Myanmar despite reforms, *Reuters,* 15 May 2014, Available: http://www.reuters.com/article/2014/05/15/us-myanmar-usa-obama-idUSBREA4E0W820140515 Retrieved: 15 July 2014.

[40] Fuller, Thomas (2014) In Myanmar, the euphoria of reform loses its glow, *The New York Times,* 4 July 2014, Available: http://www.nytimes.com/2014/07/05/world/asia/in-myanmar-democracys-euphoria-losing-its-glow.html?_r=2 Retrieved: 15 July 2014.

[41] Ibid.

Appendix A

Sources of GDP Growth for Fiscal Year 2014/15 in Constant 2010/11 Prices								
	Year	Fiscal Year 2013/14		Fiscal Year 2014/15				
	Sector	Output (K Million)	Share (%)	Output (K Million)	Growth rate (%)	Share (%)	GDP increase (K million)	Share in GDP increase(%)
01	Communications	1,547,725.1	3.1	2,614,179.5	68.9	4.8	1,066,454.4	23.4
02	Manufacturing	10,778,736.5	21.6	11,802,384.1	9.5	21.7	1,023,647.6	22.5
03	Trade	9,544,322.5	19.1	10,056,137.7	5.4	18.5	511,815.2	11.2
04	Transport	6,205,854.1	12.4	6,675,293.7	7.6	12.3	469,439.6	10.3
05	Fishery and animal husbandry	4,082,844.6	8.2	4,439,809.9	8.7	8.2	356,965.3	7.8
06	Construction	2,499,907.3	5.0	2,852,819.1	14.1	5.2	352,911.8	7.7
07	Agriculture	11,633,128.3	23.3	11,944,087.8	2.7	21.9	310,959.5	6.8
08	Social and administration	1,144,296.0	2.3	1,386,939.7	21.2	2.5	242,643.7	5.3
09	Rent and other services	1,119,673.6	2.2	1,251,131.4	11.7	2.3	131,457.8	2.9
10	Electricity	573,804.4	1.2	640,206.8	11.6	1.2	66,402.4	1.5
11	Mining	415,126.8	0.8	451,678.6	8.8	0.8	36,551.8	0.8
12	Financial	103,071.4	0.2	127,660.4	23.9	0.2	24,589.0	0.5
13	Energy	70,998.9	0.1	80,524.1	13.4	0.1	9,525.2	0.2
14	Forestry	149,323.8	0.3	105,410.5	-29.4	0.2	-43,913.3	-1.0
15	GDP	49,868,813.3	100.0	54,428,263.3	9.1	100.0	4,559,450.0	100.0

Source: MNPED, Fiscal Year 2014-2015 Draft National Development Plan (Naypyitaw: MNPED, January 2014), p. 10 [in Burmese].