Burma Opens for Business

Our Correspondent
Jan 11, 2012

Burma, long an outcast nation, is starting to see the benefit of political reforms undertaken by President U Thein Sein's government. Although it is early days, delegations of western businessmen have started to appear on the horizon, looking for opportunity.

The reforms are creating a sense of optimism that the country, mostly avoided by the western business world until now due to sanctions, robust boycott campaigns and a difficult operating environment, is about to become the next Thailand or Vietnam.

Some of that excitement has been blunted, however, by a warning from opposition leader Aung San Suu Kyi that the reforms are not unstoppable and by the fact that the government released far fewer political prisoners in recent weeks than had been expected. Nonetheless, recent visits by US Secretary of State Hillary Clinton and British Foreign Secretary William Hague have convinced many businesses that economic sanctions banning investment and trade will be gone within a year or two.

"I would think every US company active in Asia is already looking following Clinton's visit. Japan, South Korea and India are already in town, kicking the tires," said Rob Lacey of Asia Plus Securities, a Thailand-based securities brokerage firm. He suggested companies like Nike and Pepsi, which pulled out of the country in the mid-1990s under pressure from activists, would be well placed to resume business activities. "I believe that many former corporate relationships can be dusted off and restarted quickly. In fact, several never really went away – they weren't contravention of the sanctions, they just put the signs inside for fear of poor publicity."

An analyst at one institutional investor described a "tsunami wave of cash" heading towards the country but for now the excitement is manifested in scouting trips, with **businessmen battling package-tourists for rooms** in Rangoon's handful of international standard hotels. A steady stream of business delegations, from countries including South Korea, Germany and the Netherlands, has visited the country in recent months.

This week, Japan's Economy, Trade and Industry Minister Yukio Edano is heading a delegation that includes officials from top Japanese companies such as Hitachi, Toshiba, Mitsui, Itochu, JX Nippon Oil & Energy and Marubeni, **Reuters reported**.

"You look at Myanmar and you can to some extent replay what happened in Thailand for the past 40 years all over again, or even better. That's what makes it such an attractive opportunity," said Tony Picon, associate director for research at Collier's Thailand, which recently surveyed investment opportunities in Rangoon's property market.

While British bank Standard Chartered **happily acknowledged** last week it was hoping for a piece of the action, for now few Western businesses are willing to go public in their interest. A number of regional business organisations, including the American Chamber of Commerce in Singapore, which reportedly organized a business seminar in Rangoon in December, declined comment for Asia Sentinel.

Energy is likely to be one sector of interest. Burma has large natural gas reserves and many thousands of megawatts of untapped hydropower potential, while its mineral resources are exciting but barely explored. Energy and mining have accounted for almost all foreign direct investment in recent years, with China **committing more than $14 billion** in the 2010-11 financial year alone.

Western energy companies have played down the prospect of returning to Burma (or, in the case of Chevron and Total, expanding their presence). Most of the 10 winning bidders in a recent tender for onshore oil and gas blocks were from Asia, including Malaysia's Petronas and Thailand's PTTEP.

However, prospective investors are also taking a closer look at manufacturing, telecommunications, hospitality and banking – basically all the sectors that they made money from in Thailand, Vietnam and Cambodia. Economic development would create demand for industrial equipment, while the prospect of millions more middle-class consumers is likely to whet appetites. The country, however, remains one of Asia's poorest at the moment.

Western investors will mostly have to be content to tail their counterparts from Asia, which never had to abide by sanctions and were unmoved by boycott campaigns, as *Asia Sentinel* has **previously documented**.

While contracted foreign direct investment from Thailand, Singapore and Japan has slowed in the past five years as China gained ascendancy, businesses from these countries remained much more active in Burma than their Western counterparts.

"Asian firms will be the first ones in as Myanmar opens up," said Douglas Clayton, chief executive officer of frontier markets investment fund Leopard Capital. "US multinationals will discreetly research the market but have to wait until the sanctions come off before moving in. Many will prefer to sit and watch for a few years then buy their way in later, taking out the pioneers."

Already there are signs that the business boom has begun. At a press conference with local media in late November, Minister for Industry U Soe Thein said the government was anticipating "huge" levels of foreign investment, mostly from Asia, in the first half of 2012. Property prices in semi-rural areas of Rangoon have **quadrupled in a matter of months** on the back of the government's announcement of a new special economic zone and rumours of a South Korean-funded satellite industrial city. The South Korean embassy in Rangoon declined to confirm this but one prominent Rangoon-based business lawyer said it was "more than a rumor." Meanwhile, land prices in some areas of downtown Rangoon have hit as much as US$2,500 a square foot, according to real estate agents, rivalling similar locations in Bangkok.

But beneath all the optimism the fact remains that Burma is still a tricky place to do business for a foreign company. Promised economic reforms are yet to materialise, with the first session of parliament after the transfer of power to Thein Sein's government focusing mostly on political reforms, such as labor union and protest laws. The next session begins on Jan. 26 and the government has indicated it intends to unify the exchange rate, promulgate a new foreign investment law and change some land ownership rules but has not given a time frame. That's just the start of what's required though, according to Lacey.

"An independent central bank and a major overhaul of the banking system are also urgently needed," he said. "Many laws desperately need updating. Trademark protection is virtually non-existent, for example."

Sean Turnell, an associate professor of economics at Australia's Macquarie University, said that while there is a lot of interest in Burma, most investors were wary of "putting money on the table."

He said he believed most of the "real interest" is in energy and tourism, while other firms are merely scouting.

"My email inbox has been filling up with people with all manner of ideas," said Turnell, who has studied the Burmese economy for many years. "[But] for serious, capital-intensive investment, all the old barriers remain: lack of property rights, poor infrastructure, poor and unstable macro environment, currency division and instability, widespread poverty and difficult local operating environment."

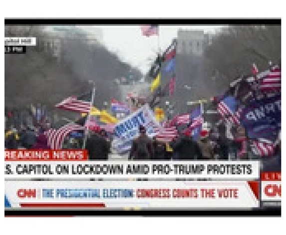
These factors and previous false starts – most recently in the early 1990s – should give investors reason to pause. There's a serious risk that reforms will be stymied by those with a vested interest in the status quo. But many foreign firms are looking at the long-term picture and seeing potentially significant windfalls.

"It will still take some time to put the pieces together and investors are mindful of this," Picon said. "But the way things are moving forward in [Burma] we could see the country even move ahead of many others in the region in terms of ease of doing business."

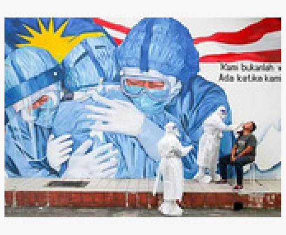
Comments

Write a comment...

Top New Community



South Vietnam's Flags at the Capitol Riot
What was the flag of an extinct state doing amid the carnage?
JAN 9, 2021 4 412



Malaysia Fades in Covid Fight
Competing companies, tardy procurement, low signup rates plague country
JOHN BERTHELSEN APR 16, 2021 15 183

Malaysian Premier Stages Daring Move to Stay in Power
Mahathir engineers coup to block onetime protégé Anwar
FEB 23, 2020 10

See all ›