Myanmar

Investment landscape in Myanmar: Emerging trends and impending change

Monday, October 31, 2016

Highlights

- **Using data from Directorate of Investment and Company Administration (DICA), we review the record of new investments in Myanmar since the new government took over.**
- **We note three emerging trends compared to FY2015-2016 under the previous government: (1) manufacturing sector is receiving a greater share of investments; (2) foreign corporates are getting more involved; (3) greater proportion of investment is flowing into Yangon region compared to rural states.**
- **A potential game-changer, the new Myanmar Investment Law, is expected to come into force at the start of FY2017-2018. Changes in incentives in the areas of income tax exemptions and land use may serve to re-direct investment flows.**

The democratic transition has catalysed significant political and economic change in Myanmar. We seek to understand whether and how this fundamental change has affected new investment by the international and local community in Myanmar. Reviewing data from Directorate of Investment and Company Administration (DICA), we note three emerging trends.

Trend (1): Manufacturing sector is receiving a greater share of investments

The manufacturing sector made a promising start in the race for new investment. As of September 2016, total investment into the manufacturing sector made up 53.1% of all investment since the new government took over, totalling US$686.9m (see chart on following page). In contrast, manufacturing sector accounted for only 14.1% of all investment in FY2015-2016 under the previous government. This underscores the shift in investment priorities, and it appears that the government is actively encouraging investment in this sector. Indeed, the Myanmar Investment Committee (MIC) secretary U Aung Naing Oo has been quoted in local media saying that labour intensive manufacturing will be at the top of the list of promoted sectors.

What is missing from this year's investment data is just as telling. Investment into the oil & gas sector, which made up 38.1% of all investment in FY2015-2016, and mining sector are notably absent under the new government. This supports the notion that the new government is not overly enthusiastic on extractive industries. This stance is perhaps not surprising. In recent years, projects relating to extractive industries have tended to be divisive, often resulting dislocation of local peoples and environmental concerns. With national reconciliation between ethnic groups at the top of the political agenda, it may be some time before the government re-prioritise these sectors.

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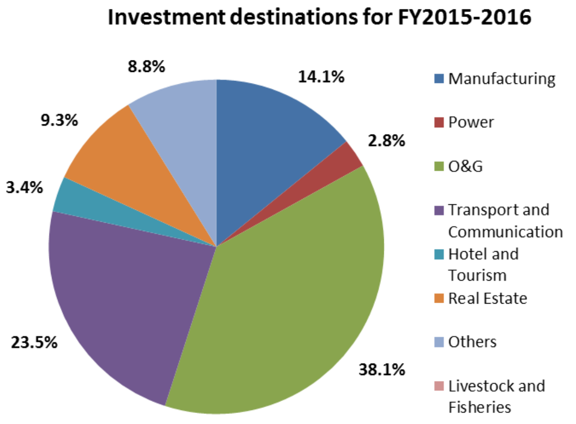
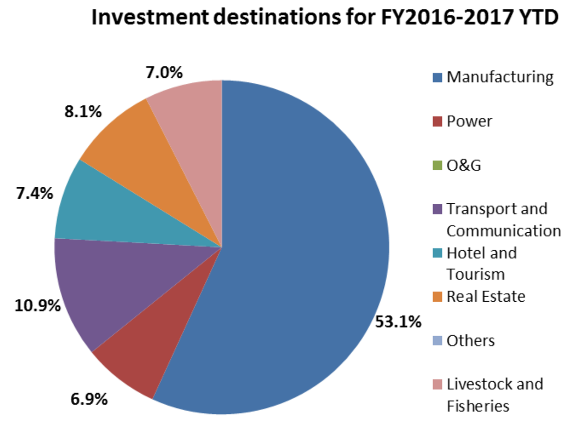




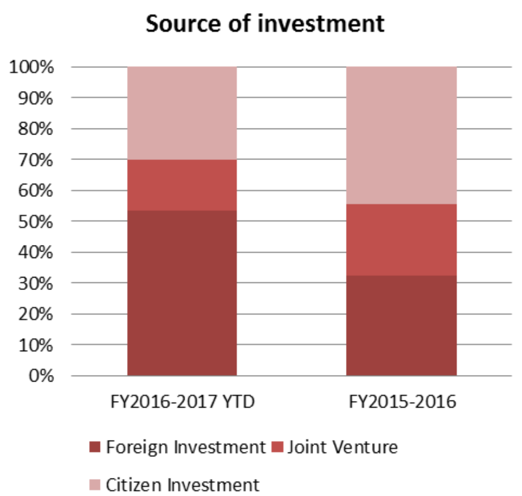
Source: DICA, OCBC

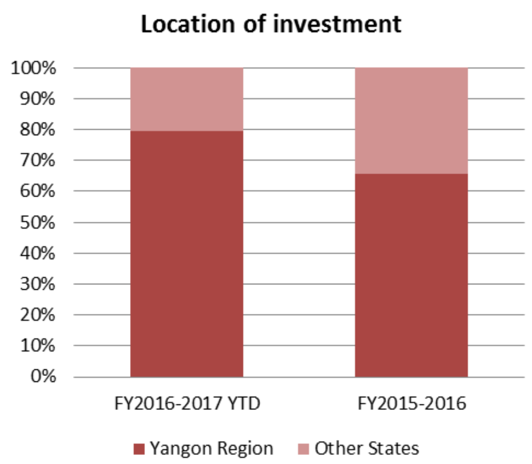
Trend (2): Foreign corporates are getting more involved

Foreign involvement has accounted for a larger slice of the investment pie. Year-to-date, 70% of all approved investments are either wholly-owned by foreigners, or joint ventures. In contrast, foreign involvement is only present in 56% of all investments in FY2015-2016.

Taking it positively, this trend suggests an increasing acceptance of Myanmar in the international business community. This argument goes hand-in-hand with the increasing visibility of Myanmar in the world stage since the new government took power. With State Counsellor Aung San Suu Kyi, an internationally recognised stateswoman, heading foreign policy, we continue to expect strong engagement between Myanmar and the rest of the world. In turn, this should translate into sustained foreign involvement in investment.

Viewed another way, this trend could also have arisen due to a decline in local citizen investment. Ground sentiment suggests that this view does have some merit. The local business community has been clamouring for more details in the national economic policy and investment policy. Thus, local businessmen may be holding back larger investments while awaiting greater clarity. To an extent, this is corroborated by DICA’s investment figures. Although there are 22 counts of permitted local citizen investments, the total quantum by permitted enterprises amounted to just US$76.9m. However, with additional details on economic policy set to be unveiled at Naypyitaw in late-October, and the passing of the new Myanmar Investment Law, we expect the uncertainties to be lifted in time.





Source: DICA, OCBC

Trend (3): Greater proportion of investment is flowing into Yangon region

Geographically, close to 80% of new investments are flowing towards the Yangon region. The corresponding figure for FY2015-2016 stood at approximately 65%. In light of the emphasis on manufacturing, it is perhaps not surprising. As the commercial capital and main urban centre, Yangon provides the most reliable financial and transportation infrastructure, and a ready pool of urban labour, to support a manufacturing investment. However, the pre-eminence of Yangon as an investment destination may be reduced moving forward. Changes on the income tax incentives (highlighted in the next section) under the new Myanmar Investment Law may act to channel investment towards less developed regions.

Potential game-changer: the new Myanmar Investment Law

The new Myanmar Investment Law will consolidate the existing Foreign Investment Law and the Myanmar Citizens' Investment Law, and unify the investment code for all investors. After passing through Parliament on 5 October, the MIC is currently drawing up the detailed rules and regulations required in the implementation of the law. The new Myanmar Investment Law is expected to come into force on April 2017, in conjunction with the start of FY2017-2018.

Under the new law, foreign direct investments (FDI) that meet yet-to-be finalised criteria will be considered "permitted"[1] and will not require MIC approval. Only investments regarded as strategic, or valued above a threshold, will require approval. In principle, this should reduce bureaucratic hurdles for potential foreign investors. We expect this to bring a boost to FDI.

A tiered structure for income tax exemption will also be introduced under the new law. Different areas of the country will be divided into three zones depending on their level of economic development. Investments in Zone (1) will enjoy up to 7 years of income tax exemption, while those in Zones (2) and (3) will enjoy up to 5 and 3 years of exemption respectively. Similarly, different degrees of exemption will also be granted depending on the type of industries. Manufacturing, infrastructure development, agriculture and food processing has been identified by MIC officials in the local media to be the "promoted sectors".

Land use regulations are also expected to see two key changes. Foreign investors will be allowed to lease land directly from private landlords, and foreign investments in less developed regions may be allowed a longer land lease beyond the current arrangement of a 50-year lease with two 10-year extensions. Taken together, refinements in the investment incentives should increase the relative attractiveness of the less developed regions and states vis-à-vis the Yangon region.

Conclusion: Steps in the right direction

Broadly speaking, we continue to believe that Myanmar has handled its political transition reasonably well. Economic policies may appear rough on the edges, but the general direction is constructive. We also view the new investment trends positively. A focus on manufacturing around the Yangon region plays to the country's strengths. With labour costs at approximately half that of the neighbouring Chinese provinces, Myanmar enjoys a natural labour cost advantage in manufacturing. Moreover, investment in the Yangon region creates reliable source of job creation for people undertaking the rural-urban migration. Foreign involvement, while it may bring downsides, will also enable transfer of technology and skills into Myanmar.

In principle, cutting bureaucratic red tape and refining incentives to encourage greater investment in less developed regions should also be viewed as beneficial. However, a note of caution should still be sounded as the details of the new Myanmar Investment Law have yet to be finalised. As the saying goes, the devil – as always – is in the details.

[1] Some English translations use "endorsed".