Myanmar
Returning to the fold

Julian Mayo, Co-Chief Investment Officer, revisits the country after a gap of almost 30 years
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I spent a few days in Yangon, the largest city (but no longer the capital) of Myanmar, immediately prior to the April elections. My previous visit to what was then Burma was in 1985. At that time, there were one or two flights in a day into the country, only from Bangkok and on small planes. One could only stay a week, so there were no more than 3-4,000 foreigners in the country at a given time. Annual visitors still amount to only 300,000. By comparison, Thailand hosted 19 million visitors last year. The highlights of my 1980s trip included the 12th century city of Pagan, which should be very near the top of anyone’s Seven Wonders of the World, and eating deep-fried crickets, sold through the window of the overnight train to Mandalay. This time I arrived on a much bigger Airbus 300, full with 300 people on board: mainly Western tourists, with some Thai, Burmese and Chinese businessmen (all with local SIM cards). And six saffron-robbed monks.

Yangon is like upcountry Thailand in the 1990s and was very different from my last visit. Then, nothing seemed to have been built since the British left in 1948. Now, modern houses and other buildings that date from the last period of openness - including some monstrously cheesy constructions, fences topped in classic emerging markets style with barbed wire - are mixed with the more traditional. There are Korean restaurants everywhere, signs everywhere in English (including, curiously, “Drive Safely” written only in English) and adverts for major global brands such as Samsung, Palmolive and, depressingly, Manchester United. It is a surreal place: on the day of my arrival, the front page news was the country’s Vice President attending a naming and “shed warming” ceremony of a baby elephant. The inside pages contained one-page summaries of the manifestos of all the main political groups. People openly discuss politics, street vendors were selling Aung San Suu Kyi T-shirts and the occasional truck was seen promoting her NDC party.

The recent history of the country is one slow step forward, one step back. After the scandal of Aung San Suu Kyi’s annulled election victory in 1990, a gradual opening up saw Burma join Asean in 1997. For the next five years, still shunned by the West, Asian businesses came in and there was a boom in construction and other commerce. This could have ground to a halt with the banking crisis of 2002-03 and subsequent closure of most of the banking industry. However, the economy continued to grow at 10% per annum for the next five years, driven by Chinese and Thai demand for commodities.

Since then, there have been periods of optimism followed by renewed repression, as well as the cyclone that killed over 130,000 people in May 2008, until the unexpected reforms from late 2009, under President Thein Sein, leading to the parliamentary elections in April 2012. Changes were driven partly by a desire to lessen the country’s long-term fear of being dominated by China and partly because wealth is so concentrated – one person I met said it was in the hands of five or six families – that even relatively senior members of the state would benefit from greater openness. These elections saw the opposition NDC win 40 of the open 45 seats out of the 664-seat parliament. Hillary Clinton and William Hague both visited the country before the election and the US has now stated that sanctions will be partly lifted.

Despite the growth over the last decade, the country remains impoverished. Even in poor Cambodia, twice as many people per head have access to electricity and the internet and per capita cement consumption is 50% higher than Myanmar. Growth from here needs to be driven by investment. Net Foreign Direct
Investment has been a mere $200-300m per annum for the last decade, half from China and 99% going into the power, oil & gas, and mining industries. This trebled to $750m in 2010 but compares to over $10bn for both Indonesia and Vietnam.

The opportunity is great. The country has over 60% of the world’s teak reserves and estimated gas and oil reserves of 12 trillion cubic feet and 215m barrels respectively. It also exports only one-seventh as much rice as in the 1930s. The Irrawaddy delta is incredibly fertile but rice yields are two or three times higher in Thailand, so the scope for increasing productivity is high. Agriculture employs 70% of the workforce and is almost half of GDP. Even using the fanciful official exchange rate, exports last year were only $9bn, compared to $225bn for Thailand and $97bn for Vietnam. The official rate, which is around 6 Kyats to $1, is being changed to a rate of 800:1, which reflects the openly-functioning black market rate. Natural gas alone accounts for 41% of official exports.

Another obvious growth opportunity is tourism. Apart from Pagan, Myanmar has incredible natural beauty and 2,000 miles of largely unspoilt coastline as well as hundreds of islands. Investors are understandably looking at this industry: Yangon has fewer than 8,000 hotel rooms, mostly in poor hostels, while Bangkok will soon have over 40,000. Supply of other properties should also increase: Yangon’s 62,000 square metres of office space compares with over 8 million in Bangkok.

The country is gradually being connected to the rest of the world. A new airport terminal, opened in 2007, can accommodate at least three times its current volumes. Gas is being piped to China, while the port of Dawei is being developed jointly with a Thai firm. Closer to Bangkok than to Yangon, it is planned to be connected by road and rail to Thailand, reducing the sea journey from Europe and the Middle East to Bangkok by almost 2,000 miles.

How does it compare with other markets? Taiwan and Korea in 1987-8 are not relevant, given their much higher wealth levels. Like the Philippines in 1986, there is a realistic prospect of greater democracy. However, that country had, and still has, a far deeper network of established families who own and control much of the economy. Indonesia post-1997 might be a better analogy. But Myanmar is a special case: Suharto and his cronies sought to entrench, rather than relinquish, their hold on the nation’s wealth.

Immediate challenges include seeing how the NDP works within the established political framework, whether the ceasefires in the various civil wars can hold, if the banking industry can be developed and whether seemingly-widespread levels of corruption can be curtailed. If progress can be made on these, investor confidence grows and the country has a bright future. Even if per capita income doubled (for example, due to income levels rising 10% per annum for the next seven years) it would merely reach Laos’s level of today, which is in turn 20% behind Vietnam and half that of Indonesia. This is surely within reach.