Competition will throw up best investors for Myanmar

But to attract foreign investments and to develop its private sector, the country needs to move quickly towards political, societal and institutional maturity and stability.

By Linda Lim

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NEWLY-democratic Myanmar faces many of the same economic opportunities and constraints that have confronted other late-developing Asian economies, including in their search for foreign investment.

On the opportunities front, relatively abundant natural resources and unskilled labour, and an excellent geographical location abutting the world's fastest growing large economies, bode well for the development of competitive exports and employment creation in land- and labour-intensive sectors, as nearby Vietnam has enjoyed for three decades. The country's many unique cultural and physical attractions, long "closure" from the outside world and relatively low costs have also spawned a booming tourist industry.

Like other late-developing countries, Myanmar suffers from low productivity, inadequate infrastructure, weak institutions and regulatory uncertainty, all of which will take time to improve, even in the best of circumstances.

But both external and domestic circumstances are probably less favourable for sustained, rapid and widely-shared economic growth in Myanmar than they were for other South and South-east Asian countries at a similar stage of their development.

First, Myanmar is entering or ramping up its presence in world markets at a singularly unpropitious time for emerging-market economies - given sluggish global growth, a significant slowdown in China (its otherwise largest external trade and investment partner), and the plunge in commodity prices, particularly oil and gas, which provide the major source of revenues to fund development expenditures.

Second, these global factors, together with anticipated higher returns in the United States, have caused foreign capital inflows into emerging markets to decline and even reverse, just as Myanmar needs such inflows to help cover its large fiscal and current account deficits (respectively nearly 5 per cent and 9 per cent of its gross domestic product last year) and prevent further currency depreciation, which was more than 20 per cent last year.

Third, changes in the global strategic environment for multinationals are likely to result in somewhat less outsourcing to emerging markets than occurred in the heyday of the globalisation of manufacturing supply-chains according to comparative advantage. Thus Myanmar may receive proportionately less of the labour-intensive export manufacturing investment that earlier propelled the rapid industrialisation of other Asian economies.

The reasons for multinationals' changing investment strategies are many. The spread of new technologies such as robotics and 3D printing increase the competitiveness of production in high-cost developed countries and may even encourage "reshoring" of offshore plants. There is a growing preference for "near-shoring" to benefit from shorter supply-lines, preferential trade agreements and reduced exposure to currency risk.

Disruptive technologies and business models - such as the Internet of Things integrating manufacturing and services, the sharing economy and consumer preferences skewing towards experiential rather than material goods - also slow demand for manufactures. National political trends opposed to neoliberal policies of free trade and investment, and social trends requiring corporations to be socially responsible and sustainable, may also slow outward foreign investment from developed to developing countries.

At the same time, Myanmar's domestic circumstances are not particularly conducive for international business. Underdeveloped infrastructure (particularly transportation) and poor or non-existent planning despite rapid growth, have caused extreme urban congestion, raising the risk that increased investment will simply exacerbate already high inflation (more than 10 per cent last year). The low level of skills and productivity in both the public and private sectors will require much social investment in education and training, which will take time.

Despite new liberalising legislation under the past and current governments, regulatory uncertainty remains pervasive, given likely contention between old and new interests, the difficulty of bureaucratic and state enterprise reform and the entrenchment of "crony capitalists" who possess the scarce capital, managerial expertise and military linkages necessary to succeed in the private sector.

The US government maintains sanctions against Myanmar's crony capitalists, and has not lifted them completely as the European Union and others have. This discourages large investments by US enterprises and by firms of other nationalities seeking to export from Myanmar to the US. US firms, their suppliers, consumers and shareholders, are also more sensitive to perceived violations of labour rights, environmental standards and human rights, such as of the Rohingya minority.

INVESTMENT FROM ASIA

A related feature of the Myanmar domestic environment that may discourage investment by Western firms is political risk, specifically that arising from frequent public protests against businesses and those which reveal persistent ethnic and religious conflict or intolerance.

On the bright side, the experience of other late developers such as Cambodia, Laos, Sri Lanka and Vietnam shows that economies starting from a low base and long exclusion from world markets tend to grow rapidly despite unfavourable domestic environments. Myanmar's economic development is likely to follow this trajectory, with foreign direct investment overwhelmingly dominated by other Asian countries - most notably China, but also Japan, South Korea and the Asean countries (among which Singapore, Malaysia, Thailand and Vietnam have significant investment presence).

These countries have a need for Myanmar's raw materials and (eventually) its agricultural products. Their companies need low-cost labour as costs rise in their regionally-dispersed manufacturing supply chains, and are also attracted by the underserved market, despite its small size. Some of them have had long experience operating in underdeveloped countries with poor infrastructure and institutions, so have developed business models and capabilities - such as keiretsu networks, conglomerate structures, relationship-building skills, risk tolerance and "patient capital" - that will enable them to more successfully navigate the intricacies and ambiguities of Myanmar's business environment.

Even without its head start, China's economic size, geographical proximity, complementary comparative advantages, infrastructure-building competencies and Myanmar's locational importance for its western regions, make it the country's logical largest trade and investment partner (just as the US is for Mexico). Unfortunately, China's close association with and support for the past military government have made its investors unpopular; moreover, Chinese firms have a reputation for exploitative labour and environmental practices, dubious quality and their reported preference for hiring home-country rather than local nationals (exacerbated by long-standing sentiment against Myanmar's own ethnic-Chinese minority.

Western countries, on the other hand, are appreciated for their support of Myanmar's democracy. Their corporations have a generally good reputation for best practices in corporate governance, social responsibility and talent management, and are purveyors of top global brands with universal appeal, making them preferred investors and employers. But they are much more constrained by high cost structures, the need for scale, quick returns and transparency and accountability to consumers and shareholders who care about human rights.

Regardless of their nationality, Myanmar stands to benefit the most from competition among a diverse set of foreign investors. To attract them, and to develop its own independent private-sector businesses, the country needs to move quickly towards the political, societal and institutional maturity and stability that alone can ensure sustainable and equitable economic growth in the long term.

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