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snapshot

MYANMAR: THE RIGHT PLACE TO BE IN THE NEXT DECADE?

Luca Sartorelli

If one takeaway of the Myanmar election of 2020 is the unquestioned adoration of the country for its icon Aung San Suu Kyi, another is surely the West's poor understanding of this country, its ethos and its complex history.

From August, while international journalists, consultants and political analysts were busy forecasting chaotic scenarios of a weakened NLD (the National League for Democracy, the party of Aung San Suu Kyi), and speculating about unlikely coalitions with ethnic and military-backed parties, a red river of NLD flags, T-shirts and stickers (including red face masks) was flooding every corner of Myanmar, with flocks of young supporters celebrating Suu Kyi's success weeks before the election day.

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Winning over 80% of the available seats in the two chambers and state and regional parliaments[1] once again the NLD obliterated the opposition, in the urban as well as the rural townships, from north to south, leaving many observers who had predicted a debacle for the League, supposedly damaged by poor economic outcomes and alleged inaction in response to human rights violations, groping in the dark.

[1] 25% of parliamentary seats are allocated to the army by the 2008 Constitution, which was carefully crafted and quickly approved by the military junta in the aftermath of the Cyclone Nargis disaster.

The international business environment should consider this second landslide victory by the NLD as an auspicious statement. In a fledging economy, whose fragile and ill-equipped institutions have been struggling to cope with a rapid and unscripted transition from military socialism to market-driven capitalism, a clear electoral result was what was needed to keep pace with the radical changes we have witnessed in the last decade. A strong majority will ensure another five years in which to act on a dense political agenda, loaded with infrastructural investments and economic reforms intended to further welcome foreign investments and ease private sector development.

After fifty years of isolation and economic stagnation, during which time a giant infrastructural and skills divide has increasingly distanced Myanmar from its neighbours and from the rest of the world, the country has demonstrated an astounding capacity to reinvent itself, crafting its own path of economic development. Leapfrogging their forerunners' steps towards industrialization and internationalization, Myanmar's leaders have embraced landmark reforms that have resulted in a shocking rise in GDP from USD 20 billion to USD 60 billion in just four years (2007–2011). This economic rebirth goes hand in hand with a series of ambitious development plans and long-overdue reforms such as the Minimum Wages Law 2013, which fixed the minimum daily wage at USD 2.80 (it was further raised to USD 3.26 in 2018); the creation of three Special Economic Zones or SEZs (Special Economic Zone Law 2014); the Investment Law of 2016; and the Companies Law of 2017. More recently, Myanmar has seen the launch of the Project Bank (January 2020), an institutional platform that offers actionable information on major investment projects and the creation of its first ever credit bureau. With a stronger and safer legal framework, foreign investments have soared, reaching a record level of foreign direct investment (FDI) of USD 5.7 billion in the fiscal year 2019–2020.

As already stated, one of the biggest burdens inherited by the military junta is a deficient, poorly maintained and shoddy infrastructure. This represents one of the major obstacles for private sector development, affecting two major features of industrial production: access to electricity, and transport.

According to the ASEAN Statistics Division, Myanmar has a total road length of around 140,000 km,[2] but figures from the Ministry of Construction show that in 2018 barely half of these were paved. In fact, it is estimated that only 6% of the rural roads are paved,[2] which means that most of the network is not viable during the rainy season. This translates into complete isolation for several villages in mountainous and rural areas, and no basic road access for around a third of the population. For example, the NH40, a vital artery that connects the Chin State capital, Hakha, with the rest of Myanmar, is a narrow and ill-maintained mountain road built in the 1950s, eroded by landslides and mudslides for at least six months a year. Poor road conditions make travel and transportation of goods too expensive, and travel time unpredictable. It is estimated that the Government of Myanmar should allocate at least USD 60 billion to transport infrastructure investments in the next ten years.

[2] ASEANstats, *ASEAN Key Figures 2020*, December 2020.

[3] ADB, *News Release: ADB to help build all-weather rural roads in Myanmar*, 12 November 2019.

The good news is that the Ministry of Construction and the Ministry of Transport and Communications, supported by the Asian Development Bank and the World Bank, but also by Thailand, India, China, Japan and other donors, have been working hard to fill this gap. The last Global Logistics Index[4] showed Myanmar gaining position, jumping from the bottom five in 2007 to become 139th of 167 countries in 2018, with significant improvements recorded in timeliness and international shipments. Pressed by the rising trade volumes and road traffic (+15.5% average yearly increase in the number of registered motor vehicles in the period 2005–2019, the best performance of the ASEAN countries), the government has finalized dozens of road improvement projects in the last five years, and many more are in the pipeline. To name just some of the major interventions: by 2025 two vital cross-border land transport corridors connecting the West of Myanmar with India and the East with Thailand are expected to be completed. This will make it possible to travel from Bangkok to the Dawei Special Economic Zone in less than five hours, while the Indian region of Mizoram will be directly connected with Rakhine and with the Kyauk Phyu SEZ. Moreover, numerous urban transport projects are transforming Yangon, the commercial capital, into a more accessible and (hopefully) less congested place to live and work. Among these projects, a 2 km bridge and a 4 km bridge will connect the megacity with its southern and western townships. Regarding shipments, major excavation work has allowed vessels with draught of 10 m to dock at Yangon port since December 2020. This latter is a major advance in the country's logistics infrastructure, considering that 95% of Myanmar's trade is conducted by sea. Finally, after upgrading Yangon International Airport in 2016, and opening the first airport in Chin State in 2020, the Ministry of Transport and Communications has just confirmed that a new international airport, 80 km from Yangon, will be operative by 2027.

[4] **The World Bank, *Connecting to compete 2018: Trade logistics in the global economy. The logistics performance index and its indicators*, 2018.**

Another achievement of Suu Kyi's government is the acceleration of progress towards full access to electricity, a process initiated by the semi-military government of U Thein Sein.

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It is calculated that 23.5 million people in Myanmar still have no access to electricity. In fact, a large chunk of the country has an electrification rate of less than 35%. In some remote areas of the southern and mountainous regions, electrified households do not number more than 10%. But this gap in the electricity system represents a huge investment opportunity. If we look at the FDI flow, more than 50% of it has been concentrated in the energy sector in the last twenty years, mostly for large hydropower projects.[5] However, small-scale electricity generation systems such as mini-hydropower plants or solar mini-grids are also attracting investors, for their great development potential and adaptability to rural and mountain contexts. The National Electrification Project, financed by the World Bank and to which Italy is also contributing with a soft loan of EUR 30 million, includes off-grid activities such as solar photovoltaic devices, mini-grids and community electricity connections. The Government of Myanmar aims to reach full electrification by 2030.

[5] **The Asia Foundation, *Decentralizing power: The role of state and region governments in Myanmar's energy sector*, April 2019.**

Fossil energy sources are naturally linked to power supply. Myanmar is blessed (and cursed) with an abundance of natural resources, including oil and gas, more than half of which are sold abroad. The city of Yenan Chaung, which means 'creek of petroleum' in the Myanmar language, is one of the oldest oil cities in the world. Hand-drilling oil wells can still be seen in the outskirts of the so-called Dry Zone. Petroleum extraction and trade, monopolized by the Scottish Burmah Oil Company[6] during colonial times and nationalized by the military in the 1960s, was and is a prominent industry in Myanmar.

But although Myanmar was one of the first oil and gas exporters, with seventeen sedimentary basins identified to date and a total of 104 oil and natural gas blocks,[7] there are only three operative refineries in Myanmar, and their production is not enough to cover the demand for fuel and energy. However, mega oil refinery projects are on their way. The last proposal was launched in October 2020 by the Indian Government, which is negotiating the building of a USD 6 billion oil refinery near Thaketa SEZ, in southern Yangon.

Hydropower plants are another important energy supplier in Myanmar. At the moment there are twenty-seven hydropower stations, with a total capacity of 3.5 GW, making running and falling water the major source of energy in the country. The Ministry of Electricity and Energy has around a hundred projects in the pipeline along the four main rivers that cross the country from north to south.

[6] **Burmah Oil Company, later Burmah Castrol, was acquired in 2000 by British Petroleum.**

[7] **Myanmar Ministry of Electricity and Energy.**

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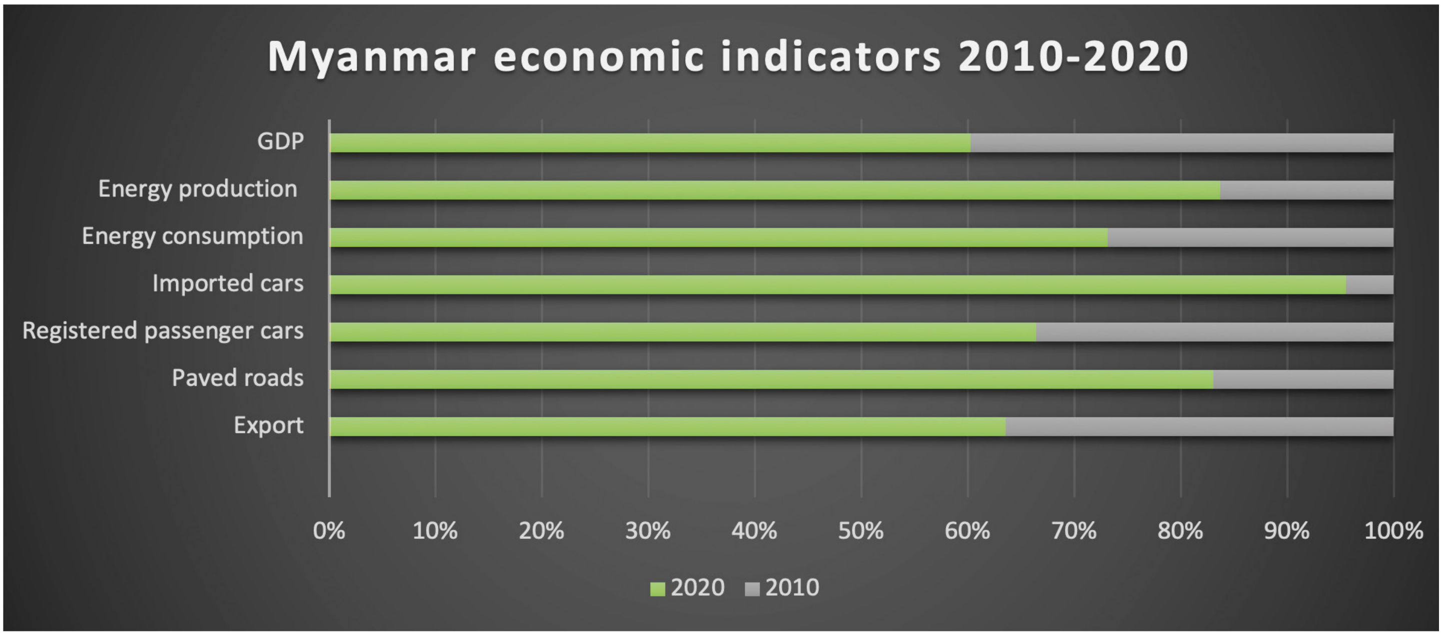
The third area of improvement is the education system, whose infrastructure was dismantled during the military dictatorship. Myanmar ranks 128 of 138 in the UN Global Knowledge Index. If we exclude Syria, this is the worst score in Asia. The UN highlights the fact that one of Myanmar's major gaps is in vocational training; the current offer is still far from covering the actual demand. As a matter of fact, the weaknesses lamented by foreign but also local enterprises include the lack of skilled labourers, which obliges firms to rely on (expensive) expat expertise. The NLD Government has put education at the top of its agenda, and it has been investing heavily in its future generations. Public expenditure on school reform – augmented by a budget support plan agreed with the EU and other donors – reached 10% last year. The numbers of private vocational training centres, pioneered by Germany back in 1979, are also growing, mostly promoted by neighbouring Singapore, China, Korea and India, but also by Switzerland, a long-time friend of Myanmar.

With a total extension of almost 600 km², the three SEZs in Kyauk Phyu (Rakhine State), Thilawa (Yangon) and Dawei (Tanintharyi) represent another significant developmental step for Myanmar's economy. SEZs are created to offer attractive packages for foreign enterprises, which can enjoy convenient combinations of tax and customs duty exemptions for five to seven years within the framework of a solid and modern infrastructure, including 24/7 power supply. If well managed, these model industrial areas have the potential to create multiplier effects for the local economy, increasing job opportunities, favouring technology transfer and extending supply chains. Of minor weight, but equally interesting in terms of economic development, are the industrial parks. Two are being constructed in northern Yangon, financed by Korea and Singapore, attracting hundreds of foreign firms. At the same time, special attention should be paid to the China–Myanmar Economic Corridor, whose tentacles are not limited to the Kyauk Phyu SEZ.[8] China's interests in Myanmar in fact extend from north to south, with the Myitkyina Economic Development Zone, three border industrial and logistics projects in Kachin and Shan states, and the New Yangon City Project, a USD 800 million initiative that includes residential areas, industrial parks, a bridge and road networks. This last initiative was initially awarded to China Communications Construction Company but has been recently opened to other bidders, in an attempt to improve transparency and competition.

[8] 70% of the Kyauk Phyu SEZ and the deep sea port is controlled by China's CITIC.



Source: Chart elaborated by the author from various sources.

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The next decade will be crucial for Myanmar's efforts to enforce its development plans and overcome its long history of government inefficiencies, mistakes and misappropriations. The doldrums of the COVID-19 pandemic have provided an unexpected unplanned opportunity to clean up the business environment in Myanmar. While many international firms and investment groups have left the country in the last nine months, a good number have stayed, confirming their commitment to keep Myanmar as a key business partner. This might be the right decision. As already mentioned, power shortages are the single biggest infrastructural impediment to economic development, followed by logistics and access to credit, but Myanmar is on the right track to electrify most of its territory by 2030. Its roads network is expanding quickly, and also its logistics capacity, while a new generation of bankers is increasingly interested in understanding the potential of small and medium enterprises and supporting their growth. But perhaps more importantly, a critical mass of young educated people, necessary for the development of the human capital required for a country to prosper, is forming. Educational reform is the lifeblood of this process, as it provides more equal opportunities for members of younger generations to thrive and reach their full potential, as well as allowing for higher economic mobility and stronger institutions.

THE AUTHOR

Luca Sartorelli is Research Fellow at T.wai and economic development expert with the Italian Cooperation. Previously, he has worked for the UN, private sector and INGOs His academic background includes a Master of Arts in Public Policy and a Master's Degree in Sociology with a specialization in Land and Environment.