

Myanmar Economy in 2018

Business Information Centre, Royal Thai Embassy

After the establishment of democratically elected government in April 2018, Myanmar's economic forecast remains broadly positive. Many foreign investors expect a massive fast-growing economy and wish to enter into Myanmar's untapped market. However, Myanmar has been tarnished by a series of conflict escalation in Rakhine State, northwestern Myanmar, which has had a negative impact on the country's image, and reduced foreign investment, especially from European countries. Nevertheless, Myanmar's GDP growth rate is expected to reach 7 percent in the 2018 – 2019 fiscal year, based on an increased inflow of foreign investment funds, and increased investment in infrastructure.

The Myanmar government has implemented a series of economic reforms. In August 2018, the Myanmar Companies Law was enforced, replacing the previous 1914 Companies Act. Under the new law, foreigners are permitted to own up to 35 percent of shares in a local company. The new law also encompasses a wide range of regulations, which will affect local and international investors. These include regulations on share transactions, dividends, reduction of initial capital and shareholder authorities. There was also liberalization of other sectors, such as education services, wholesale and retail by foreign companies and joint venture companies. Myanmar hopes to attract more foreign investment by focusing on infrastructure development, such as ports, roads, highways, railways, and power generation.

Foreign Investment

Foreign investors' interest in Myanmar remains strong. Foreign direct investment (FDI) inflows show signs of potential growth. However, foreign investment is slowing down due to the unfolding humanitarian crisis in northern Rakhine. This is especially the case with western investors, who are still withholding funds. Myanmar received US \$5.7 billion in foreign direct investment for 222 projects from the previous 2017 – 2018 fiscal year, which ended on 31 March 2018. According to the Directorate of Investment and Company (DICA), Myanmar expects to draw FDI totaling US\$ 5.8 billion in the 2018-2019 fiscal year, which started on 1 October 2018. However, U Aung Naing Oo, Secretary of the Myanmar Investment Commission (MIC), informed that the 2018 – 2019 FDI forecast excluded investments from the West. In the six months interim period before the new fiscal year during April – September 2018, FID totaled US \$ 1.4 billion, which is lower than the forecasted US\$ 3 billion.

The Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) will host the Invest Myanmar Summit during 28 – 29 January 2019 in Nay Pyi Taw. The Summit targets investors from nine countries, including the US, UK, China, Hong Kong, India, Japan, South Korea, Australia, Singapore, and Thailand. It aims to draw more FDI into areas beyond Yangon, such as Mandalay Region, Shan State, Ayeywarwady Region, Kayin State, Mon State, and Tanintharyi Region. In addition, the Summit seeks to promote eight sectors, including manufacturing, garment production, electricity and energy, foodstuffs, tourism, education, healthcare, and land development.

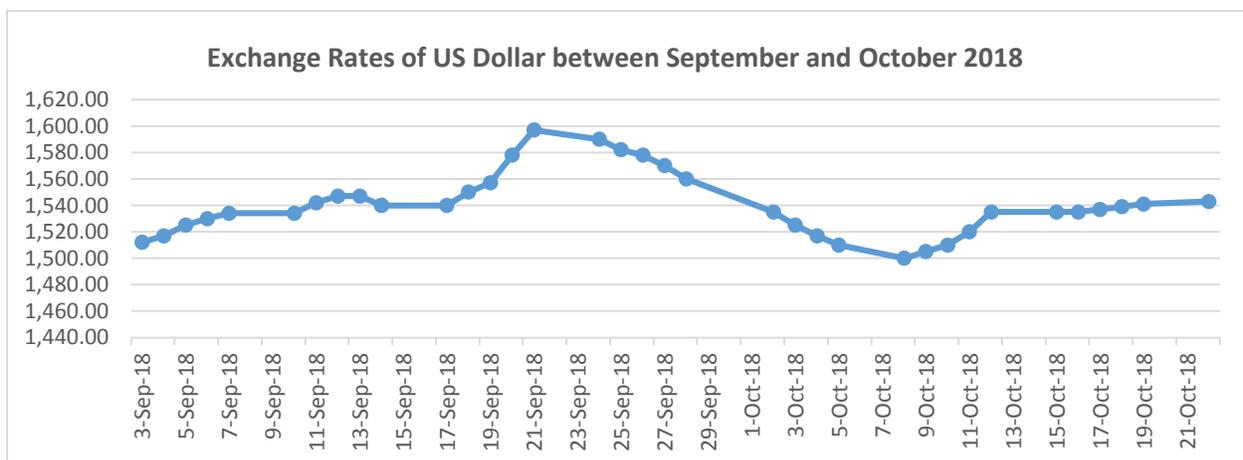
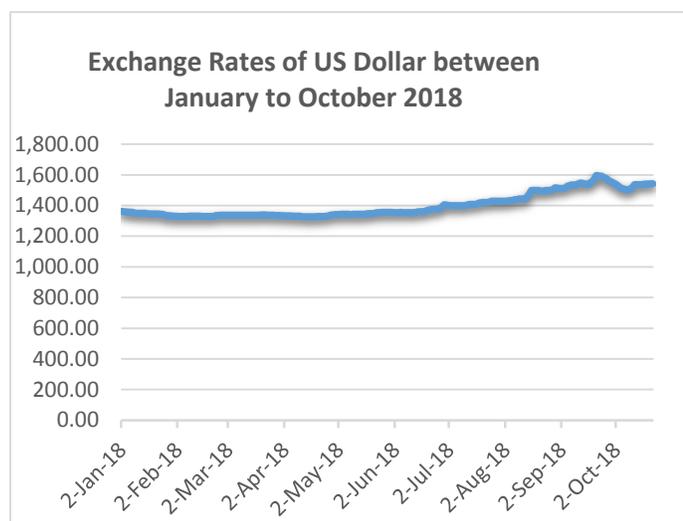
According to DICA’s statistics on foreign investment of permitted enterprises, oil and gas, power, manufacturing, and transportation and communications sectors receive the most FDI, accounting for 80% of Myanmar’s total approved FDI, as of 31 August 2018. Myanmar expects to attract more foreign investment in the 2018 – 2019 fiscal year.

Financial Sector

Myanmar’s banking sector is lagging behind international standards. However, the Central Bank of Myanmar (CBM) is taking steps to implement financial reforms. On 8 August 2018, the CBM signed a grant agreement with the Japan International Cooperation Agency (JICA) on a grant aid of up to 5.594 billion Japanese Yen for the development of financial market infrastructure. Myanmar’s financial sector is still in the developing phase. Financial authorities, such as the Ministry of Planning and Finance, and the CBM, are promoting financial reforms by acquiring financial knowledge from Japan and other developed countries.

Currency exchange rate

The official Kyat exchange rate against the U.S. Dollar has been broadly depreciating in 2018. The CBM announced that it had removed a 0.8 percent FX trading band on 13 August 2018 (this FX trading band was set in 2012 when a floating exchange rate was introduced)¹. The move comes as the kyat weakens against the U.S. Dollar, falling to 1,623 Kyat on 22 September 2018. Causes for this depreciation include the black market where dealers



Source: Central Bank of Myanmar

¹ The regulation that restricts the customer exchange rates offered by city banks within the range of ± 0.8 of the reference rate that the Central Bank sets every day.

typically move away from the CBM rate. On the other hand, banks are forced to adhere to the CBM rate. As a result, banks only buy foreign currency and restrict their sales. Thus, economists pointed out that the CBM should enforce its regulations, so that banks have to buy and sell USD in adequate volumes. In terms of financial reforms, the Myanmar Credit Bureau was established on 17 May 2018 to effectively develop Myanmar's financial market.

Energy Sector

Most of Myanmar's energy potential remains unfulfilled and the country is still one of the least electrified in the world. The Myanmar government has set an ambitious target of achieving universal access to energy by 2030 through its "National Electrification Plan." Over the past year, the Myanmar government has sought to address the country's unmet demand in the energy and electricity sectors. The government recognizes the challenges faced by businesses in the energy sector, and wishes to facilitate investment opportunities. According to Daw Khin Htay, Director of state-owned Myanmar Oil & Gas Enterprise (MOGE), the Ministry of Electricity and Energy (MOEE) plans to propose 18 onshore and 13 offshore blocks for bidding at the end of 2018.

In addition, MOEE has announced that LNG imports will be used to address energy shortages before new domestic gas becomes available. MOEE plans to resolve the electricity demand in the short and medium term through the establishment of LNG import schemes. At present, oil prices are up to US\$ a barrel. Both local and foreign oil and gas companies in the upstream sector are ready to resume their exploration and production activities. In the future, it is likely that Myanmar's energy sector will improve by reflecting changes in the wider industry, but for now, Myanmar's challenges in the electricity sector still remain large.

Electricity Tariff

The government is paying more to generate electricity than it is receiving from distributing power to the public. In the 2017-2018 fiscal year, the electricity sector suffered losses of K507.9 billion (estimated US\$ 321 million). Dr. Tun Naing, Deputy Minister for Electricity and Energy made a statement to Pyidaungsu Hluttaw that the electricity supply sector is forecast to lose about K630 billion (estimated US\$ 397 million) in the coming 2018-2019 fiscal year.

The retail tariff is set at 35 –50 Kyat/kWh for households and 75-150 kyat/kWh for industry, depending on their consumption level. However, the Ministry of Electricity and Energy (MOEE) has announced plans to increase electricity prices, but has not yet decided on the new rates. According to U Htay Aung, Deputy Permanent Secretary of the MOEE, the Ministry divides electricity users into three categories: household, business, and industrial purposes. Currently, households pay 35 kyats per unit for up to 100 units, and 40 kyats per unit for up to 200 units. Any units above 200 cost 50 kyats per unit.

Industrial users pay 75 kyats per units up to 500 units; 100 kyats from 501-10,000 units; 125 kyats from 10,001-50,000 units; and 150 kyats from 50,001 to 300,000 units. Therefore, if the new price of electricity is announced, the new rates will be different for each category.

To boost energy production, MIC Notification 13/2017 lists several promoted sectors such as power generation, transmission and distribution, and production of renewable energy. Investors will benefit from tax discounts, including exemption from corporate income tax, customs duties, and the right to deduct depreciation/expenses from assessable income. However, it is a big obstacle for investors to come with finance and ideas to boost energy production in Myanmar due to the government's subsidies in the energy sector and low electricity tariffs.

Telecommunications

Myanmar is growing fast in telecommunications. However, it remains one of the last underdeveloped telecommunications markets in Asia. In 2014, Myanmar opened to foreign investment in the telecommunications sector. By 2018, Myanmar was four years into a telecommunications boom that has dramatically changed the physical and technological landscape of the country. Telecoms licenses were granted to Myanmar Post and Telecommunications (MPT), Telenor Myanmar, and Ooredoo Myanmar in February 2014. Subsequently, Mytel received a license in January 2017.

Meanwhile, there are also more than 140 licensed internet service providers (ISPs), such as Amanda Communications, which launched Myanmar's first 4G+ wireless broadband data-only service in May 2018. In addition, there is also Myanmar Net, Myanmar Information Highway Company (MIH), NTT Communication Company, Capana Company, and True International Gateway Company. Competition in this sector is getting intense, and the sector is highly profitable. According to a government survey from the previous fiscal year, 2017 – 2018, there were 56.8 million mobile phone users compared to a total population of 54 million. This implies a penetration rate of more 100 percent. Thus, despite the slowing demand in Myanmar's economy, the telecommunications sector is expected to be among the handful sectors yielding opportunities for growth in the 2018 – 2019 fiscal year.

Infrastructure

Geographically, Myanmar is endowed with one of Asia's most outstanding locations. Myanmar's transport infrastructure continues to grow. However, there are still a wide range of challenges. In Myanmar, domestic transportation is primarily undertaken by road, yet the road systems are of very poor quality. U Kyaw Win, former Union Minister for Planning and Finance, stated that the government will make constant efforts for infrastructure development during its remaining three years in power. The Asian Development Bank (ADB) estimated that Myanmar needs USD 120 billion up to 2030 to fulfill its infrastructure needs. Myanmar's urban population growth is occurring at a faster rate than spatial growth, and an additional 10 million people is expected in the cities. This requires USD 320 billion on infrastructure investment.

At the same time, Myanmar also needs to develop new airports, and upgrade existing airports to cater to an increasing number of passengers, while also improving air cargo operations. However, investors are experiencing a slow tender process, which results in projects having significant setbacks and a series of delays. In addition, Myanmar's rail and water transportation system, including inland water transportation, also needs to be improved with government support, as the government has limited private sector investment in these areas. At the end of 2017, the first water bus in Myanmar was launched in Yangon.

There are significant opportunities for foreign and local investors in Myanmar's underdeveloped infrastructure sector, where improvements have been slow, leading many foreign investors to be hesitant about entering the market.

At present, JICA is the primary actor on renovation and improvement of the railway system. This includes the Yangon Circular Railway Improvement Project. In addition, a number of international donors, such as the ADB, are heavily involved in the extension of road projects, and have demonstrated their commitment on further infrastructure improvements.

Two-Lane Road Linking Thailand and Dawei SEZ

A long-awaited two-lane road construction linking Thailand and Dawei Special Economic Zone is being implemented after the Myanmar government approved borrowing a loan of 4.5 billion Baht from the Neighboring Countries Economic Development Cooperation Agency of Thailand (NEDA). The road has a length of more than 156 Kilometres, connecting Thailand's Ban Phu Nam Ron in Kanchanaburi province to the Dawei SEZ, Tanintharyi region in Myanmar. NEDA and the Ministry of Construction of Myanmar (MOC) will survey and design this road.

In addition, during the road construction, the suspended Dawei SEZ is also scheduled to be back on track, as it is considered beneficial for Myanmar as well as the wider Southeast Asian region. Therefore, the 156 km two lane road is not only a land bridge promoting joint economic development between Thailand and Myanmar, but also an important missing link in the East West Economic Corridor for the future economic development in the region.

Conclusion

To summarize economic developments thus far in 2018, Myanmar needs to focus on developing infrastructure, energy, and the financial sector in order to attract more FDI. At the same time, the series of conflict escalation in Rakhine State has had a destructively negative impact on the country's image, causing Myanmar to suffer from the loss of investment from western investors. As such, Myanmar needs to better handle the situation to create confidence among Western investors, namely, those from Europe and the US. At the same time, the government needs to prioritize the implementation of reliable infrastructure, especially power infrastructure, the construction of international standard highways, railways, ports, including inland water transport, to accelerate Myanmar's economic growth.

Government agencies and private sector contacts for further information:

Ministry of Planning and Finance

Office No. (1), Nay Pyi Taw

Phone +9567 407023, 67 407017

Fax +9567 4077004

Website - www.mopf.gov.mm

Ministry of Transport and Communications

Office No. (5), Nay Pyi Taw

Phone +9567 411520, 9 42070 4484

Fax +9567 411472, 067 412017

Website - www.motc.gov.mm

Directorate of Investment & Company Administration - DICA (Yangon Head Office)

Office Building No. (1), Thit Sar Road, Yankin Township, Yangon

Phone +951658103

Fax +951 658143

Website - www.dica.gov.mm

Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI)

No. (29), Minye Kyaw Swar Street. Lanmadaw Tsp, Yangon, Myanmar

Phone +951 214344, 1 214345 – 49, 1 214483, 1 214484

Fax +951 2314484

Website - www.umfcci.com.mm

Myanmar Construction Entrepreneurs Association

No. (3), Corner of Waizayantar Rd and Thanthumar Road, Thuwunna Junction, Thingangyun Township, Yangon.

Phone +951 579547, 1 560725, 1 579564

Fax +951560725

Chairman - U Thar Htay (+959 5023320)

Secretary - U Tin Maung Naing (+959 5125376)

Email - mcea1996@gmail.com

Reference:

https://www.iima.or.jp/Docs/newsletter/2018/NL2018No_6_e.pdf

<https://www.focus-economics.com/countries/myanmar>

http://themimu.info/sites/themimu.info/files/documents/Ref_Doc_White_Book_2018_-_Trade_Investment_Policy_Recommendations_Eurocham.pdf

http://themimu.info/sites/themimu.info/files/documents/Report_Cost_of_Doing_Business_in_Myanmar_Survey_2018.pdf

http://cbm.gov.mm/sites/default/files/dfmi/Press%20Release%20_English.pdf

<https://www.mmtimes.com/news/fdi-forecast-hitus-5-8b-2018-19.html>

http://www.cbm.gov.mm/sites/default/files/reference_rate_0.8_bound.pdf

<https://www.budde.com.au/Research/Myanmar-Burma-Telecoms-Mobile-and-Broadband-Statistics-and-Analyses>

<https://www.mmtimes.com/news/telecommunications-sector-bright-spot-economy-2018-19.html>

https://www.ccifrance-myanmar.org/sites/ccifrance-myanmar.org/files/resources-documents/energy_guide_2018.pdf

<https://www.bangkokpost.com/news/transport/1445562/dawei-road-loan-nears>