krungsri
Research

A member of MUFG
a global financial group

MYANMAR

INVESTMENT HANDBOOK

June 2020



Krungsri Research

Myanmar: A Country Overview



Source: CIA Factbook compiled by Krungsri Research

Official name	The Republic of the Union of Myanmar
Form of State	Parliamentary republic
Economic system	In transition to a market-led economy
Land area (sq. km)	653,508
Local government	7 regions, 7 states, and 1 union territory **Regions:** Ayeyarwady (Irrawaddy), Bago, Magway, Mandalay, Sagaing, Tanintharyi, Yangon (Rangoon) **States:** Chin, Kachin, Kayah, Kayin, Mon, Rakhine, Shan **Union territory:** Nay Pyi Taw
Total population (person)	56,590,071 (July 2020 est.)
Climate	Tropical monsoon; cloudy, rainy, hot, humid summers (southwest monsoon, Jun to Sep); less cloudy, scant rainfall, mild temperatures, lower humidity during winter (northeast monsoon, Dec to Apr)
Urbanization	Urban population: 31.1% of total population (2020) Rate of urbanization: 1.74% annual rate of change (2015-20 est.)
GDP (official exchange rate)	USD67.28bn (2017 est.)
GDP - composition, by sector (2017 est.)	Agriculture: 24.1% Industry: 35.6% Services: 40.3%
Agricultural products	Rice, pulses, beans, sesame, groundnuts; sugarcane; fish and fish products; hardwood
Industries	Agricultural processing; wood and wood products; copper, tin, tungsten, iron; cement, construction materials; pharmaceuticals; fertilizer; oil and natural gas; garments; jade and gems
Labor force (2017 est.)	22.3 million
Ethnic groups:	Burman (Bamar) 68%, Shan 9%, Karen 7%, Rakhine 4%, Chinese 3%, Indian 2%, Mon 2%, other 5% (The government recognizes 135 indigenous ethnic groups)

Macro forecasts: The Covid-19 pandemic will harm growth in the short term, but long-term prospects remain favorable

Indicators (% change, otherwise indicated)	2017	2018	2019	2020F	2021F
Real GDP	5.9	6.8	6.5	1.8	7.5
CPI (end-period, 2012 = 100)	8.6	9.5	7.7	6.6	6.2
Net lending (+)/borrowing (-) (% of GDP)	-3.0	-3.5	-4.1	-4.4	-4.4
Domestic public debt (% of GDP)	26.3	23.4	23.5	23.9	24.4
Credit to the economy	21.4	17.2	14.5	11.2	11.7
Current account balance (% of GDP)	-4.2	-2.0	-3.2	-3.5	-4.0
Trade balance (% of GDP)	-5.1	-3.0	-3.7	-4.1	-4.5
Financial Account Foreign Direct Investment, net (% of GDP)	-4.8	-2.9	-3.1	-3.2	-3.5
Overall balance	0.5	0.3	0.4	0.5	0.7
Gross International reserves					
In billions of USD	5.5	5.7	5.9	6.4	7.0
In months of prospective GNFS imports	3.6	3.5	3.4	3.3	3.3
Total external debt (USD bn)	19.6	19.1	19.1	19.3	19.6
Total external debt (% of GDP)	31.8	27.9	25.5	23.5	21.8
Official exchange rate (USD/MMK, end of period)	1,551.5	1,533.0	n.a.	n.a	n.a.
Nominal GDP (billions of kyats)	92,789	105,012	120,872	138,076	157,026
Nominal GDP (USD bn)	67.1	68.5	74.8	81.9	89.6

Note: Data updated as of April 2020

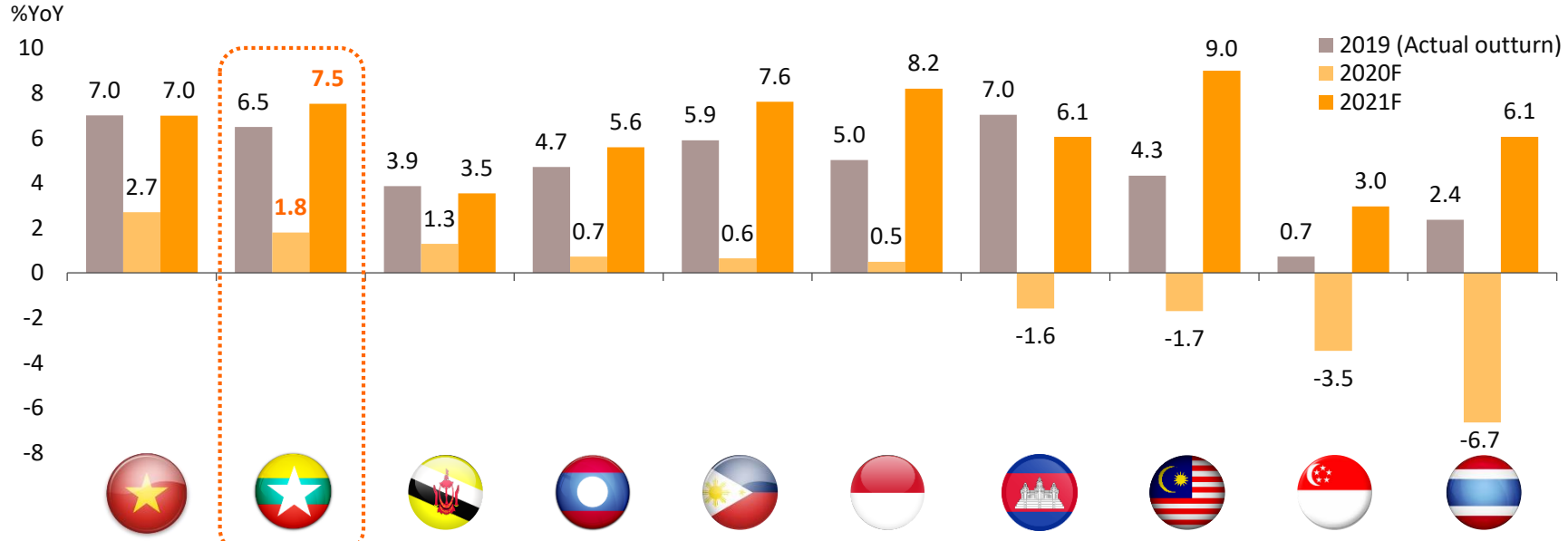
Source: IMF WEO (April 2020), IMF 2020 Article IV Staff Report on Myanmar, Krungsri Research

Growth is projected to slow to only +1.8% in 2020, but it should resume to its potential path of 6.0% - 7.0% p.a. on the horizon

Myanmar's growth momentum is likely to be favorable over the medium term amid a bleak short-term outlook as a result of the covid-19 pandemic. In our view, **there are 4 main factors to underpin the bright medium-term growth prospects:**

1. **Underlying fundamentals** including growing middle-class consumers and demographic dividend as well as a strategic location, among others.
2. **Ongoing structural reforms** by upgrading economic institutions and modernizing policy frameworks as well as economic liberalization by allowing more foreign participation in various key sectors.
3. **Sustained foreign direct investment (FDI) inflows** driven in part to diversification of production bases of foreign investors and untapped opportunities in the domestic market.
4. **Closer regional integration and free trade agreements** such as AEC and RCEP as well as unilateral trade preferences granted by AEs

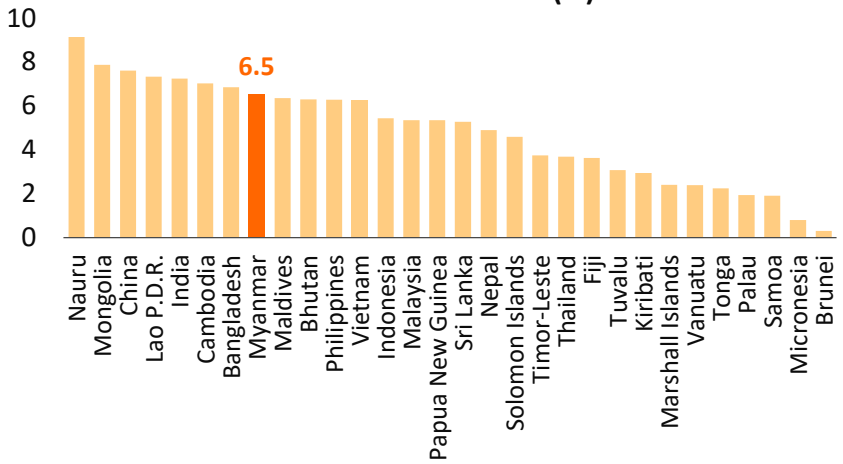
Growth projection for ASEAN members (2019-2021)



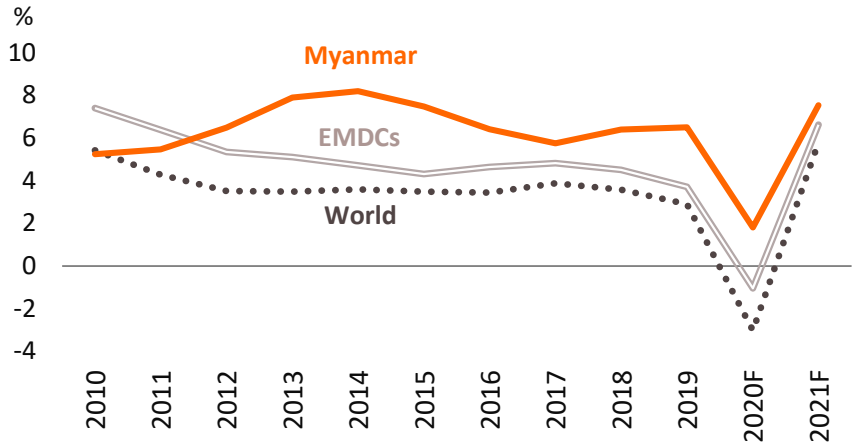
Source: IMF WEO (April 2020) compiled by Krungsri Research

Myanmar hence will remain one of the fastest growing EMDCs

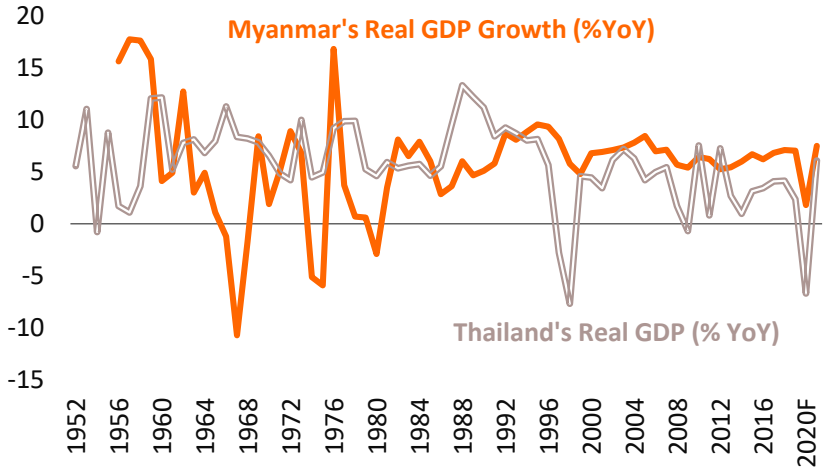
10-year average of annual growth rate of Asia-Pacific countries (%)



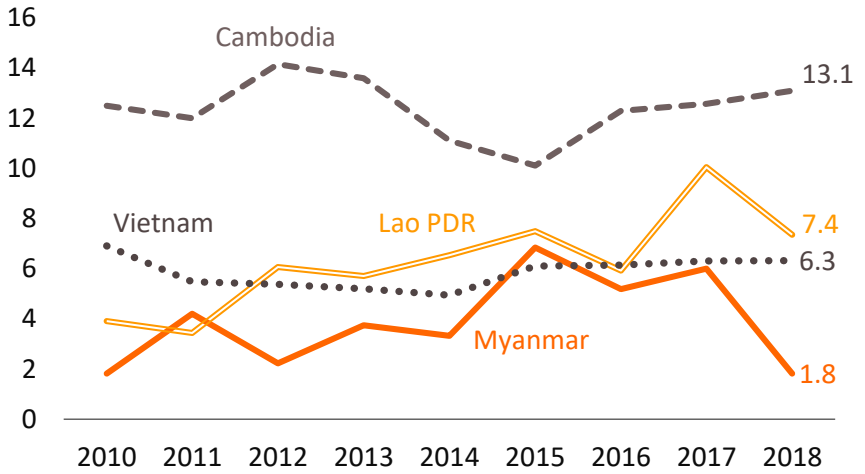
Growth outlook for Myanmar and the global economy



Economic Growth of Myanmar and Thailand



Foreign direct investment, net inflows (% of GDP)

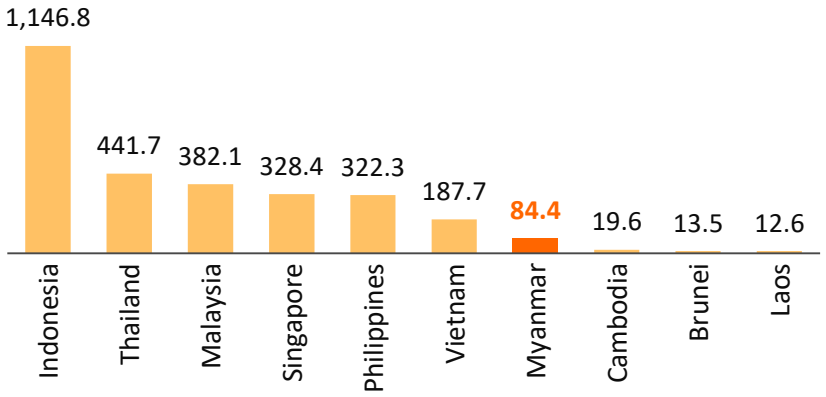


Source: IMF WEO (April 2020), CEIC, Krungsri Research

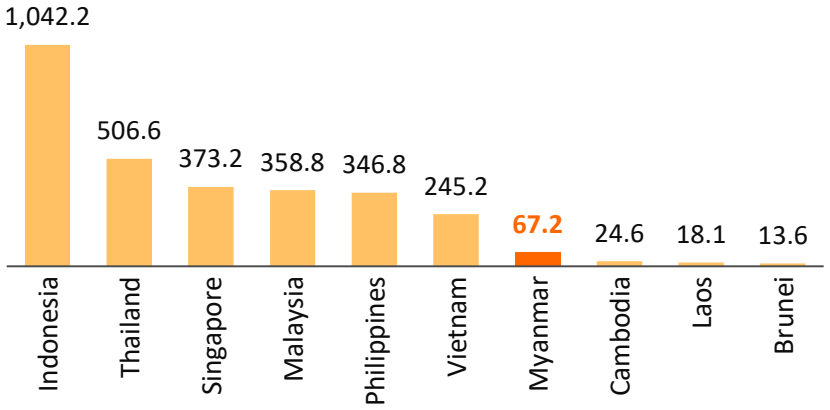
Myanmar among ASEAN peers

Myanmar is ranked seventh among ASEAN peers in terms of both GDP at constant price (USD84.4bn as of 2018) and GDP at current price (USD67.2bn as of 2018). Like its frontier market peers, Myanmar attained the lower-middle income status in 2010 as a result of continuous high growth, with the current annual GNI per capita of 1,964.5USD. On the horizon, Myanmar is expected to remain one of the fastest growing economies with its growth potential of 6.0% -7.0% p.a.

Real GDP (USD bn, 2010 Price)



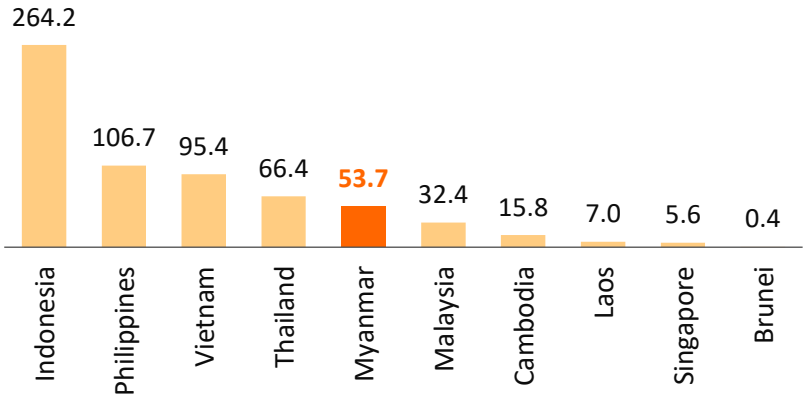
Nominal GDP (USD bn, 2018)



ASEAN members by income status (2018)

ASEAN member	GNI per capita[1/]	Classification by income
Singapore	58,247.9	High-income
Brunei	31,436.9	High-income
Malaysia	12,120.1	Upper-middle income
Thailand	6,361.6	Upper-middle income
Indonesia	4,284.7	Lower-middle income
Philippines	3,022.0	Lower-middle income
Vietnam	1,964.5	Lower-middle income
Lao PDR	1,785.6	Lower-middle income
Myanmar	**1,571.9**	**Lower-middle income**
Cambodia	1,205.0	Lower-middle income

Population (Person mn, 2018)



Note: 1/ Based on classification by the World Bank, lower middle-income economies are those with a GNI per capita between USD1,026 and USD3,995; upper middle-income economies are those with a GNI per capita between USD3,996 and USD12,375; high-income economies are those with a GNI per capita of USD12,376 or more.

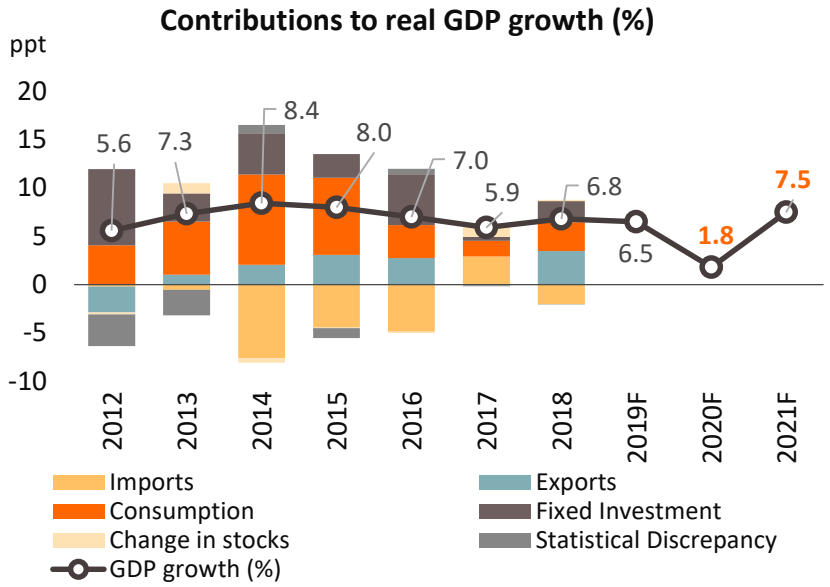
Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, World Bank: WDI, Krungsri Research

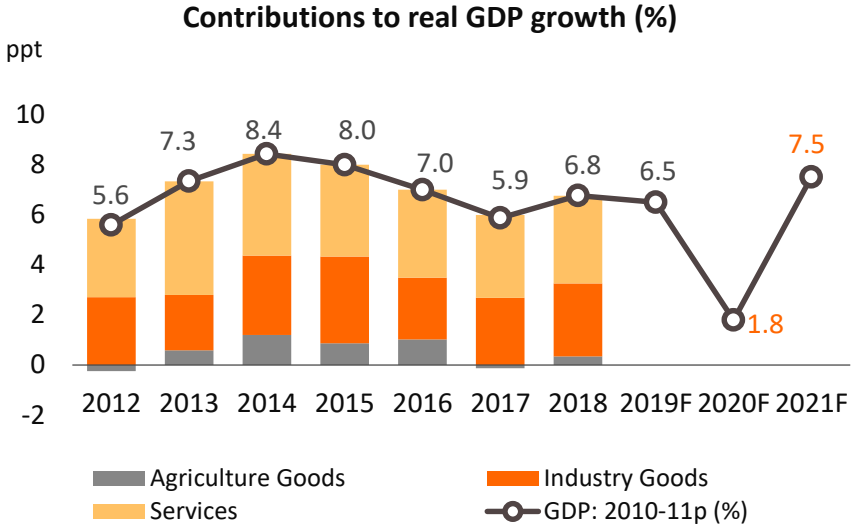
Major milestone of Myanmar's developments

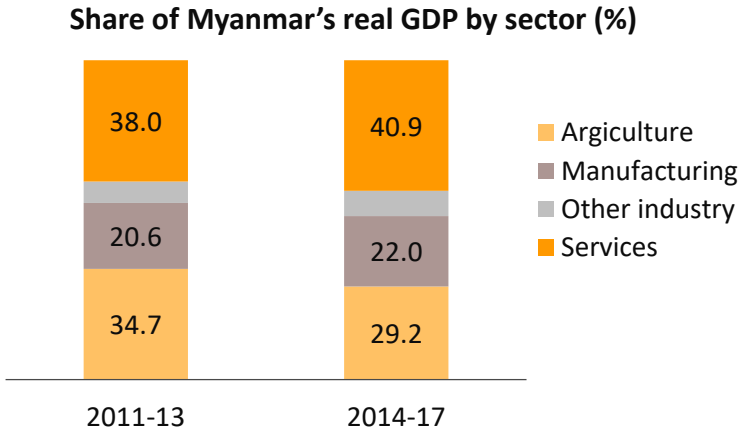
1948	Independence from British rule
1962	• Military coup led by general Ne Win – introducing Burmese Way to Socialism • Series of demonetization of certain notes - resulting loss of people's confidence in currency (1964, 1985 and 1987) • Nationalization of the economy - leading to create a large black market
1988	The 1988 uprising as a result of public grievance on Burmese Way to Socialism
1990	• Introduction of market reforms - resulting modest expansion of private sector and foreign investment under certain conditions • Myanmar's first multi-party general election - NLD won majority of seats, but the result was ignored
1992	Establishment of private banks
1995	World Trade Organization (WTO) Membership
1997	• Asian Financial Crisis • Enactment of US and EU sanctions • Becoming ASEAN member
2002-2003	Banking Sector Crisis
2008	Enactment of 2008 constitution
2010	2010 general election - leading USDP to establish quasi-civilian government
2012	2012 by-election, which NLD participated after boycotting 2010 election
2013	The EU lifted all sanctions except for the arms embargo sanction and reinstated Myanmar into the Everything but Arms initiative of the Generalized Scheme of Preferences (GSP).
2015	• Participating in the ASEAN Economic Community (AEC) • 2015 general election - leading to NLD government, the first civilian government • Signing draft ceasefire agreements between the govt. and ethnic armed organizations (EAOs)
2016	• Enactment of State Counsellor Law - enabling Daw Aung San Suu Kyi as the first State Counsellor • Series of 21st century Panglong Peace Conference
2017	• Removal of US trade sanctions and banking restrictions • Eruption of violence in Rakhine State - leading to displacement of Muslim refugees to Bangladesh
2020	General election in November 2020

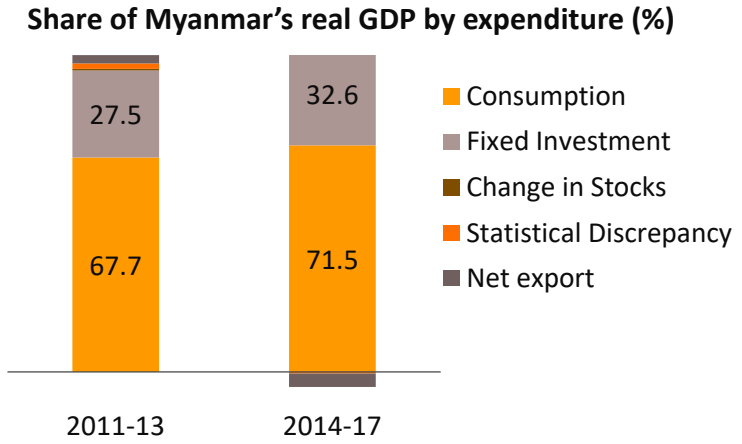
Source: World Bank (2019): Myanmar-A Systematic Country Diagnostic, Various sources compiled by Krungsri Research

FDI-driven manufacturing and domestic consumption will be main growth drivers









Note: Myanmar adopts a new fiscal year cycle moving from April-March to October-September starting in October 2018. There is a transition period of 6 months during April-September 2018.
Source: CEIC, IMF Myanmar 2018 Article IV Consultation Staff Report, Krungsri Research

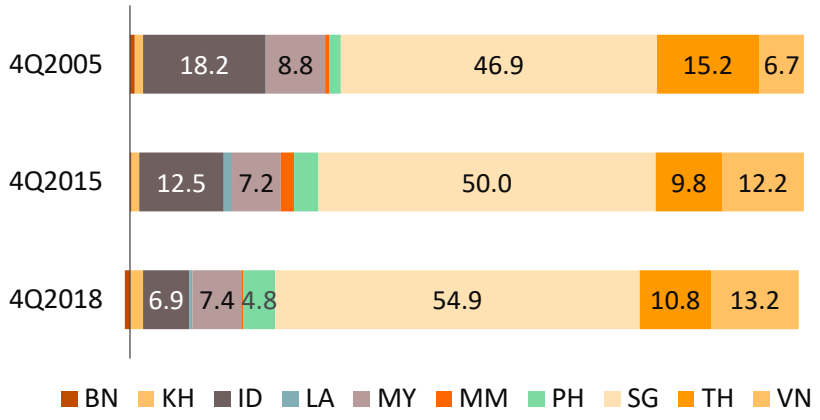
There is large room for *FDI inflows* into Myanmar

Since its re-engagement with the global economy in 2011, FDI inflows into Myanmar have surged again albeit a relatively small scale compared to those of ASEAN peers. However, looking ahead, based on its economic potentials and underlying socio-economic trends, FDI inflows should continue and be growing.

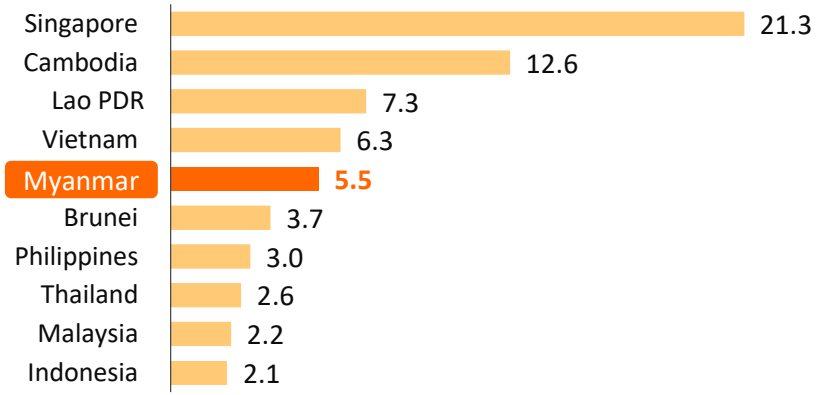
FDI Inflows in ASEAN (2015-2018, USD bn)

	2015	2016	2017	2018
Brunei	0.2	-0.2	0.5	0.5
Cambodia	1.7	2.3	2.7	3.1
Indonesia	16.6	2.9	20.6	22.0
Lao PDR	1.1	1.1	1.7	1.3
Malaysia	10.2	11.3	9.3	8.1
Myanmar	**2.8**	**3.0**	**4.0**	**3.6**
Philippines	5.6	8.3	10.3	9.8
Singapore	59.7	73.9	75.7	77.6
Thailand	8.9	2.8	8.0	13.2
Vietnam	11.8	12.6	14.1	15.5
ASEAN	**118.7**	**119.0**	**146.9**	**154.7**

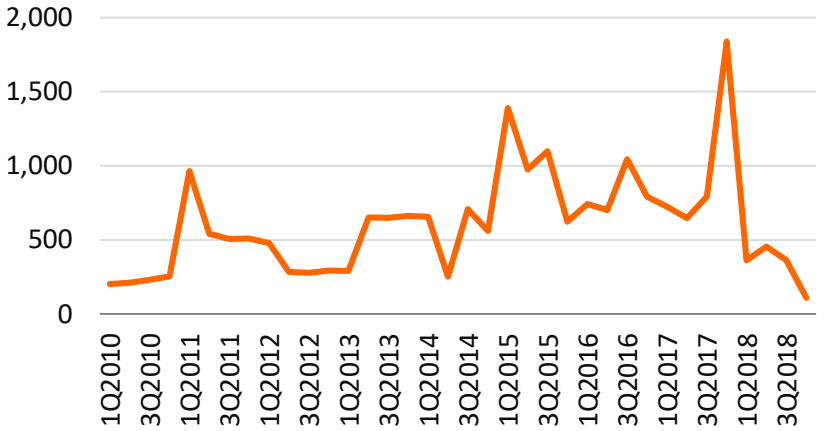
Foreign Direct Investment (% of ASEAN)



FDI-to-GDP Ratio (%, as of 2018)



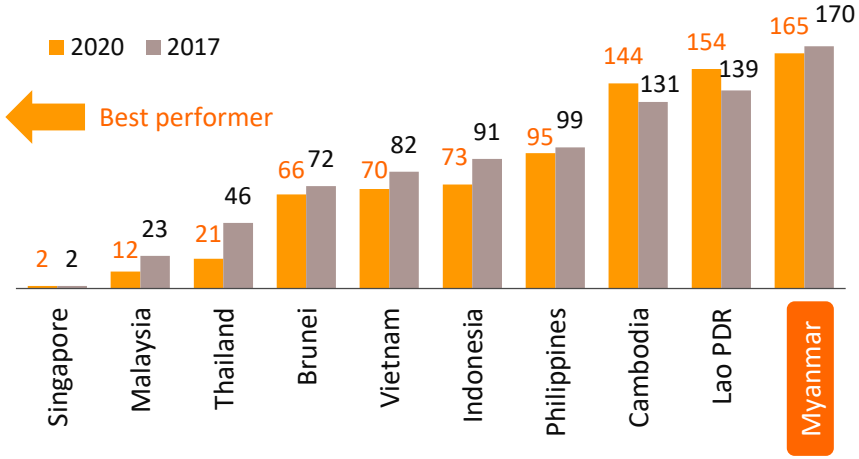
Myanmar's Foreign Direct Investment (USD mn)



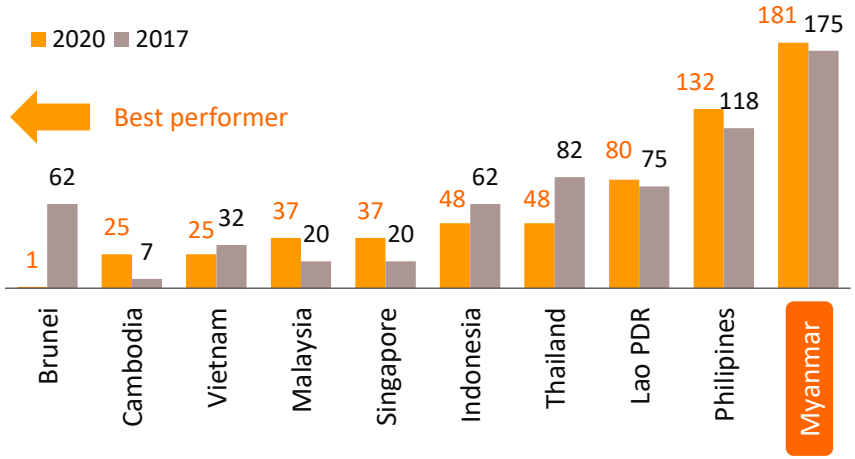
Source: ASEAN FDI database, CEIC, Krungsri Research

Improved business environment should be conducive and help underpin foreign investors' confidence

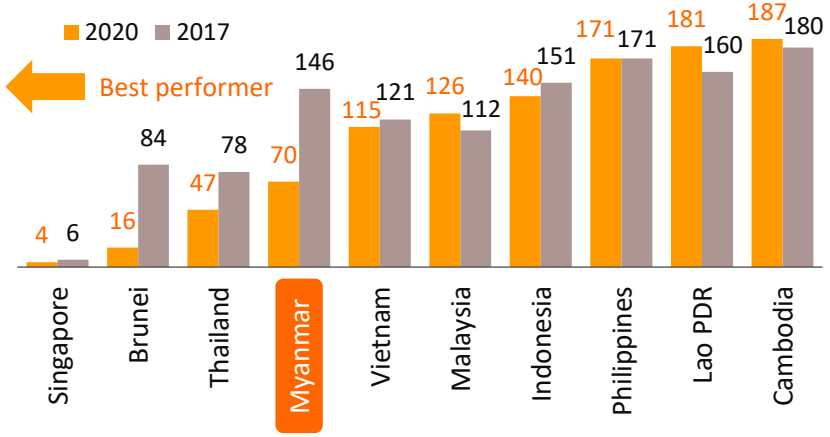
2020 Ease of Doing Business Ranking of ASEAN countries (of 190 economies)



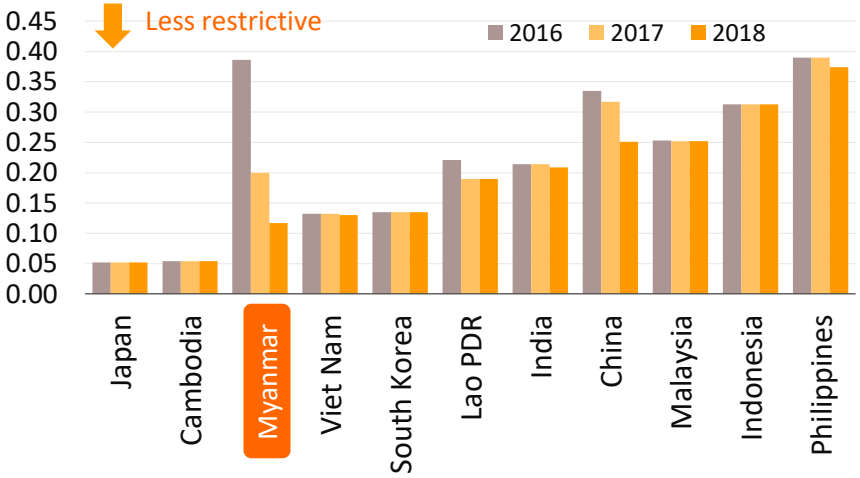
Ease of Doing Business: Getting credit ranking (1-190 economies)



Ease of Doing Business: Starting a Business (1-190 economies)



OECD FDI Regulatory Restrictiveness Index (FDI Index)[1/]



Source: World Bank: 2020 Ease of Doing Business, WEF: The Global Competitiveness Reports

Myanmar's long-term prospects remains favorable underpinned by its underlying fundamentals

We are optimistic about long-term prospects of Myanmar as a result of its underling fundamentals which we group them into 5 themes. These are expected to help drive Myanmar's economic growth over the medium to long term to be around 6.0% -7.0% p.a. With this level of potential growth rate, Myanmar should remain attractive for foreign investment going forward.

Theme 1	Sustained structural reforms and economic liberalization
Theme 2	Industrialization and export-led growth development model
Theme 3	Strategic location between the two global economic powerhouses, China and India
Theme 4	Growing wealthier middle-class consumers and a rising urbanization
Theme 5	Closer economic linkages between Myanmar and Thailand

Source: Krungsri Research

Theme 1: Structural reforms and economic liberalization will be sustained

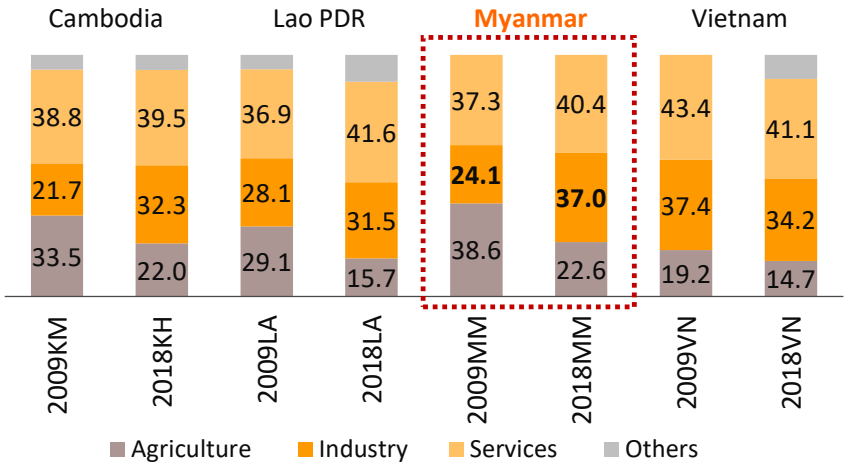
We view that the reform momentum will be continued, and this would help modernize and upgrade institutions and policy frameworks which would subsequently underpin foreign investors' confidence and attract FDI inflows.

	Myanmar: Some of the Key Structural Reforms
2010	• 2010 general election – the Union Solidarity and Development Party (USDP) to establish a quasi-civilian government
2012	• Introducing series of foreign exchange reform - leading to a unification of exchange rates
2013	• The Central Bank of Myanmar (CBM) becomes legally independent
2014	• Liberalization of telecom sector
2015	• Entry of nine foreign banks • Establishment of the Yangon Stock Exchange (YSX)
2016	• Launching Financial Institutions of Myanmar Law (FIML) • Issuing additional four new foreign bank branch licenses
2017	• Enactment of Myanmar Investment Law - integration of foreign and citizen investment laws • Removal of US trade sanctions and banking restrictions • CBM introduced new prudential measures for the banking sector covering issues such as capital requirements, loan exposure and reclassification, as well as recovering overdraft loans
2018	• Enactment of Myanmar Companies Law - widening ability of foreign investment in local companies which they can have foreign ownership of up to 35% without being considered a foreign company • Launch of Myanmar Sustainable Development Plan (MSDP) (2018 – 2030): a comprehensive long-term economic development plan • Creation of Ministry of Investment and Foreign Economic Relations (MOIFER) to promote FDI • Launching MyCo – Myanmar Companies Online: new online company registration system • Liberalization of the retail and wholesale sector • Liberalization of the education sector
2019	• Allowing foreign participation in the local insurance market
2020	• Opening Yangon Stock Exchange (YSX) for trading by international investors • Granting additional banking licenses both branch and subsidiary to seven foreign banks to enter Myanmar banking sector • Myanmar Credit Bureau started its operations in April

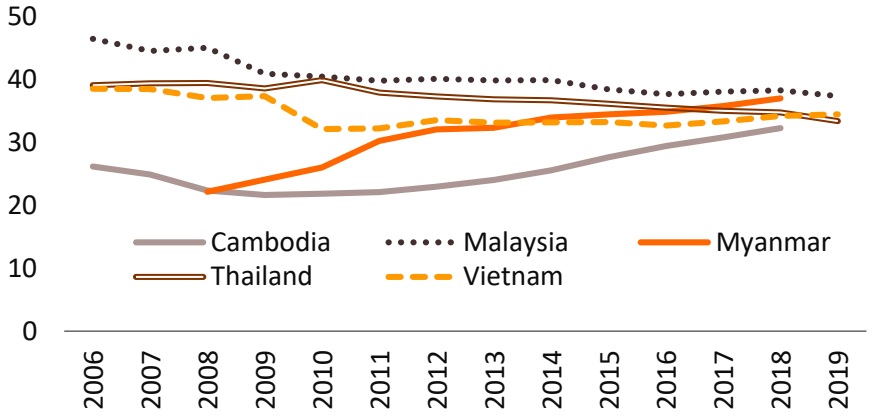
Source: World Bank's various reports compiled by Krungsri Research

Theme 2: Industrialization and export-led growth development model will drive productivity

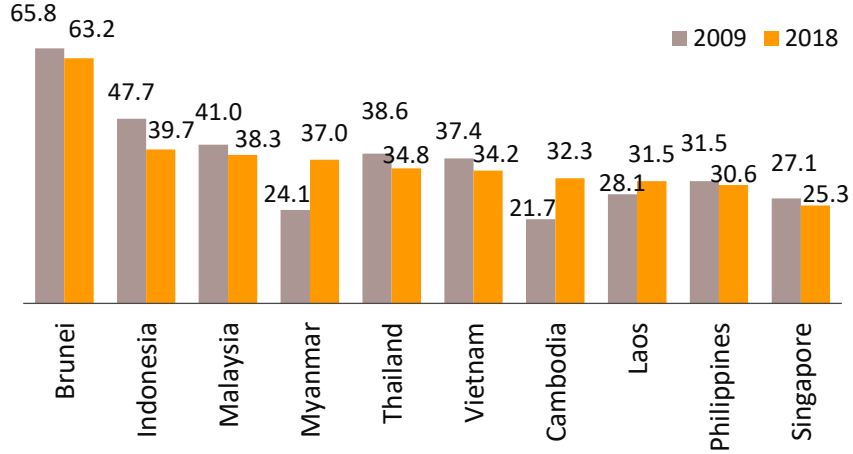
Economic Structure of the CLMV economies: Production side (% of nominal GDP)



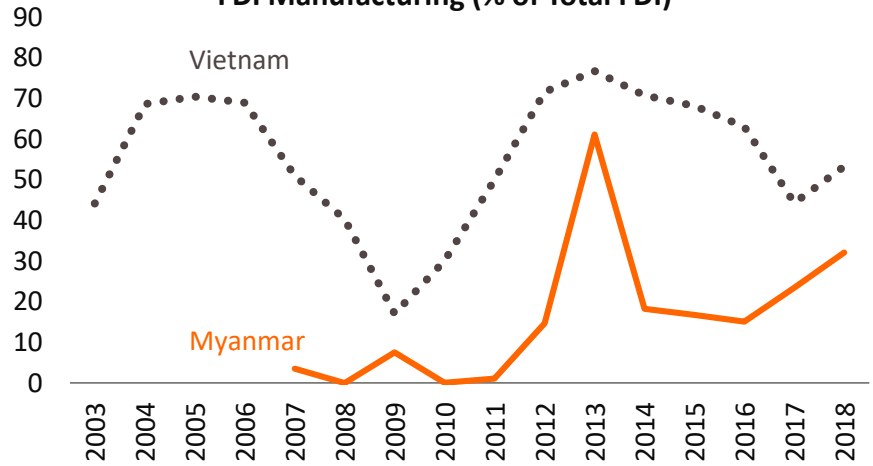
Industry (% of Nominal GDP) of some ASEAN countries



Industry (% of Nominal GDP)

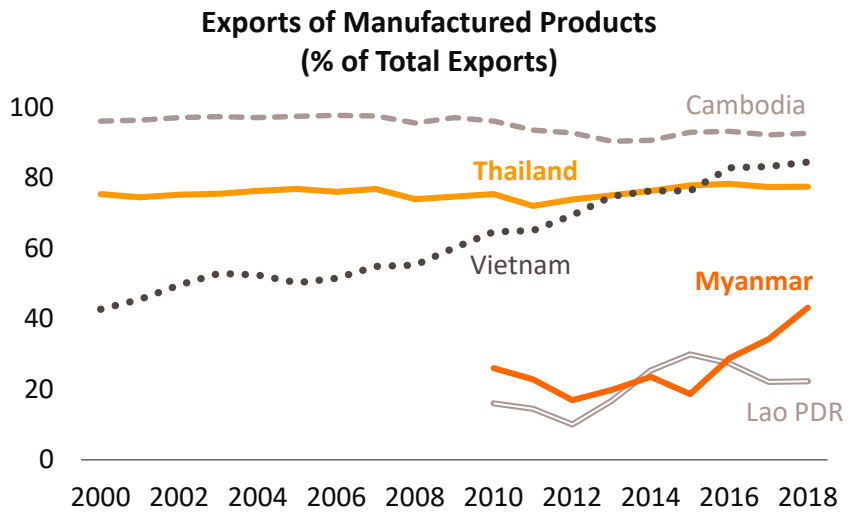


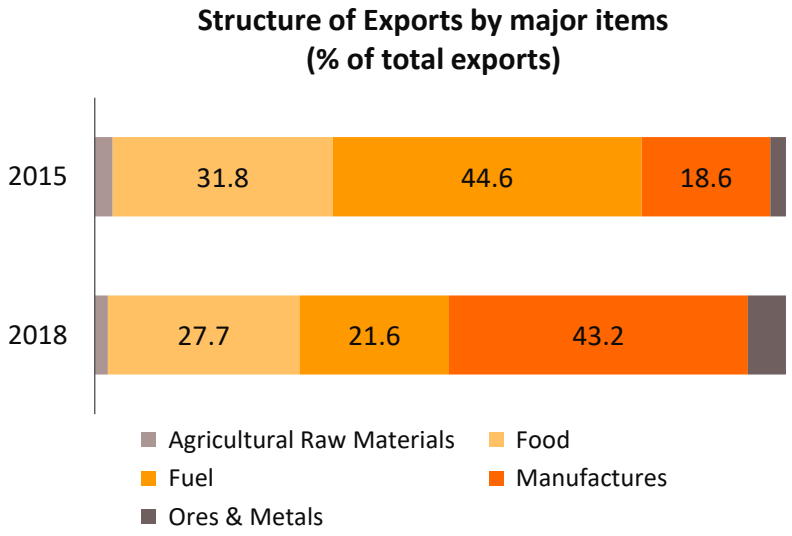
FDI Manufacturing (% of Total FDI)

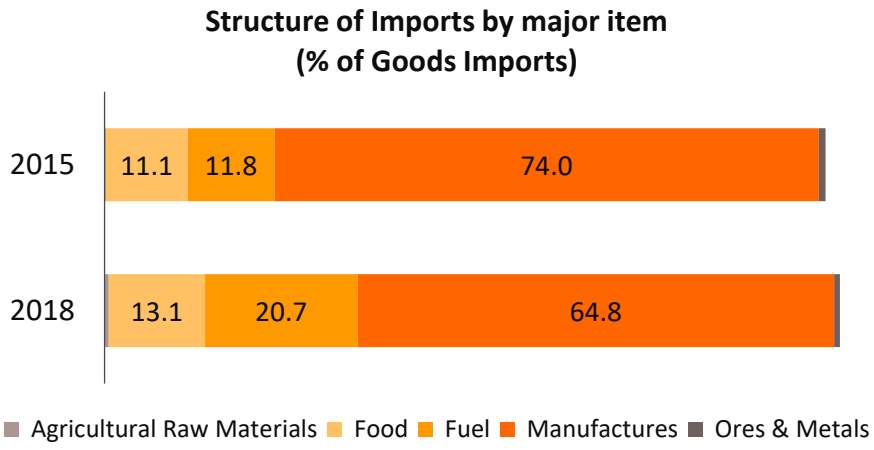


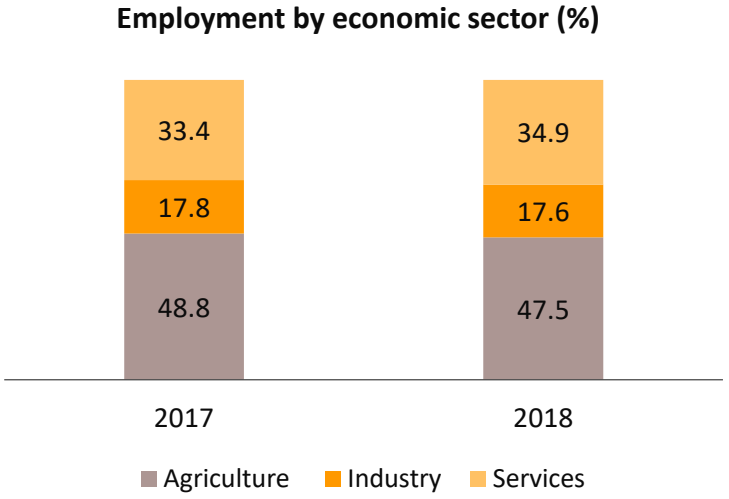
Source: CEIC, World Bank: WDI

Manufacturing developments lead to a shift in Myanmar's export structure and the overall economic structure





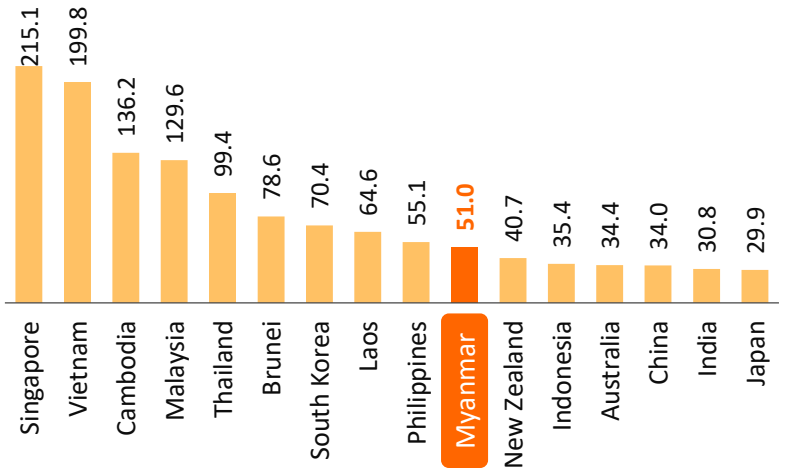




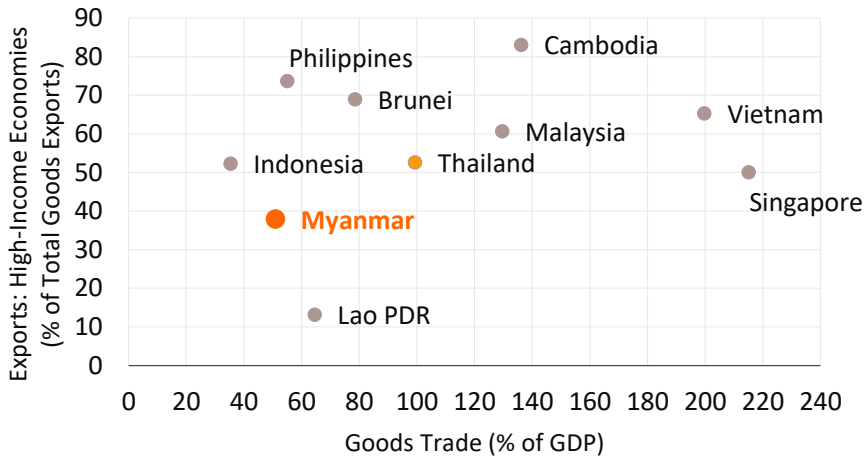
Source: CEIC

Export-led growth model exposes Myanmar to the global economy and fosters its interconnectedness with China

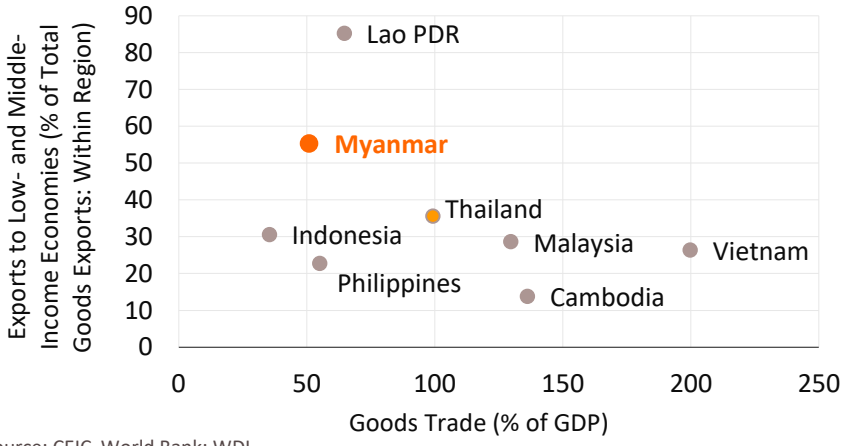
Openness to trade of ASEAN+3 economies (% of GDP, 2018)



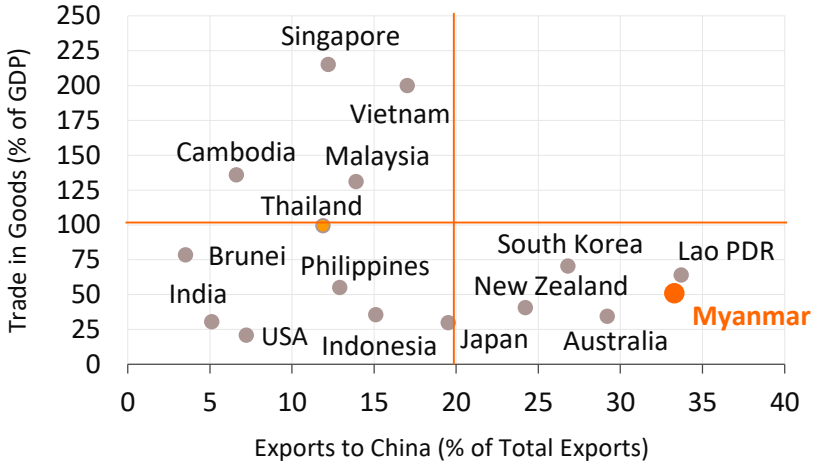
Exports to high-income countries of ASEAN countries



Exports to emerging markets of ASEAN countries



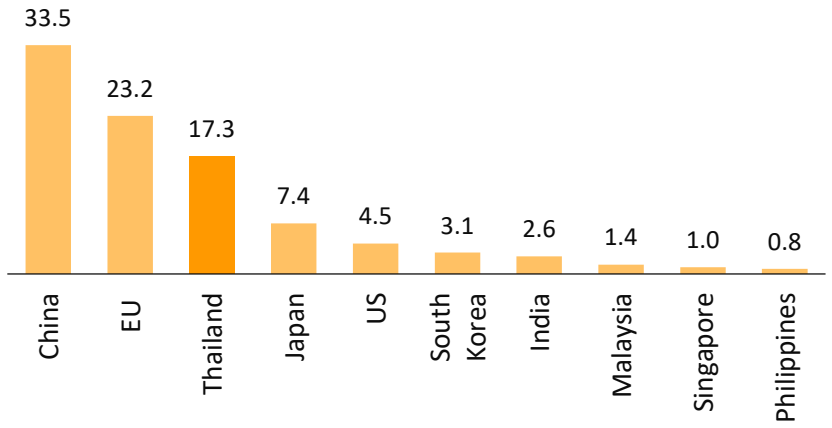
Selected Countries: Export dependence on China (2018)



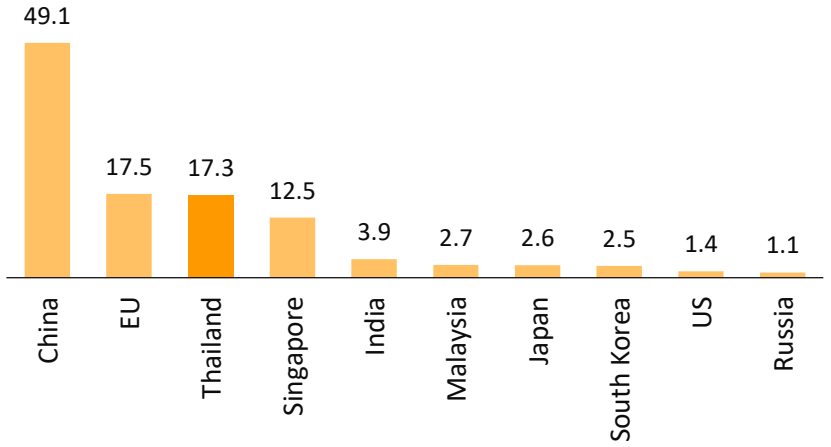
Source: CEIC, World Bank: WDI

China has emerged to become the largest trading partner for Myanmar and a main source of supply for raw materials for the garment production

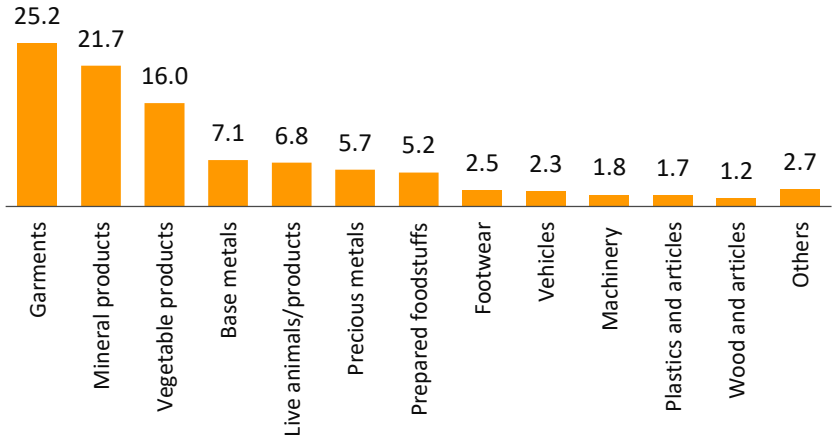
Shares of total exports by major market (%, 2019)



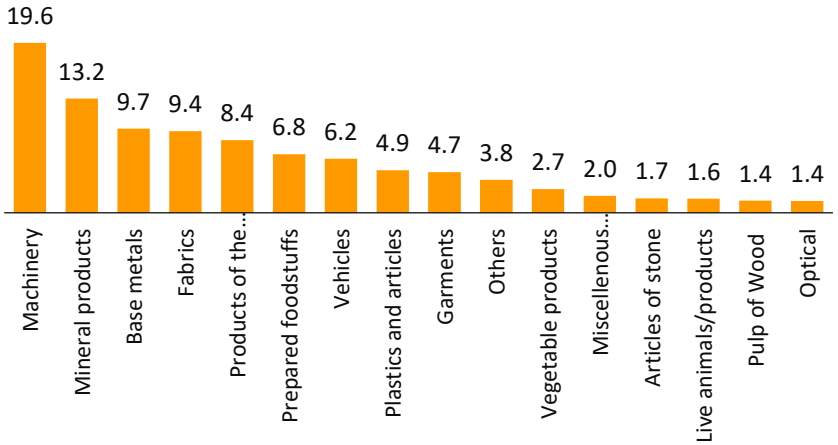
Shares of total imports by major market (%, 2019)



Myanmar: Major export items (% share, 2018)

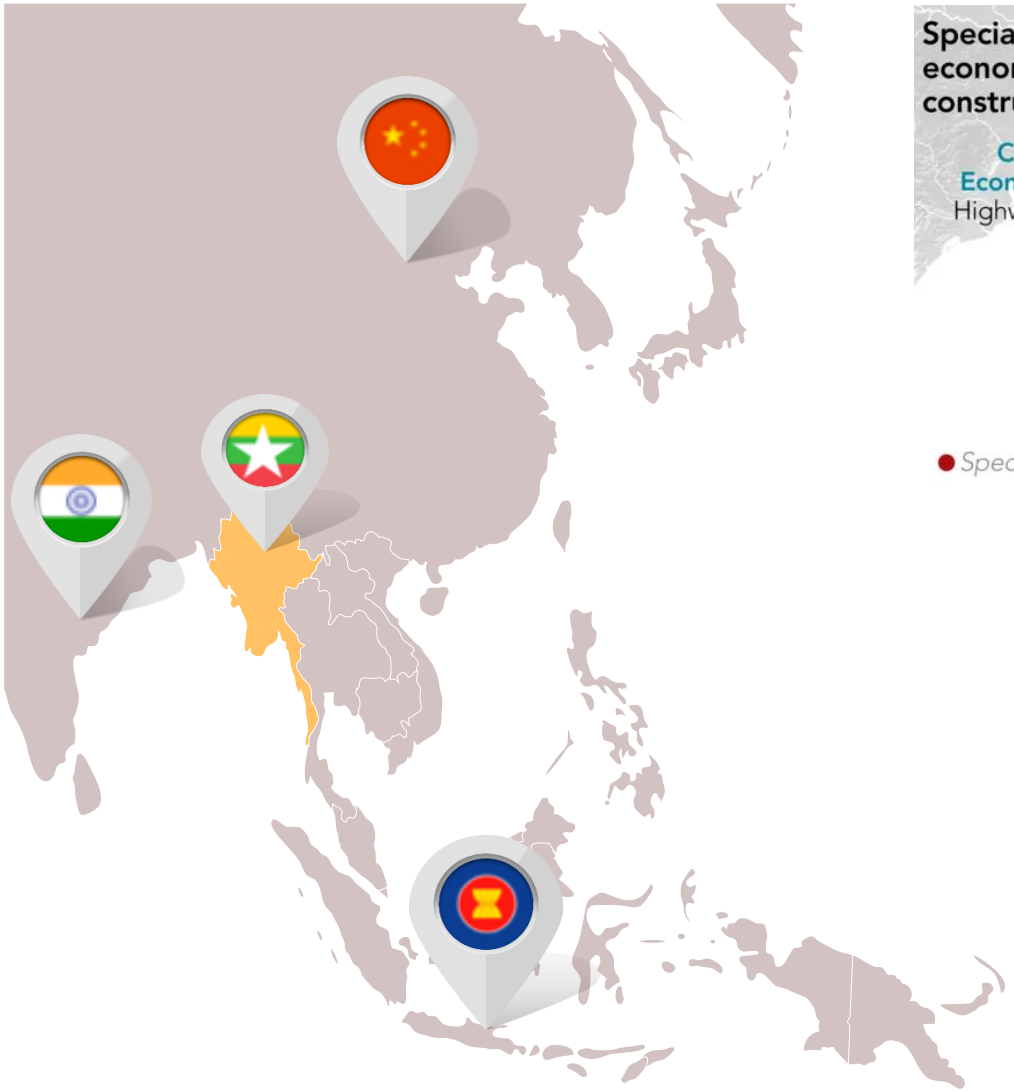


Myanmar: Major import items (% share, 2019)



Source: Trade Map, Krungsri Research

Theme 3: Myanmar has a strategic location between the two global economic powerhouses, China and India



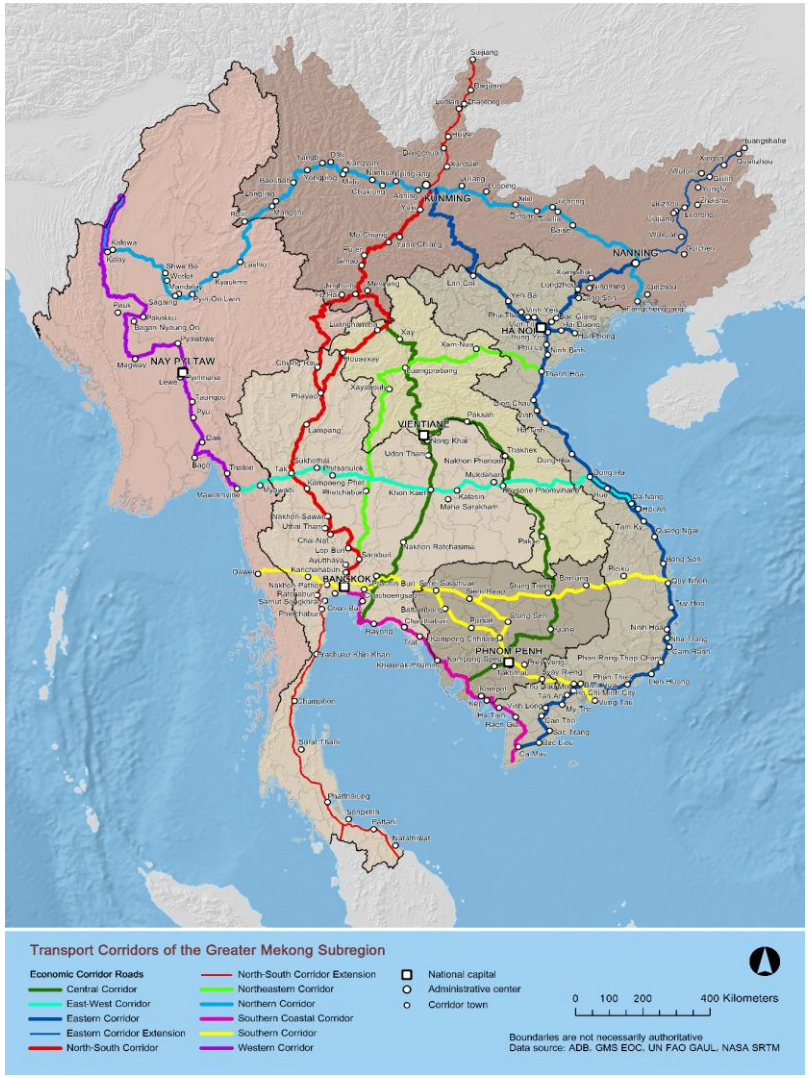


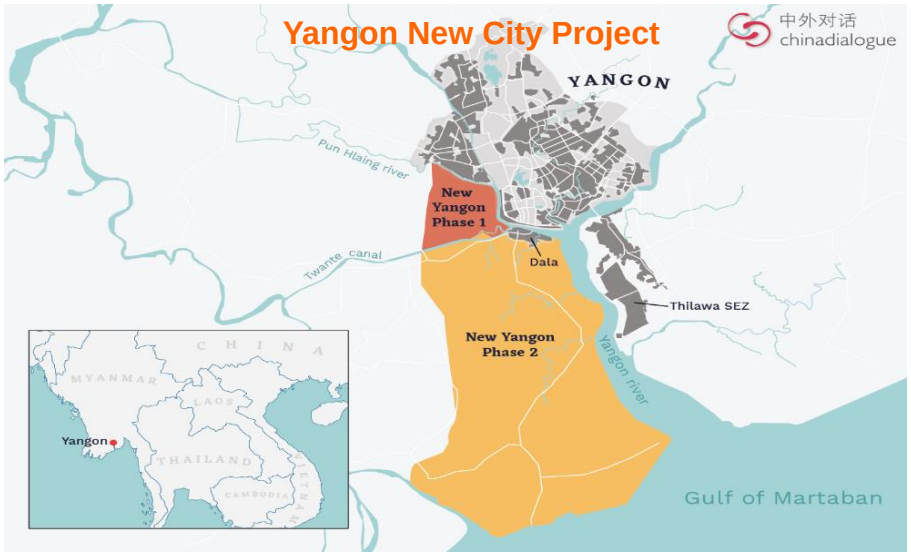
India–Myanmar–Thailand Trilateral Highway



Source: Nikkei Asian Review and various sources compiled by Krungsri Research

Roads, rail networks, and infrastructure are being further advanced to connect Myanmar and others in the region



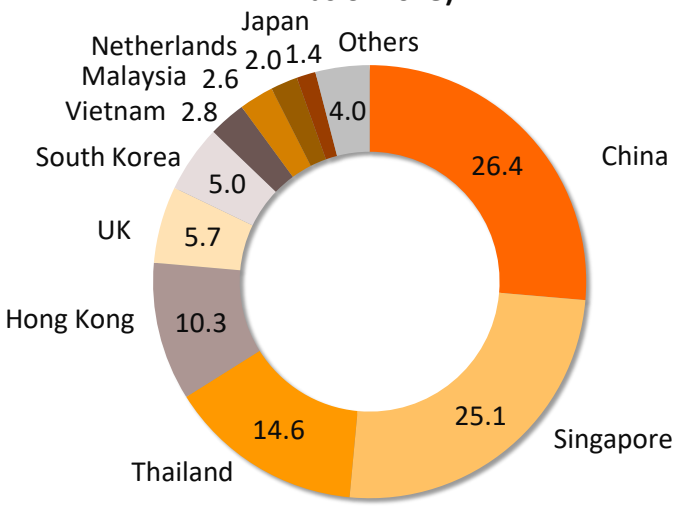




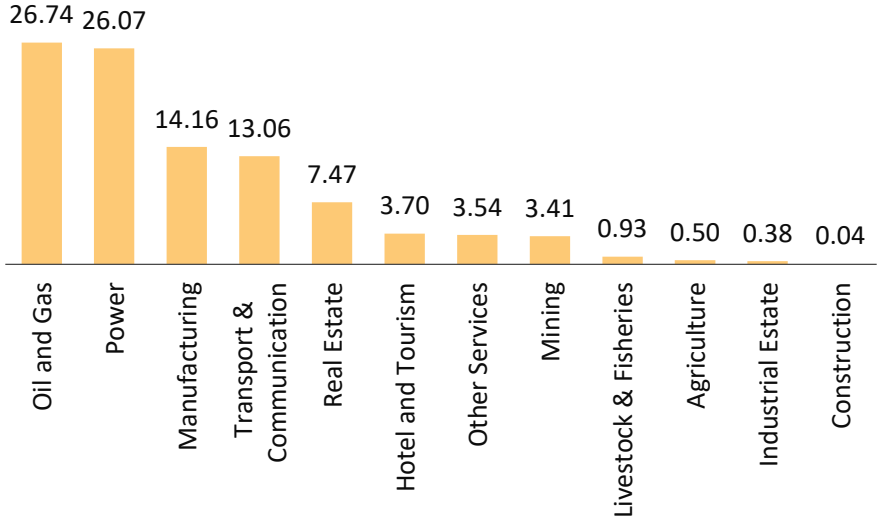
Source: Various sources compiled by Krungsri Research

China will be pivotal for Myanmar's socio-economic development due to its growing roles in the country

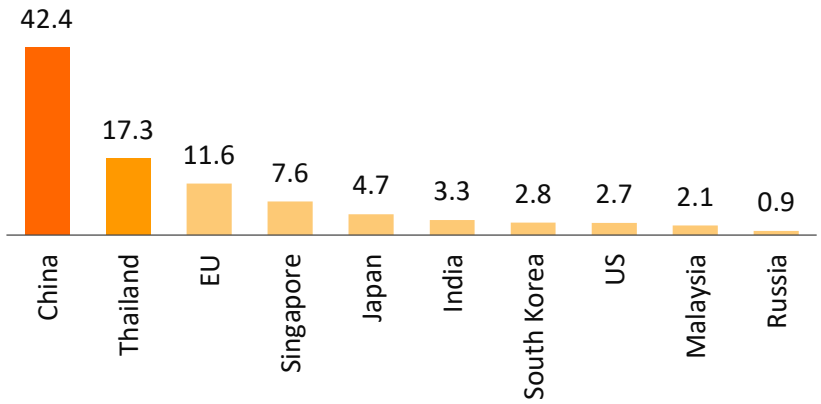
Share of Cumulative FDI
(% of total value of permitted enterprise as of 2018)



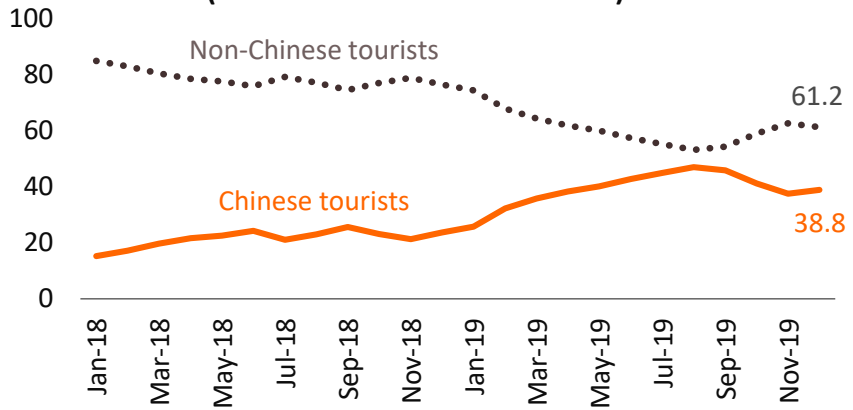
Share of Cumulative FDI: Value of Permitted Enterprise (Approved Amount, %) by sector as of April 2020



Shares of Total Trade Value (%, 2019)

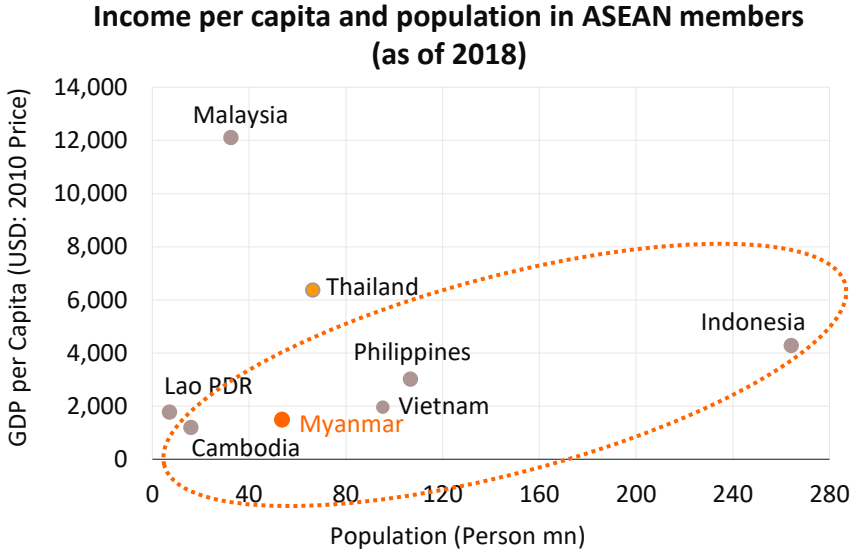


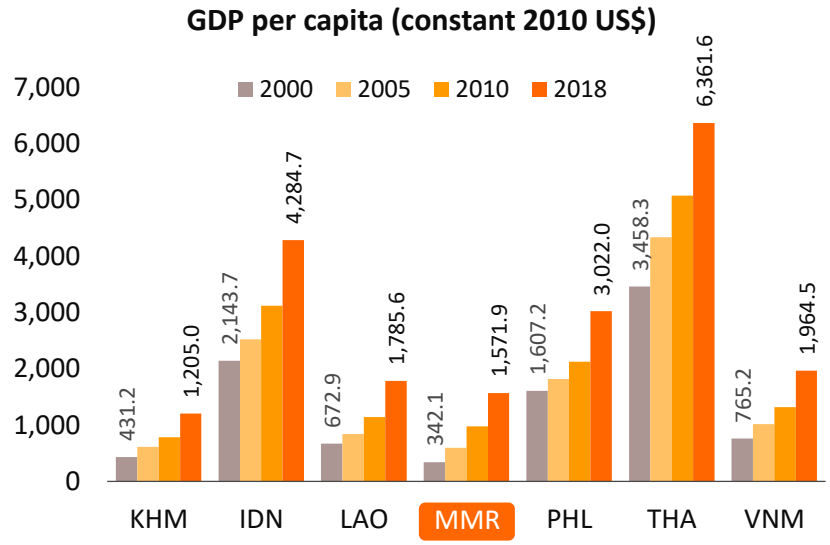
Share of Myanmar's Visitor Arrivals
(% of Total Visa Tourist Arrivals)

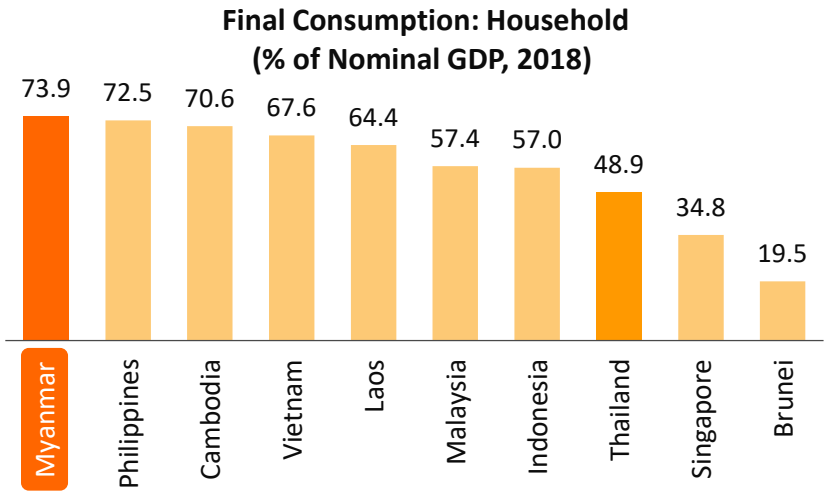


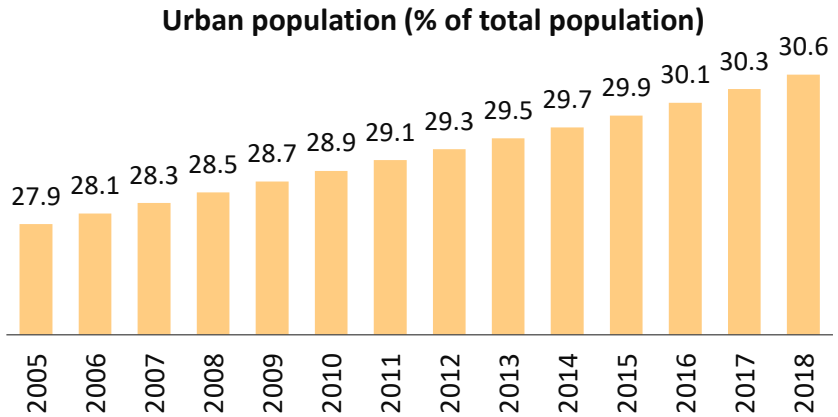
Source: CEIC, Bank of Thailand

Theme 4: Wealthier middle-class consumers will become sizeable, coupled with a rising urbanization



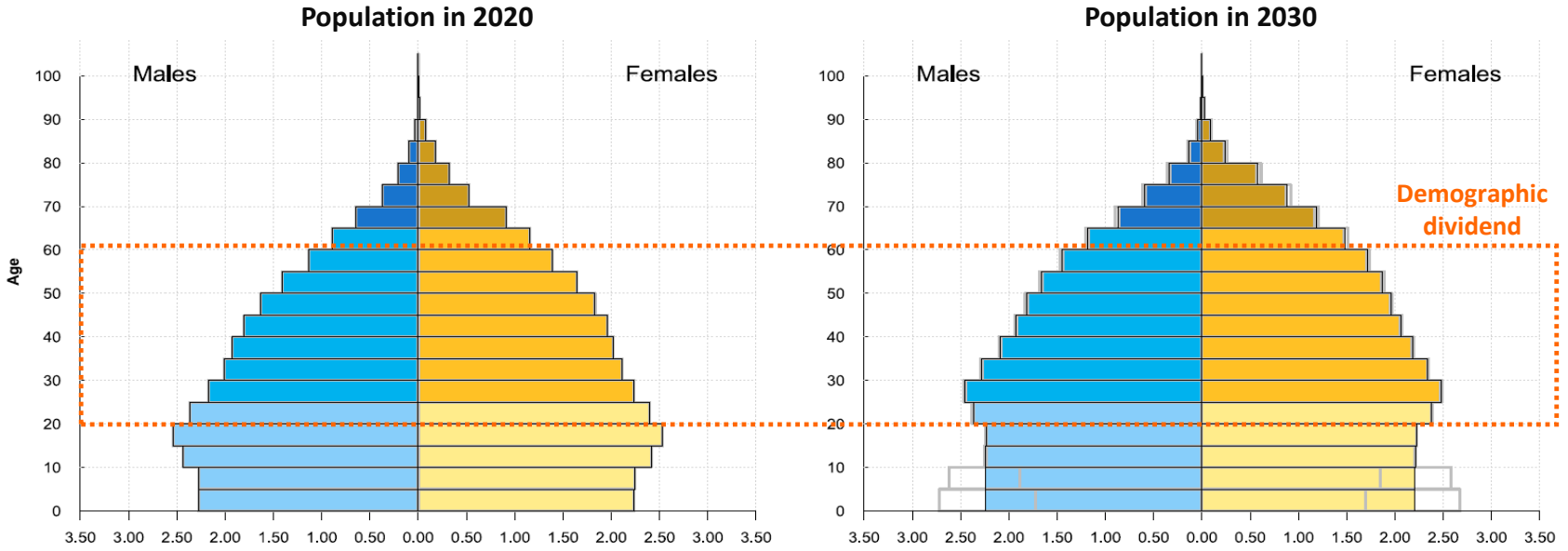


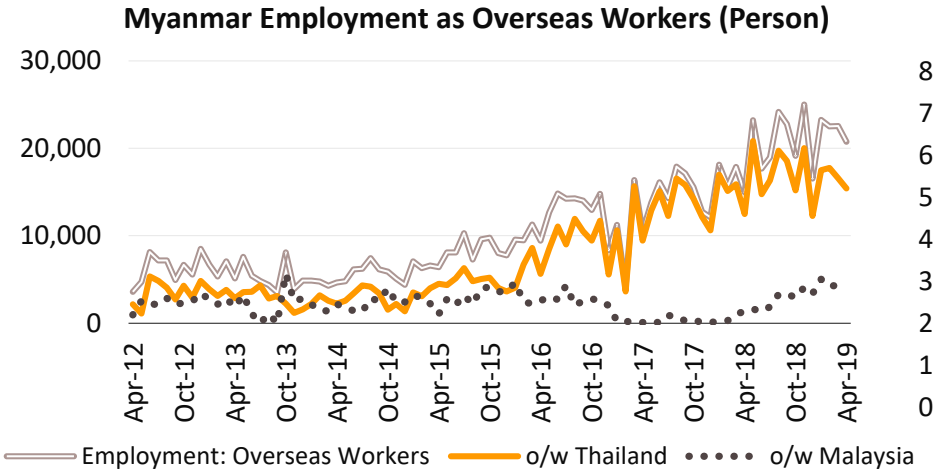


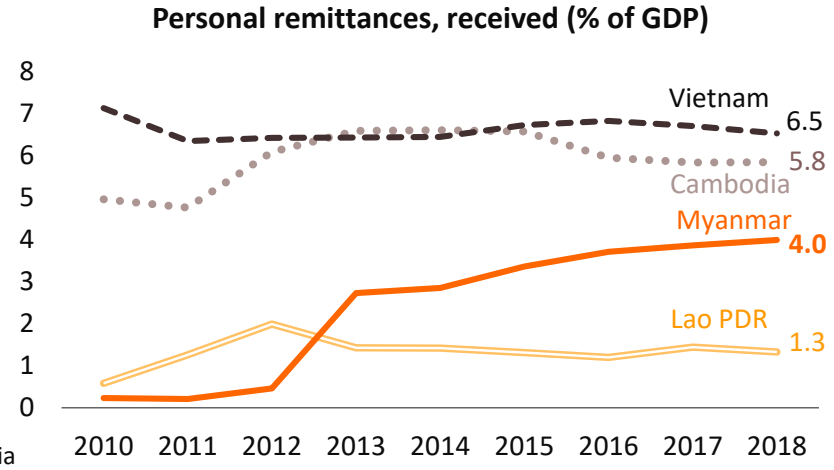


Source: CEIC

Myanmar is also about to enjoy the demographic dividend on the horizon



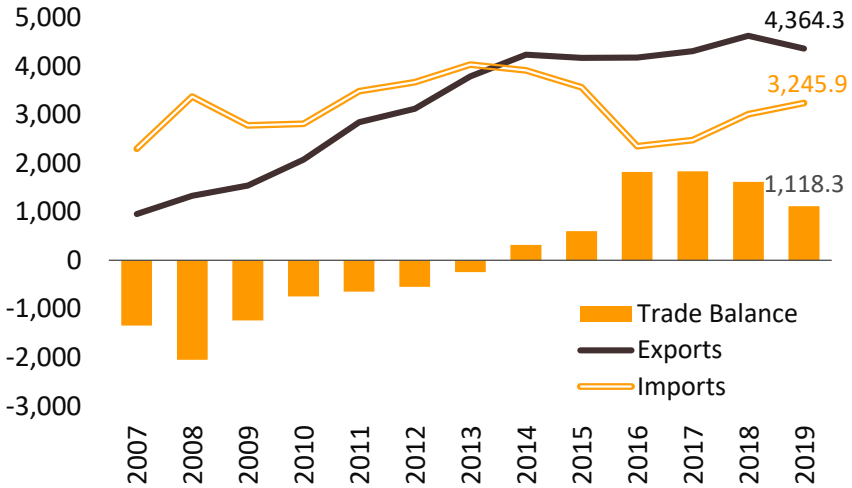




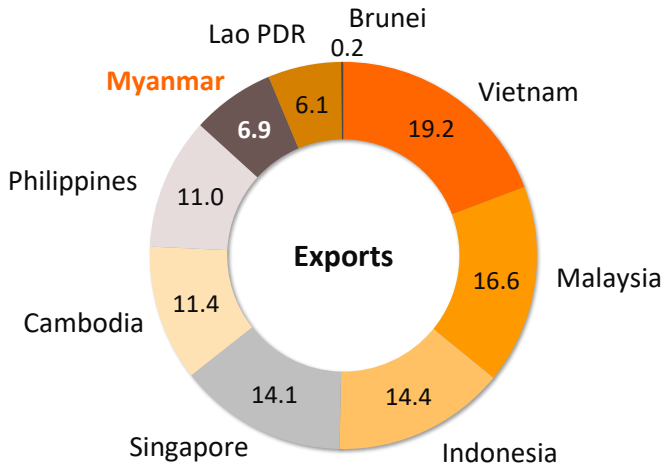
Source: CEIC, UN Population Prospects (2019)

Theme 5: Myanmar has emerged as one of the key trading partners for Thailand

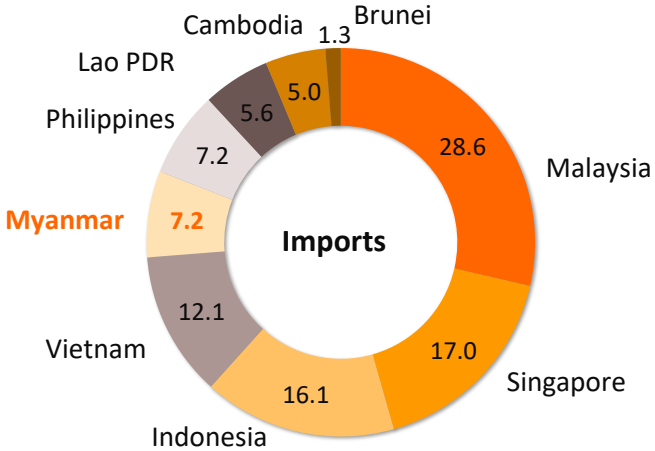
Thailand's bilateral trade with Myanmar (USD mn)



Share of Thailand's export to ASEAN (%, 2019)



Shares of Thailand's import from ASEAN (% , 2019)



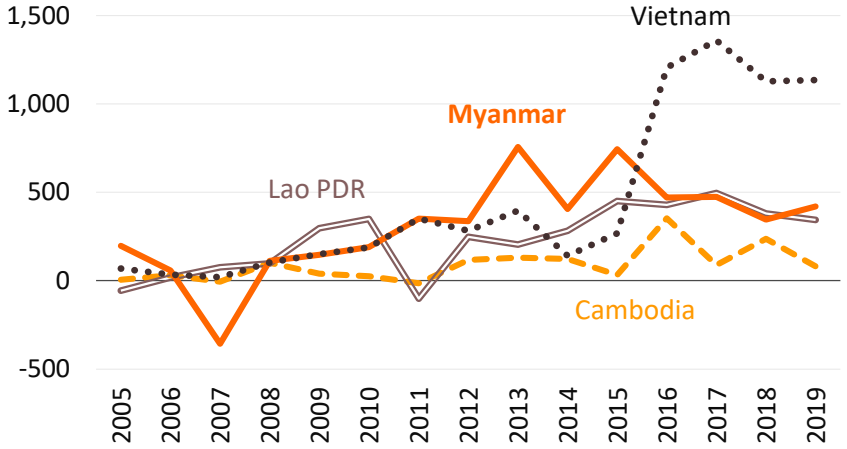
Major goods traded between Thailand and Myanmar (2019)

Major Thailand's exports to Myanmar	USD mn	Major Thailand's imports from Myanmar	USD mn
1. Refine fuels	474.3	1. Natural gas	2,456.2
2. Beverage	359.5	2. Plants and plant products	172.0
3. Chemical products	217.2	3. Other metal ores, metal waste scrap and products	157.8
4. Machinery and parts	213.7	4. Edible meat	112.8
5. Iron and steels	209.0	5. Lived marine animals and frozen	61.9

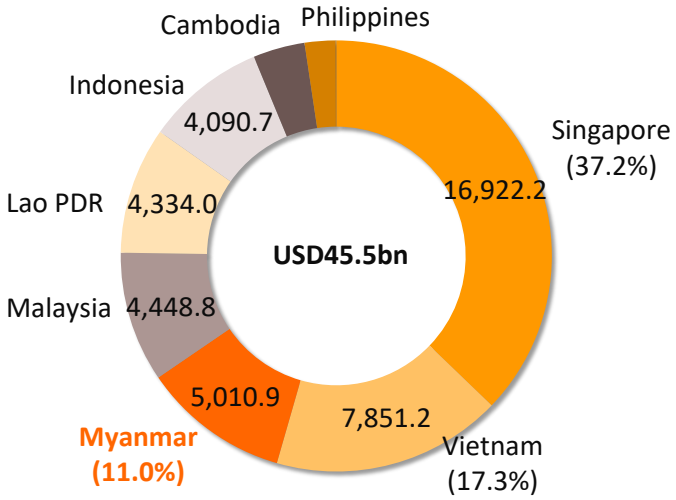
Source: CEIC, Thailand's Ministry of Commerce

Myanmar is one of the key destinations for Thai direct investment (TDI) in ASEAN

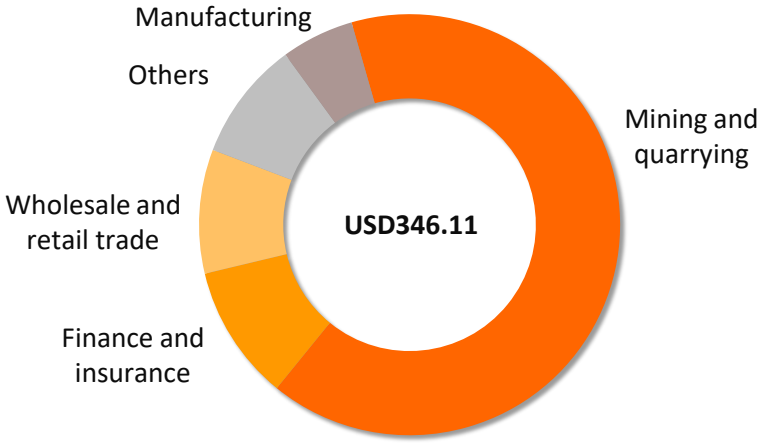
Thai Direct Investment Abroad (Annual flows, USD mn)



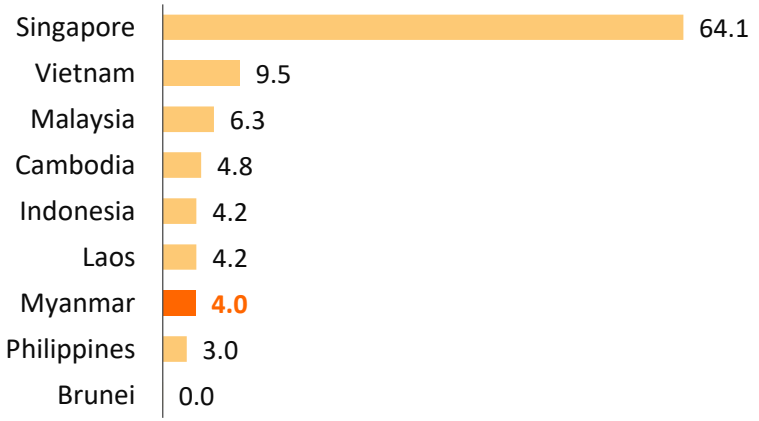
TDI Position Abroad Classified by Country/Economic territories (USD mn, as of 2019)



TDI in Myanmar Classified by Business Sector of Thai Investors in 2018 (%)



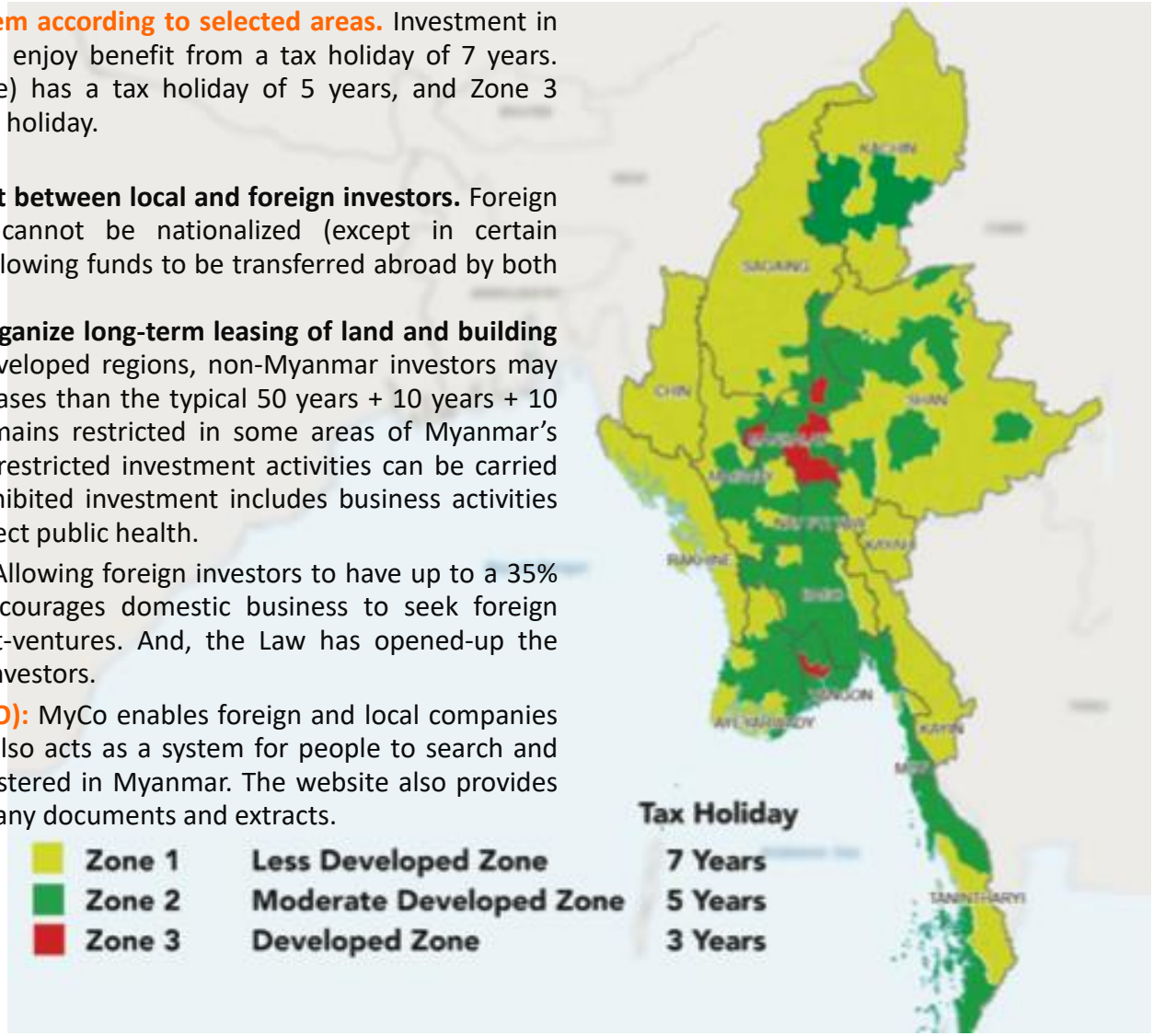
Share of TDI to ASEAN by country (% share of total TDI,2019)



Source: CEIC, Bank of Thailand

Investment incentives are offered differently in 3 investment zones across the country

- **Myanmar offers a tax holiday system according to selected areas.** Investment in Zone 1 (Less Developed Zone), can enjoy benefit from a tax holiday of 7 years. Zone 2 (Moderate Developed Zone) has a tax holiday of 5 years, and Zone 3 (Developed Zone) offers a 3-year tax holiday.
- **Myanmar Investment Law (2016):**
  - **The Law allows equal treatment between local and foreign investors.** Foreign investments are secure and cannot be nationalized (except in certain circumstances)- together with allowing funds to be transferred abroad by both local and foreign investors.
  - **Foreign investors are able to organize long-term leasing of land and building across the country.** In underdeveloped regions, non-Myanmar investors may also be able to access longer leases than the typical 50 years + 10 years + 10 years. However, investment remains restricted in some areas of Myanmar's economy. For instance, certain restricted investment activities can be carried out by the State only- and prohibited investment includes business activities that are proven to negatively affect public health.
- **Myanmar Companies Law (2017):** Allowing foreign investors to have up to a 35% stake in a local business. This encourages domestic business to seek foreign expertise and capital through joint-ventures. And, the Law has opened-up the Yangon Stock Exchange for foreign investors.
- **Myanmar Companies Online (MyCO):** MyCo enables foreign and local companies to register businesses online, and also acts as a system for people to search and access details of all companies registered in Myanmar. The website also provides the ability to purchase official company documents and extracts.



Source: Myanmar DICA

Tax incentives are offered for the promoted sectors

Currently, Myanmar has prioritized 20 sectors for foreign investment and these sector are offered tax incentives by the Myanmar Government.

Promoted sectors for foreign investment classified by economic activity

Primary Sector/Agriculture

- **Agriculture and its related services** (except cultivation and production of tobacco and virginia)
- **Plantations and conservation of forests**, and other businesses with forests
- **Livestock production, breeding and production of fishery products, and related services**

Industry/Manufacturing

- **Manufacturing** (except manufacturing of cigarettes, liquor, beer, and other harmful products o health)
- **Establishment of industrial zones**
- **Establishment of new urban areas**
  City development activities
- **Construction of roads, bridges and railway lines**
  Construction of seaports, river ports and dry ports
- **Production of renewable energy**

Services

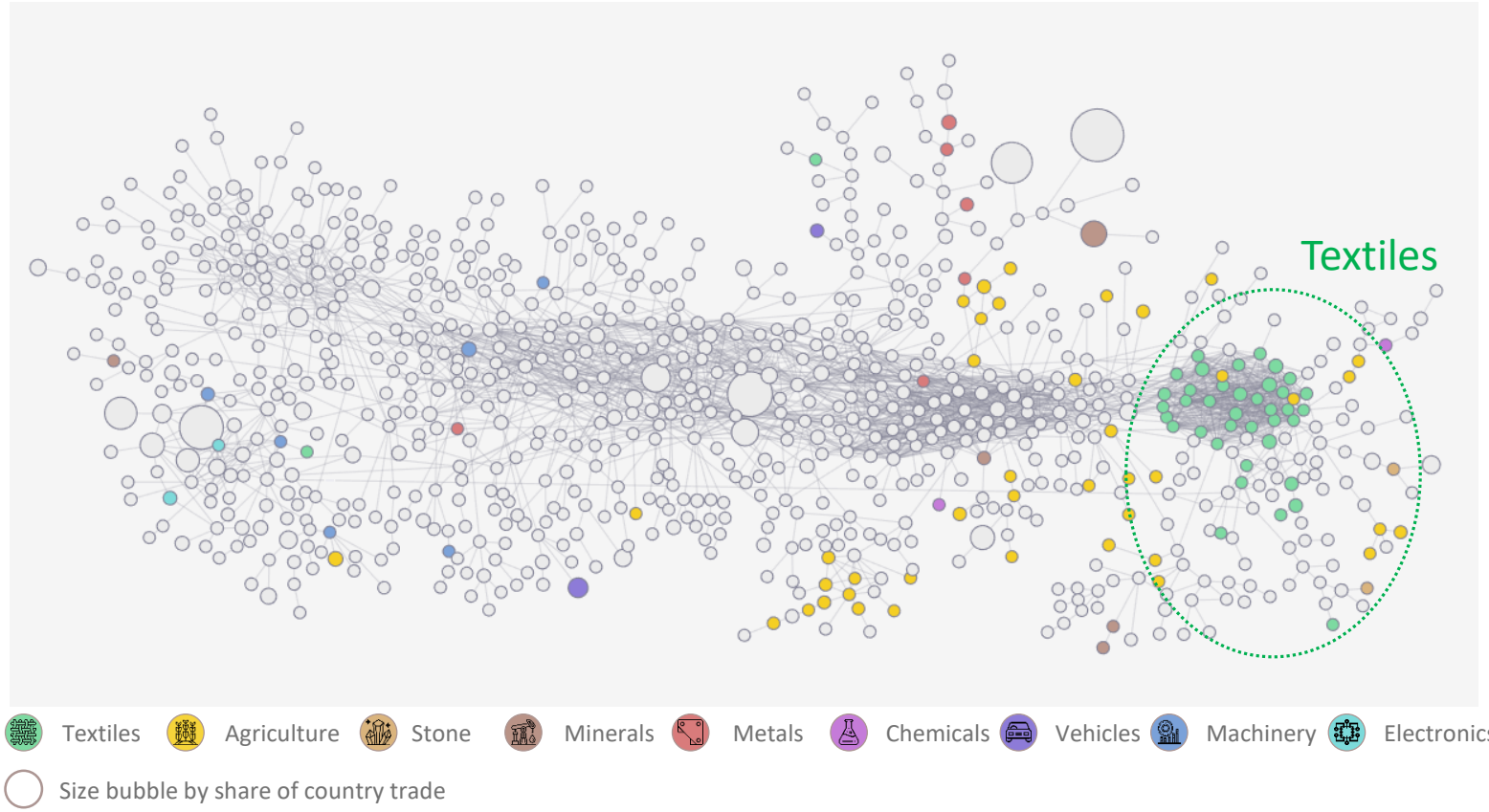
- **Management, operation and maintenance of airports**
  Maintenance of aircrafts
- **Telecommunication businesses**
- **Education services**
- **Health services**
- **Information technology services**
- **Hotels and tourism**
- **Science research development business**

Source: Myanmar DICA

Myanmar is developing its manufacturing through labor-intensive activities, mainly garments and textiles

Based on the concept of Product Space[1/], Myanmar is in a process of advancing its manufacturing activities by focusing on labor-intensive activities mainly garment and textile industries which are among main sectors of foreign investment. However, main comparative advantage products for Myanmar are still dominated by agriculture.

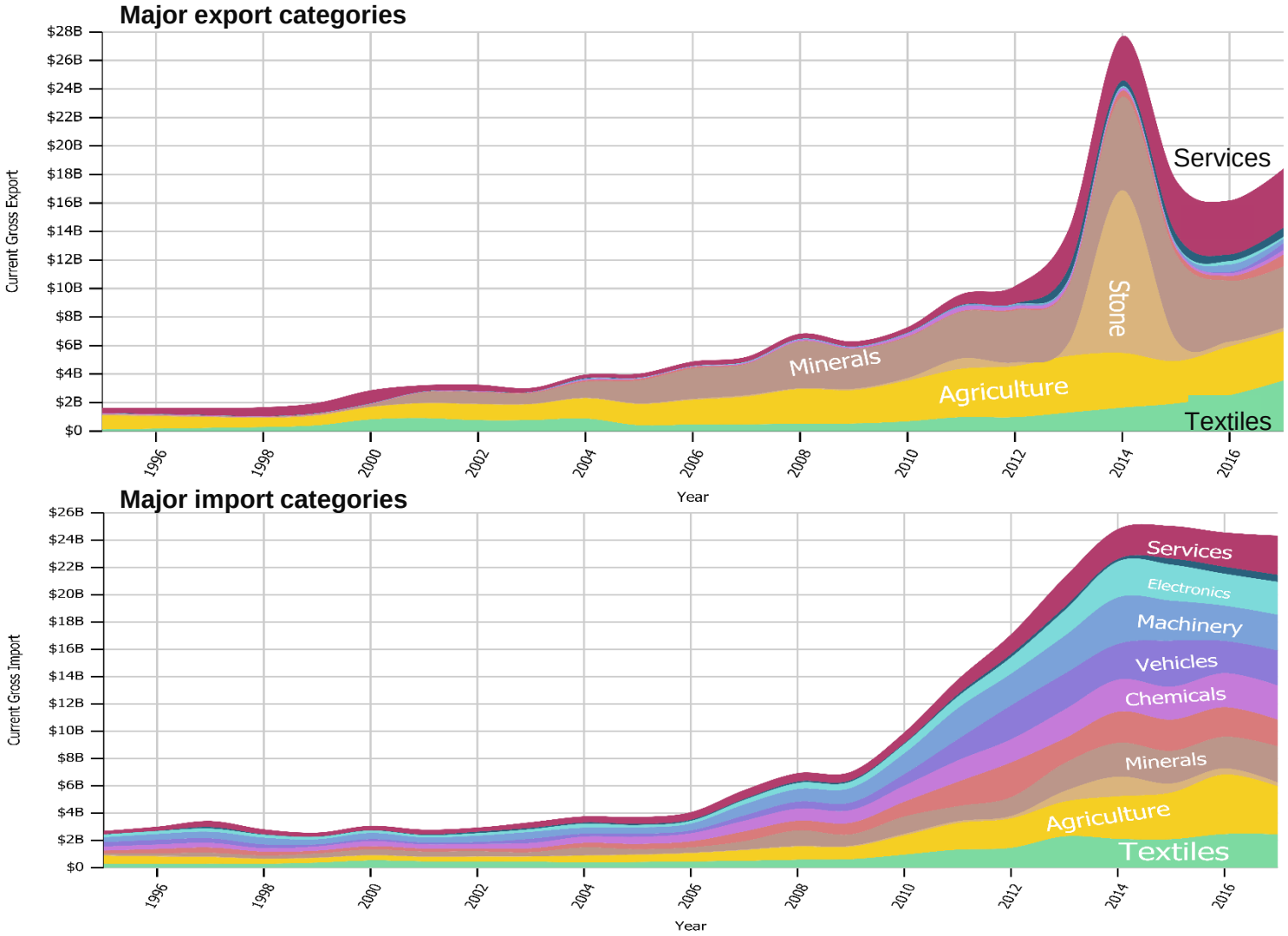
Product Space highlighted for products with Revealed Comparative Advantage > 1



Note: 1/The Product Space depicts the connectedness between products, based on the similarities of know-how required to produce them. Product nodes are sized by world trade.

Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity (2017). http://www.atlas.cid.harvard.edu.

This is reflected through its cross-border trade structure, albeit sizeable export of commodities

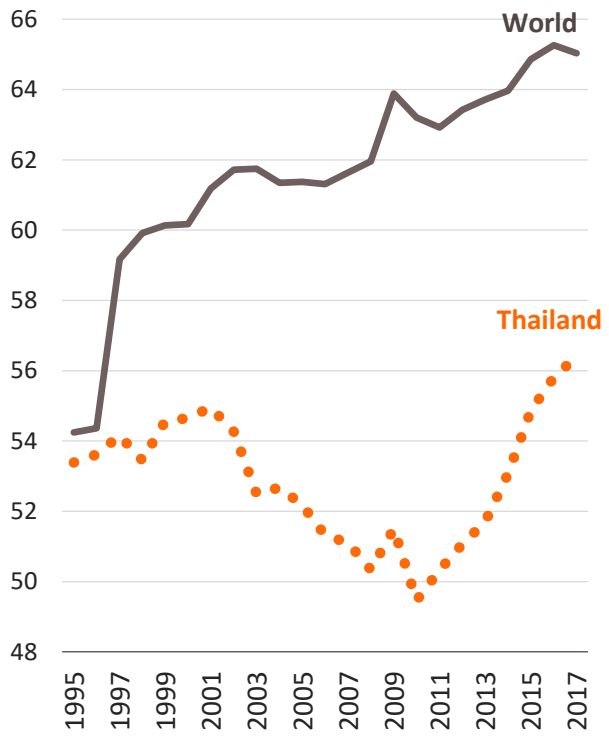


Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity (2017). http://www.atlas.cid.harvard.edu.

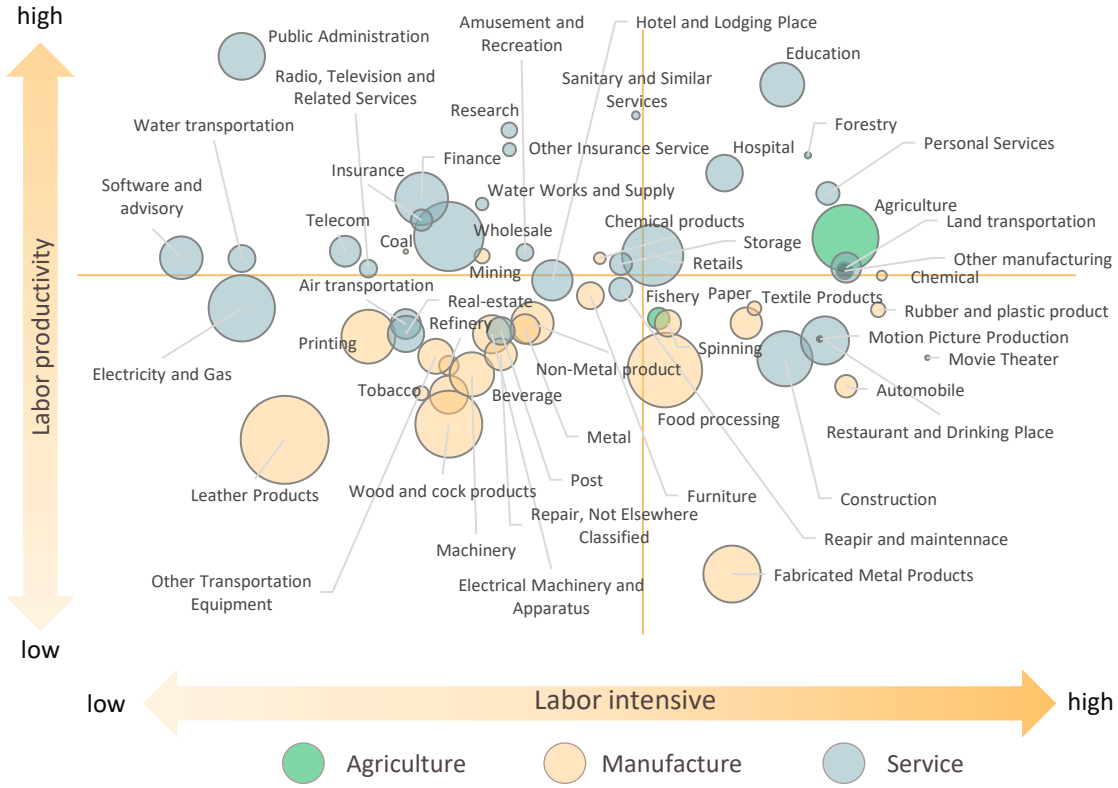
Thailand is moving toward service-based economy and could shift some labor-intensive activities to Myanmar

Thailand is in line with the world economy in moving toward a service-based economy, and this is depicted by a rising contribution of service sector to GDP from 50.3% in 2008 to 56.9% in 2017. **Based on the recent data, we found that Thailand also has relatively high valued-added labor productivity in the services sector. Thai businesses may be able to reap the advantages to export services to targeted countries.**

Value-added Services Sector (% of GDP)



Thailand's Labor dependency and productivity by industry (Input-Output Tables 2015)



Source: Office of the National Economic and Social Development Council (NESDC), National Statistical Office (NSO), World Bank, Krungsri Research

Potential industries for Thai investment in Myanmar

Against the backdrop of favorable prospects of Myanmar in the long term and comparative advantages of Thailand in the services sector, we view that there are business opportunities for Thai investors to ride the wave of Myanmar's growth potential. Top industries and services in our mind that should be considered for Myanmar market are:



Mobile-led financial and banking services



Consumer goods and retail



Food and beverage



Labor-intensive manufacturing



Hotel and tourism

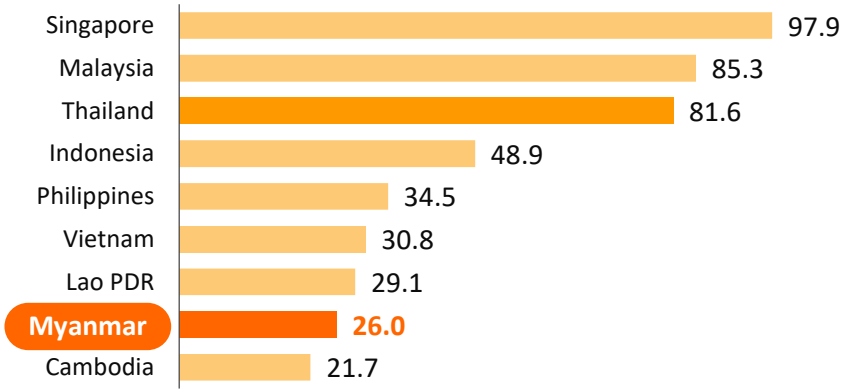


Healthcare services and pharmaceuticals

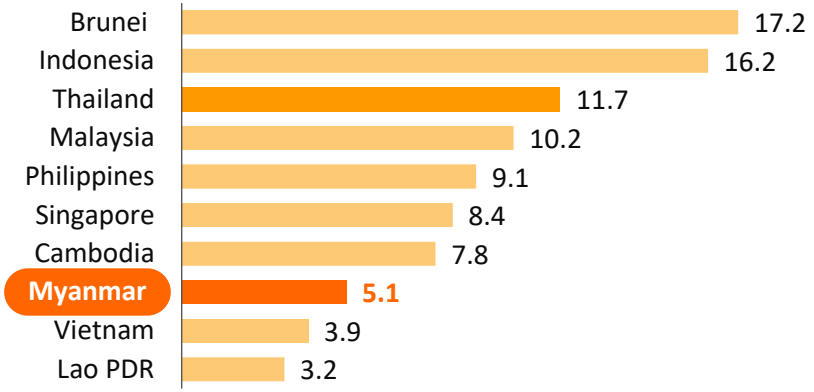
Source: Krungsri Research

Financial Services: Low-banking penetration against a backdrop of mobile usage provide opportunities for fintech and mobile-led financial services to flourish

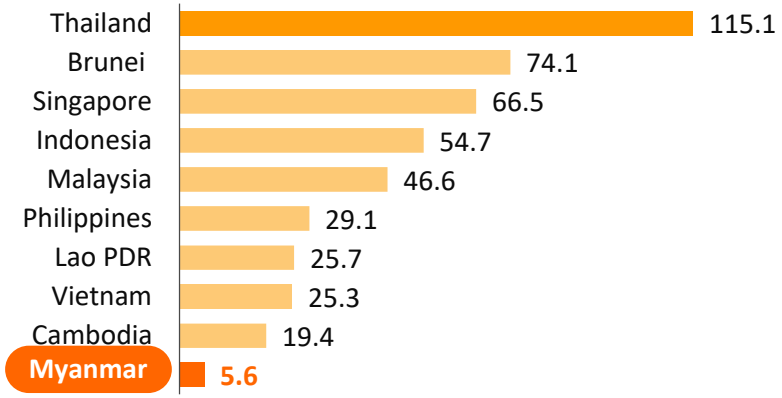
Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+, as of 2017)



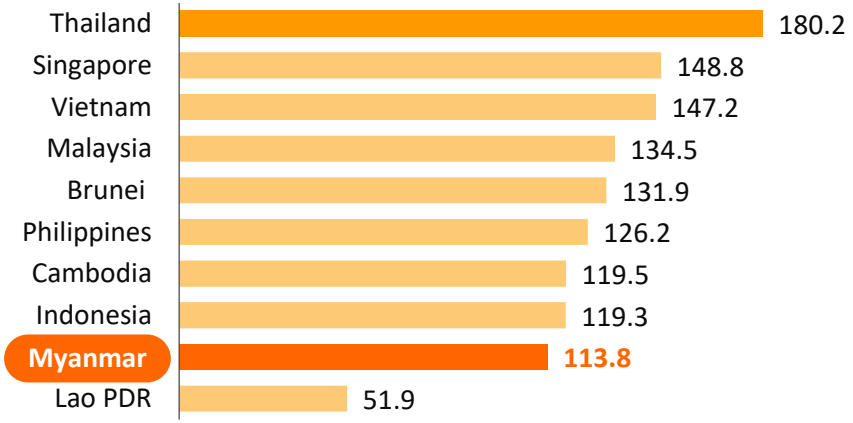
Commercial bank branches (per 100,000 adults, as of 2018)



Automated teller machines (ATMs) (per 100,000 adults, as of 2018)



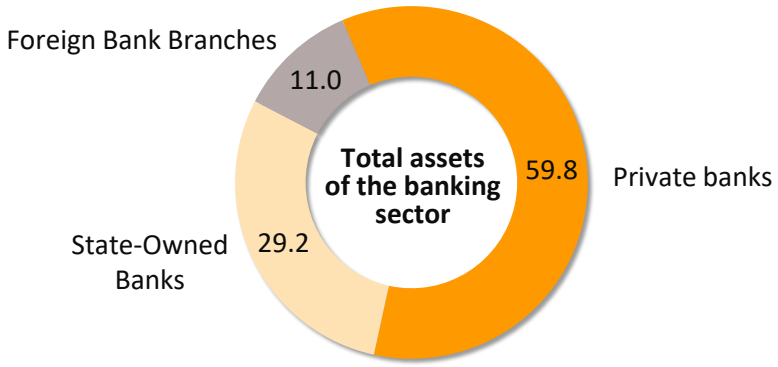
Mobile cellular subscriptions (per 100 people, as of 2018)



Source: CEIC, World Bank: WDI

Retail and consumer banking remains underserved, so the banking sector has potential room to grow

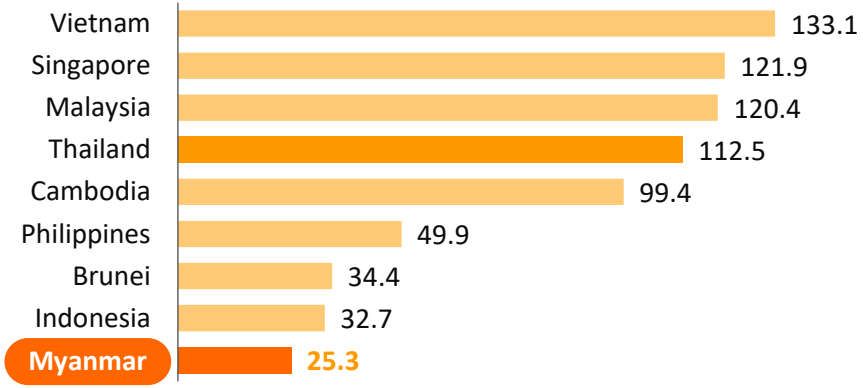
Shares of total assets (%, June 2019)



Types of Financial Institutions in Myanmar

Type of financial institutions	As of September 2019		
	Headquarters	Branches	ATMS
1. State-owned Banks	4	518	92
2. Private Banks	**27**	**1,894**	**2,748**
3. Foreign Banks	**13**		
4. Finance Companies	29		
5. Foreign Bank Representative Offices	45		
6. Foreign Finance Company Representative Office	6		

Domestic credit to private sector by bank (% of GDP, 2018)

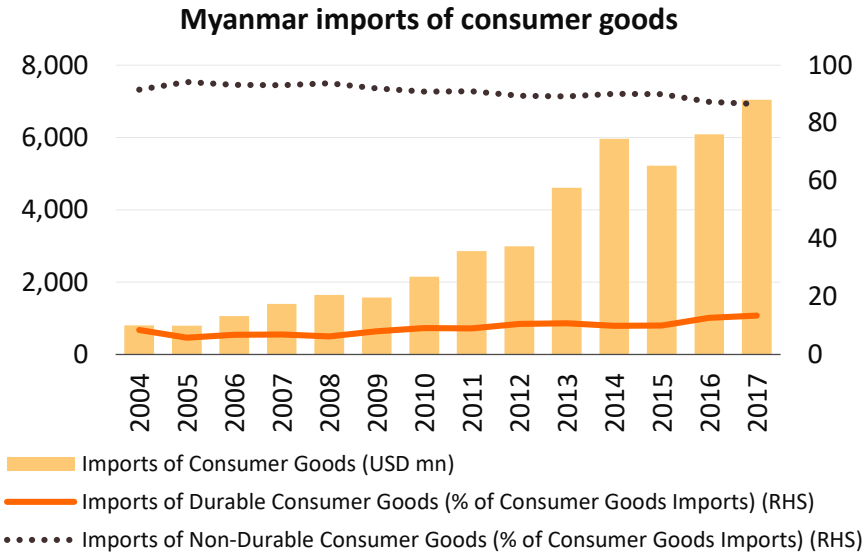


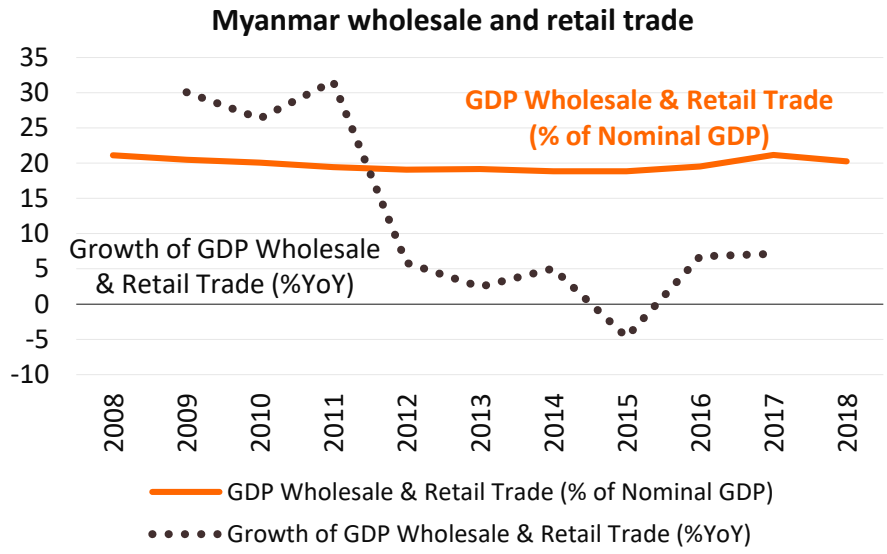
Outstanding bank loans by sector (June 2019)

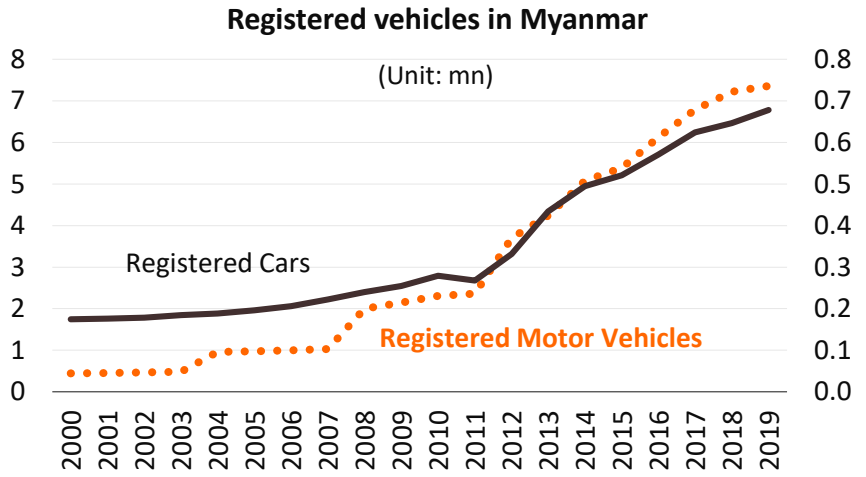
Sector	State-owned Banks	Private Banks	Foreign Bank Branches
Agriculture	59.9	1.5	3.7
Production	4.7	12.2	28.6
Trading	13.0	25.4	9.7
Transportation	0.6	2.0	3.8
Construction	3.8	17.7	11.1
Services	5.0	15.9	31.5
General	12.4	16.0	0.0
Hire Purchase	0.0	3.4	0.0
Housing Loans	0.0	0.5	11.7
SME Loans	0.6	5.3	0.0
Total	**100**	**100**	**100**

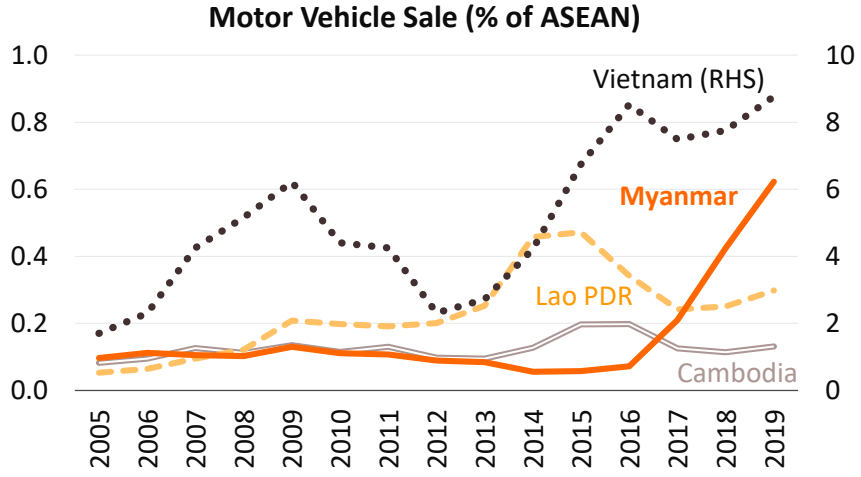
Source: CEIC, Central Bank of Myanmar (CBM), CBM: Quarterly Financial Statistics

Consumer goods and retail: Local consumers become wealthier and local production does not meet demand





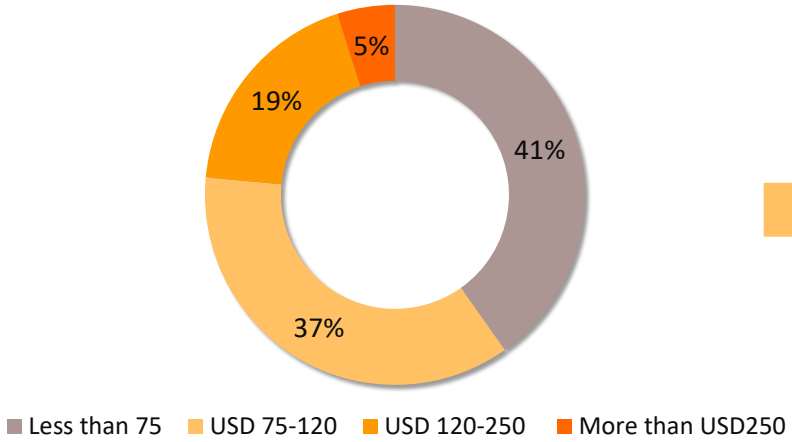




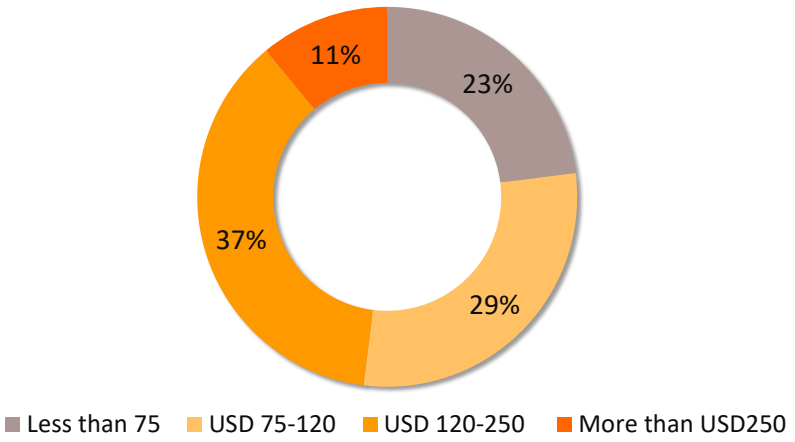
Source: CEIC

Food and beverage: The sector could reap benefits of growing young and more affluent consumers

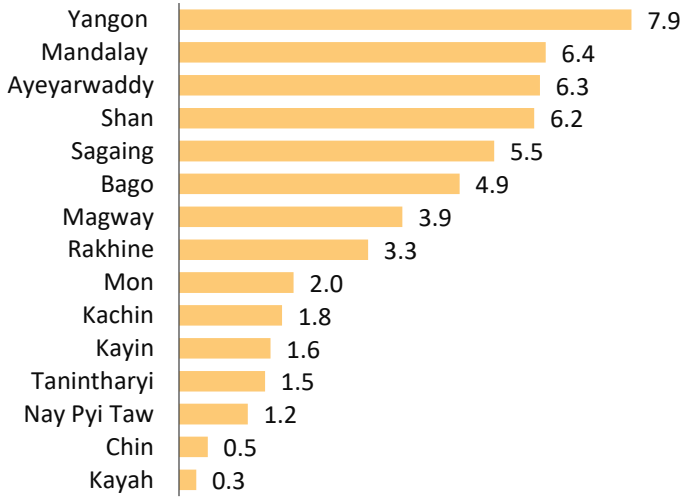
2016 Average Monthly Income Distribution



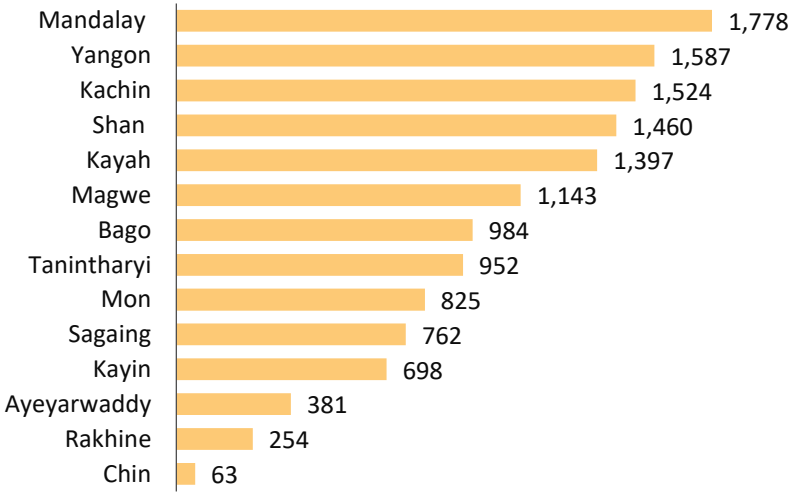
2022 Expected Average Monthly Income Distribution



Population by state and region (2017)



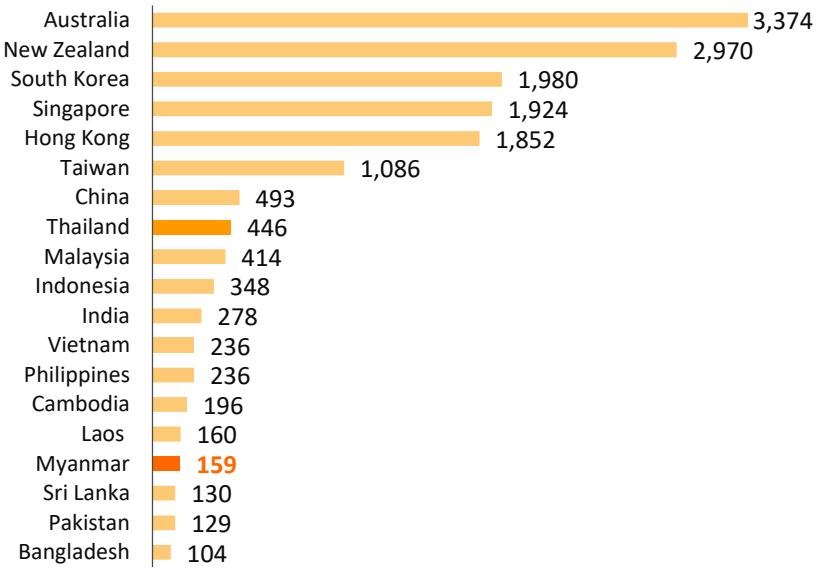
Annual GDP per capita (2017)



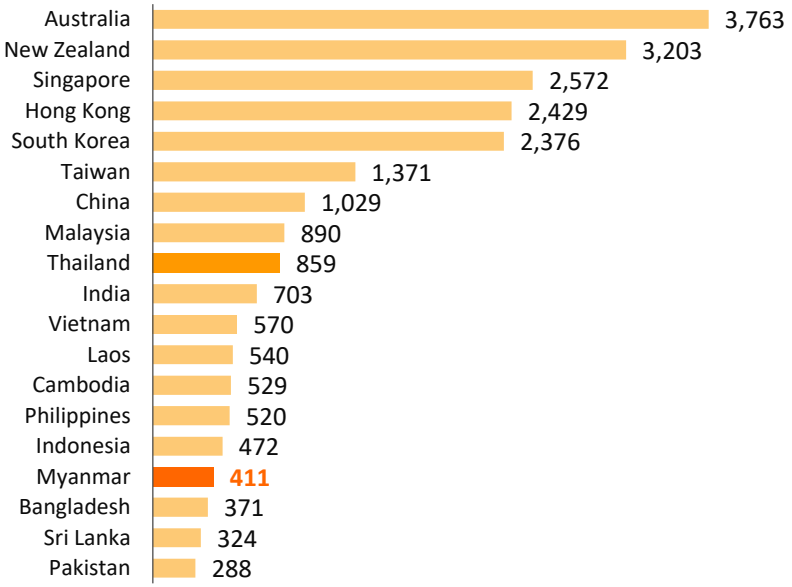
Source: Eurocham Myanmar: Business Guide 2020

Manufacturing: Relatively low wage rates could be favorable for some labor-intensive production

Base monthly salary for manufacturing worker (USD, 2019)



Base monthly salary for non-manufacturing staff (USD, 2019)



Official minimum wage in the CLMV economies

The monthly minimum wage is USD190 in 2020 (compared to USD182 in 2019)

The monthly minimum wage for all businesses and factories is ranged from LAK900,000 (USD101) to LAK1.1mn (USD124).

Current daily minimum wage is set at MMK4,800 (USD3.29) for eight hours of work

Current monthly minimum wage is set by region*:
Region I: USD190 (VND4.42mn)
Region II: USD169 (VND3.92mn)
Region III: USD148 (VND3.43mn)
Region IV: USD132 (VND3.07mn)

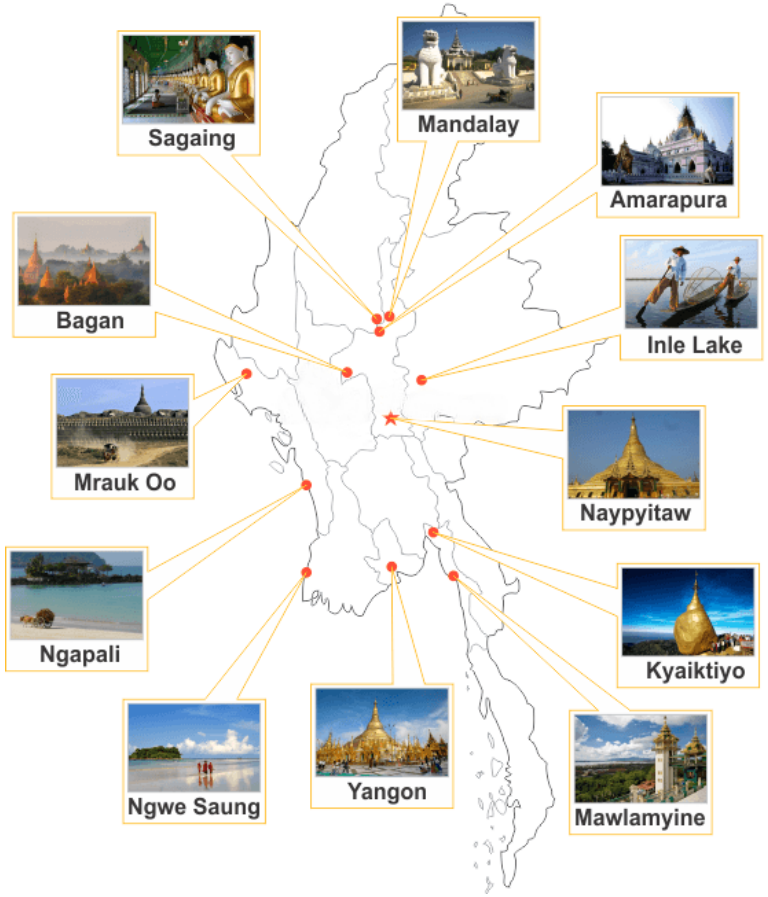
Note: *Region I covers urban Hanoi and Ho Chi Minh City
Region II covers rural Hanoi and Ho Chi Minh City along with Da Nang
Region III includes provincial and the district of Bac Ninh, Bac Giang, Hai Duong, Phu Tho, Vinh Phuc, and other provinces not listed in Region I and II
Region IV covers the remaining localities

Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania, and various sources

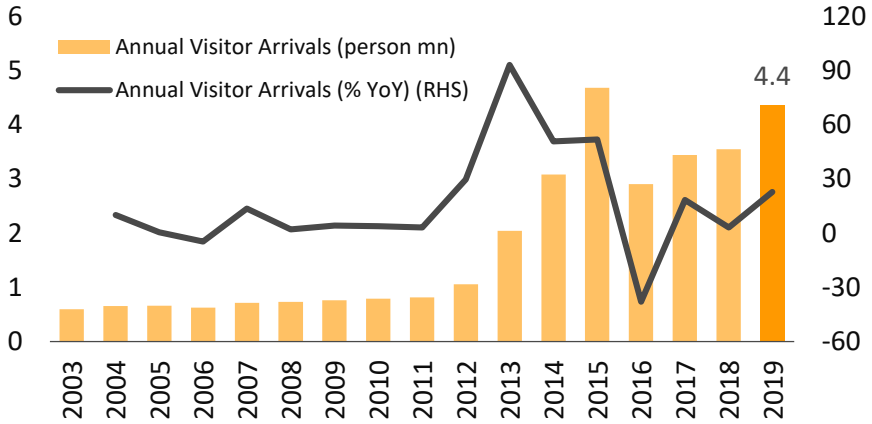
Tourism and hotel sector: Myanmar could potentially become the next top tourism destination

Myanmar has become another potential destination in ASEAN since its re-open of the country in 2011. Myanmar has a broad range of attractions- historical and cultural sites as well as beautiful beach holiday destinations. The number of tourist arrivals and tourism revenues have surged substantially. However, in the long term, the tourism sector has large room to grow as tourism revenue (% of nominal GDP) remain significantly lower than that of regional peers. This would offer business opportunities for Thai businesses as Thailand has a strong competitiveness in the tourism and hospitality sector.

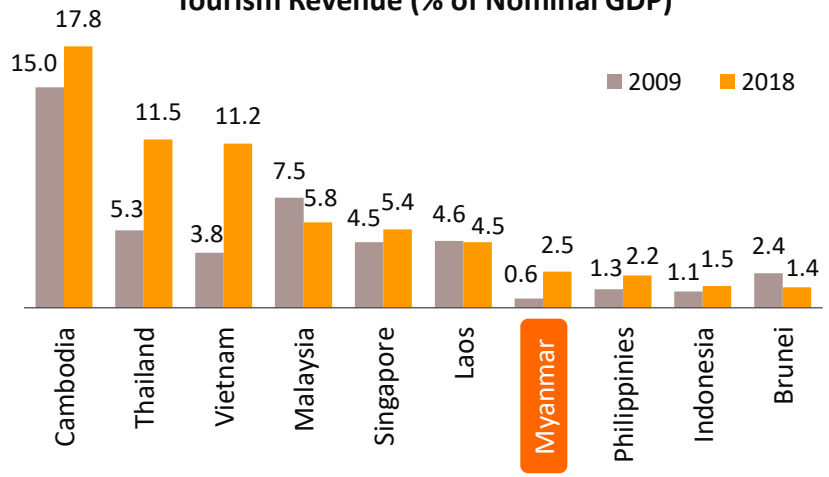
Top tourist attractions in Myanmar



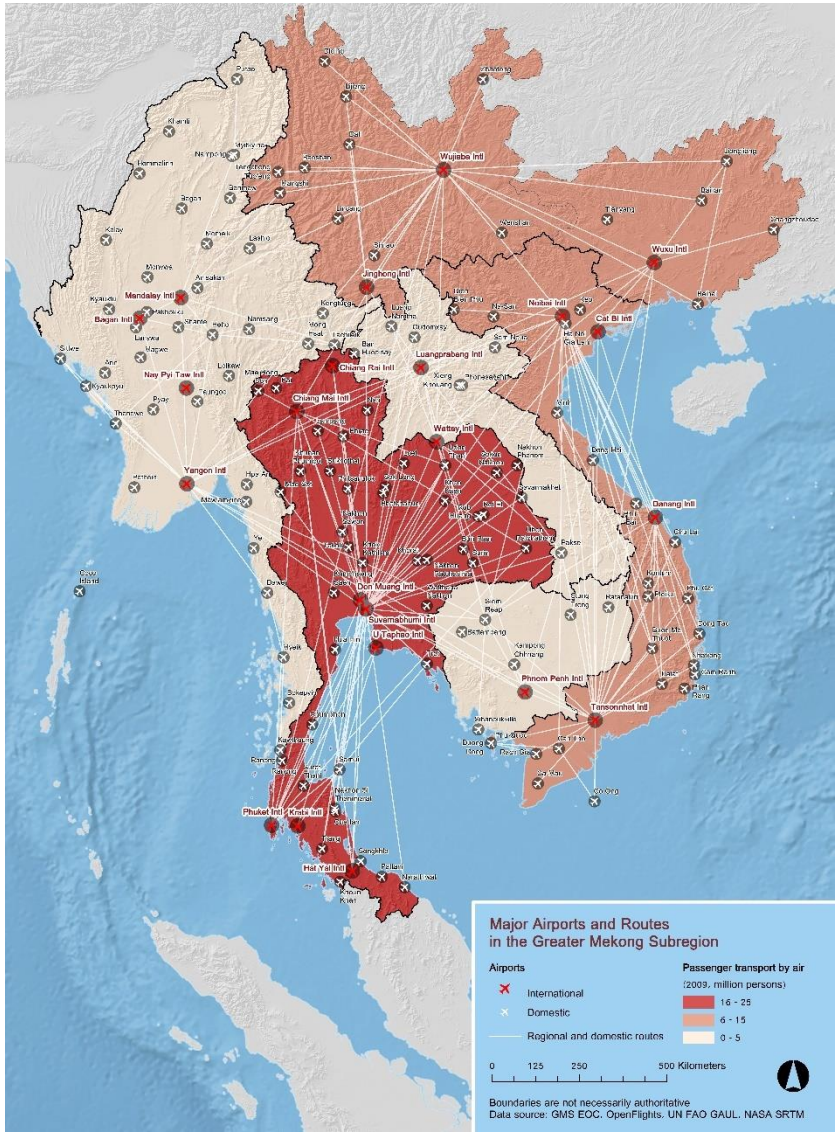
Myanmar Annual tourist arrivals (person mn)



Tourism Revenue (% of Nominal GDP)



Rapid growth of the aviation will drive the tourism sector



Source: Greater Mekong Sub-region Environment Operations Center, ADB

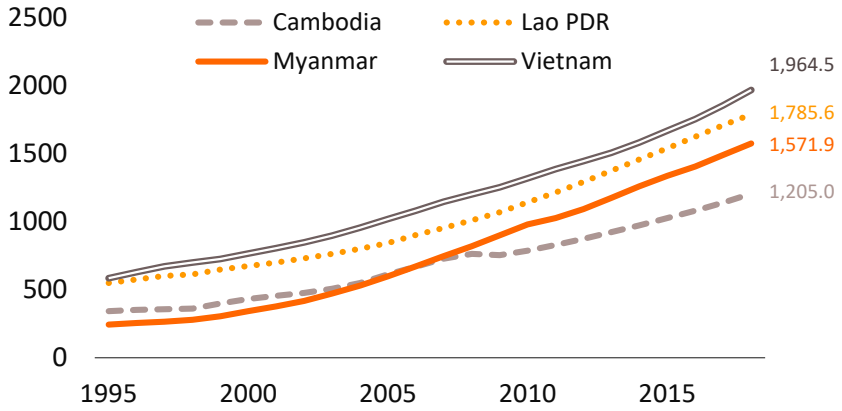
Some international airlines flying to Yangon

THAI
CHINA SOUTHERN AIRLINES
malaysia airlines
Bangkok Airways
CHINA AIRLINES
SINGAPORE AIRLINES
AIR CHINA
Thai AirAsia
Vietnam Airlines
CATHAY PACIFIC
KOREAN AIR
QANTAS
Thai Lion air
FREEDOM TO FLY
ANA
Emirates
AIR INDIA
QATAR AIRWAYS القطرية

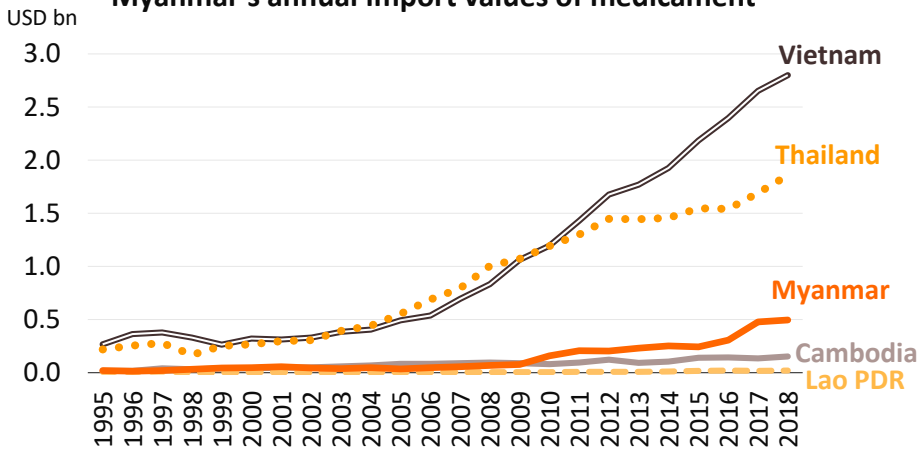
Healthcare and pharma sector: growth is to be driven by macro-socioeconomic trends

Although Myanmar currently has a small market size of healthcare and pharmaceutical sector, we view that the potential of healthcare and pharma sector should continue to grow in the medium to long term in line with the increasing access to vital medicines and broader social and economic development. This would translate into higher demand for high quality healthcare services and pharmaceutical products.

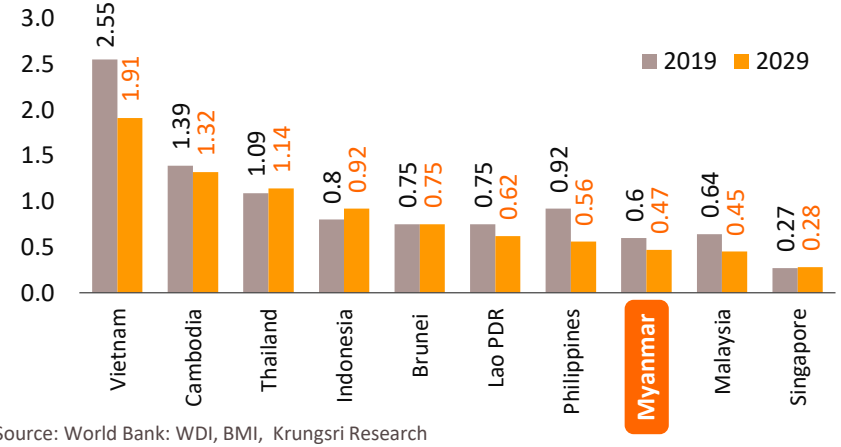
GDP per capita (constant 2010 USD, as of 2018)



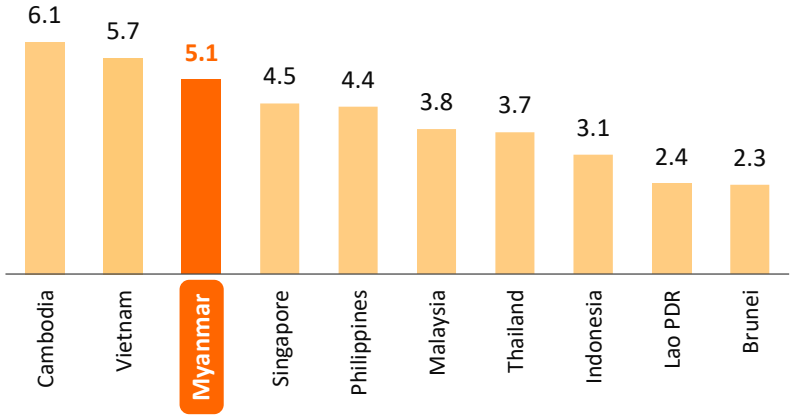
Myanmar's annual import values of medicament



Pharmaceutical sales (% of GDP)



Market size: current health expenditure (% of GDP, as of 2016)



Source: World Bank: WDI, BMI, Krungsri Research

However, *challenges* in doing business in Myanmar remain and some are structural and will take time to address



Political uncertainties and incomplete transition to elected democracy against a backdrop of prevalent conflicts among ethnic groups



Price instability/high inflation



External sector vulnerabilities



Banking sector stability



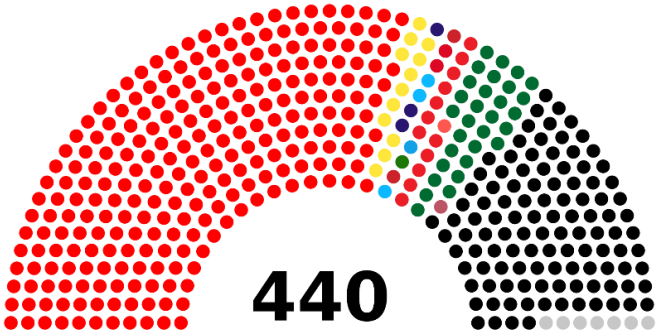
Electricity shortages/blackouts

Source: Krungsri Research

Challenge 1: Democratic transitions remain far from complete although NLD is likely to win the majority in the upcoming general election in November

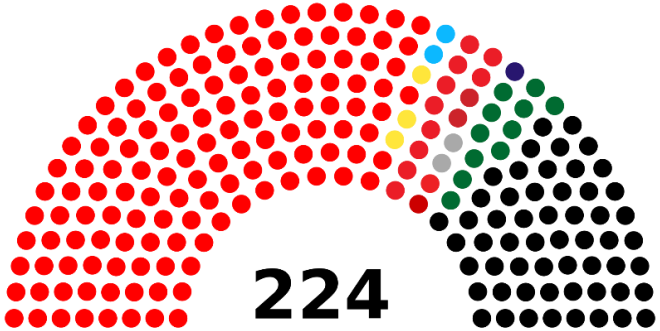
The NLD-led government 's efforts to amend the 2008 constitution drafted by military to reduce the presence of the armed forces in phrase and to allow Suu Kyi to be eligible for the president position could be a source of political conflicts and yield political uncertainty. The constitution amendment can be done with the vote of 75% of the members of the parliament, and this gives the military a veto since 25% of the legislature is reserved for military officers. While a full democratic transition therefore in Myanmar will not be completed any time soon, political disruptions, if any, could delay reforms and undermine confidences of foreign investors as well as FDI inflows.

Political Parties in Pyithu Hluttaw (House of Representatives)



- NLD (255)
- USDP (30)
- ANP (12)
- SNLD (12)
- PNO (3)
- TNP (3)
- LNDP (2)
- ZCD (2)
- KSDP (2)
- KDUP (1)
- WDP (1)
- Independent (1)
- Vacant (7)
- Military (110)

Political Parties in Amyotha Hluttaw (Upper House)

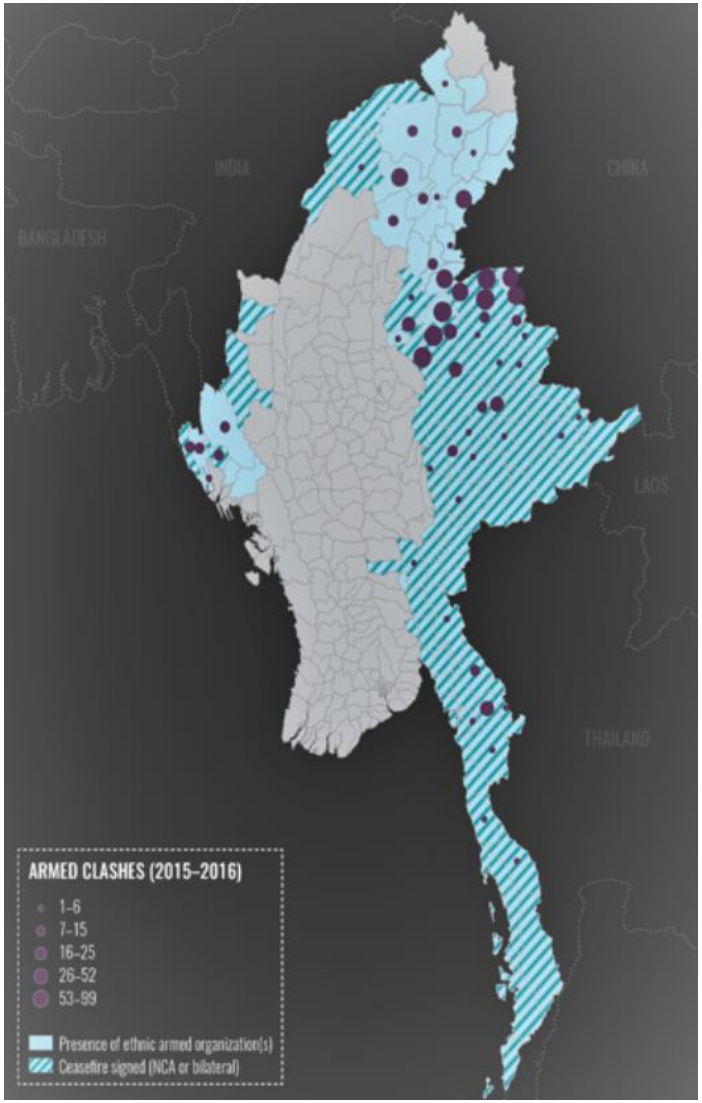


- NLD (135)
- USDP (11)
- ANP (10)
- SNLD (3)
- TNP (2)
- ZCD (2)
- MNP (2)
- NUP (1)
- PNO (1)
- Independent (1)
- Military (56)

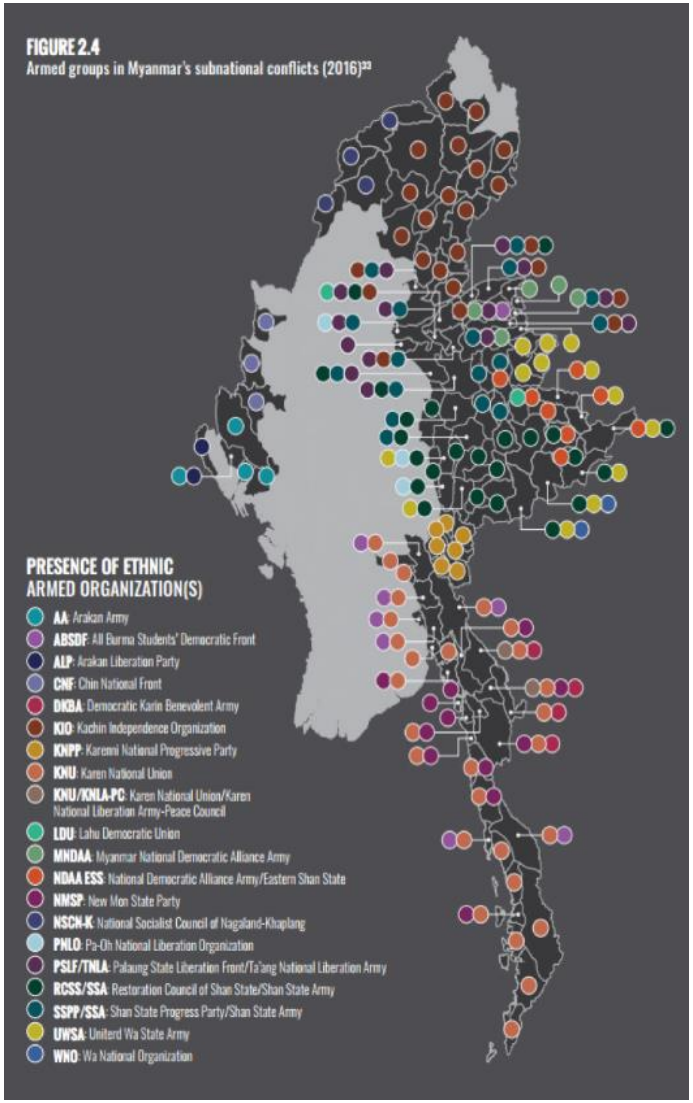
Source: Various sources compiled by Krungsri Research

In addition, internal conflicts among ethnic groups remain

Subnational conflict areas (2016)



Armed groups in Myanmar's subnational conflicts (2016)



Source: World Bank (2019): Myanmar- A Systematic Country Diagnostic

Daw Aung San Suu Kyi will turn 75 in June 2020, but no one has been clearly identified as her political successor

Political transitions in Myanmar has been surrounded by uncertainties not only because of presence of military in the parliament but also because of the fact that there is no clear political successor of Daw Aung San Suu Kyi who will turn 75 years old soon. In addition, there is a concern over the capacity of the NLD government in managing the economy where key economic ministries and organizations are headed by old veteran officials and inexperienced NLD leaders. Looking ahead, this could result in a slower-than-expected structural reform momentum.

Myanmar's Key political figures



U Win Myint
President



Daw Aung San Suu Kyi
State Counsellor



U Soe Win
Union Minister for Planning, Finance and Industry



U Set Aung
Deputy Union Minister for Planning, Finance and Industry



U Than Myint
Union Minister of Commerce



U Win Khaing
Union Minister of Electricity and Energy



U Kyaw Kyaw Maung
Governor, Central Bank of Myanmar (CBM)



Senior General Min Aung Hlaing
Commander-in-Chief of the Myanmar Armed Forces

Source: Various sources compiled by Krungsri Research

Challenge 2: Price stability is not well anchored, due in part to debt monetization and supply-side shocks

Central Bank: Central Bank of Myanmar (CBM), structured as a legally independent organization the governed by the Central Bank of Myanmar Law (2013) with the mission of preserving and maintain the domestic price stability.

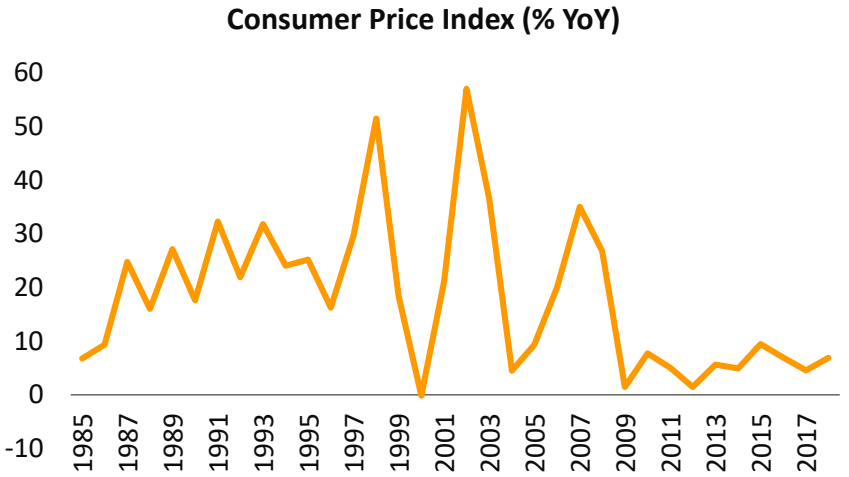
Mandate of the CBM:

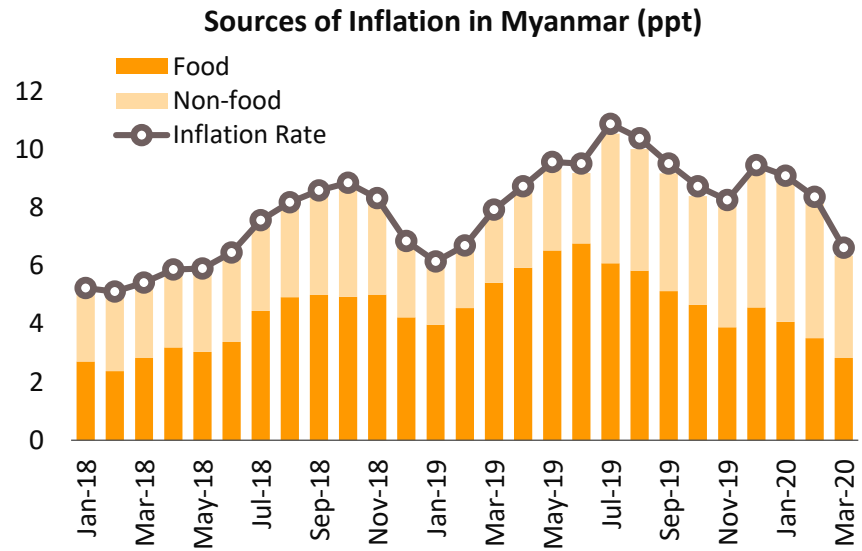
1) To promote monetary stability
2) To enhance financial system stability
3) To develop efficient payments and settlement system
4) To support the general economic policy of the Myanmar government conducive to the sustained economic development

Monetary policy framework: In an attempt to modernize its policy framework, the CBM has been exercising reserve money targeting monetary policy framework. Under this framework, reserve money is the operational target and broad money is the intermediate target. Currently, the CBM is conducting deposit auction based on moderate level of inflation. The CBM also stipulates the reserve requirement ratio for all banks in order to control the broader monetary conditions. However, due mainly to the CBM's monetization of government debts, inflation remains stubbornly high.

Exchange rate system: Managed floating system (de jure)

Banking Supervision Framework: The CBM is introducing Basel II standards and encouraging banks to clean up their balance sheets by imposing new sets of regulations which are in line with international standards.





Source: CEIC, World Bank: WDI

Exchange measures remain; currency becomes more stable

Currency: Myanmar kyat (MMK)

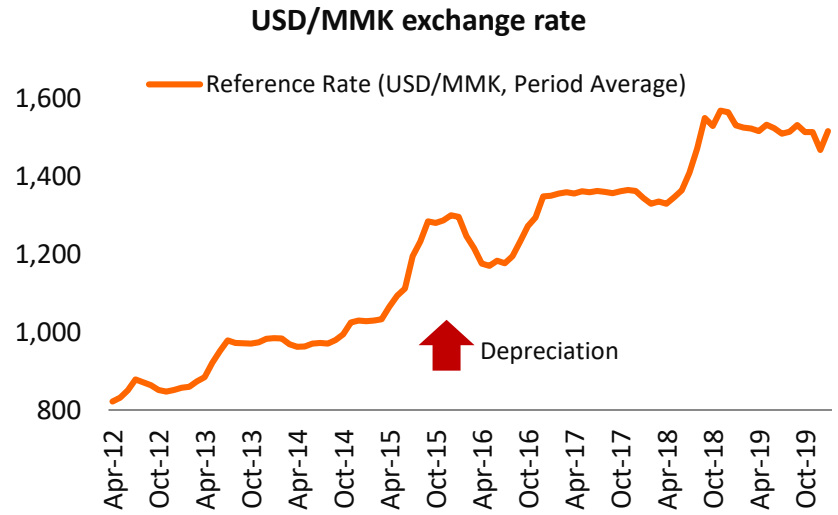
Exchange measures: Myanmar still maintained an exchange restriction and Multiple Currency Practices (MCP)

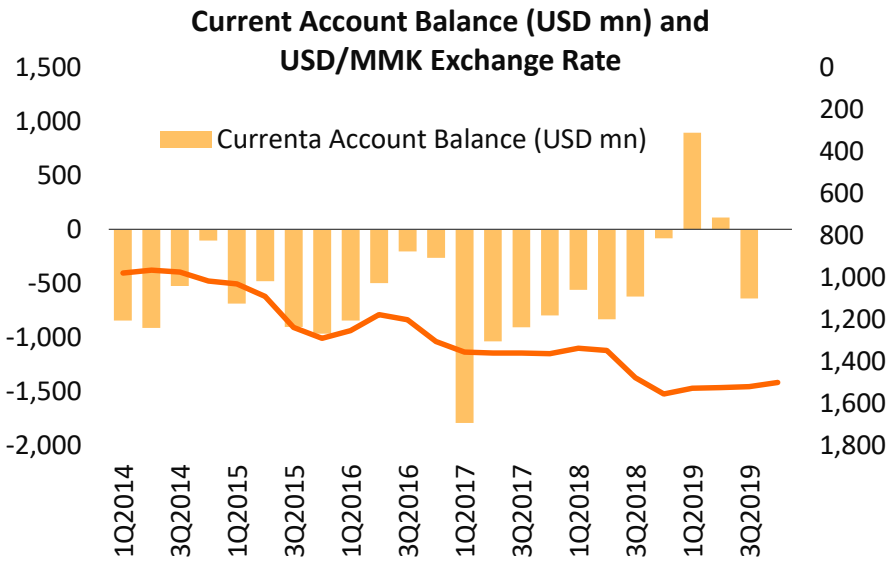
Exchange rate system: The de jure exchange rate arrangement is a managed floating system, but the de facto exchange rate arrangement is classified as a stabilized arrangement.

Reference Exchange Rate (RER): The official exchange rate is determined at the foreign exchange auctions organized by the CBM. The cutoff rate in the CBM's daily foreign exchange auction is used as the CBM reference exchange rate for that day's trading. This reference rate is used to set the midrate in the retail money changer (MC) market, in the wholesale interbank market for authorized dealers (ADs), and for foreign exchange transactions with the government.

Prescription of Currency Requirements: Eligible convertible foreign currencies are USD, euro, SGD, JPY, THB, MYR and CNY. Border trade may be conducted in euro, MMK, JPY, SGD, USD, CNY, Indian rupee (INR), THB, and Bangladesh taka (BDT).

Foreign exchange market: The spot market consists of the retail MC counters and wholesale ADs, including foreign exchange auctions organized by the CBM. Private banks licensed as MCs to buy and sell foreign exchange may transact within ±0.8% of the CBM's reference exchange rate. Customers may buy or sell in the retail market up to USD10,000 or its equivalent in Singapore dollars and euros without documentation. For larger amounts, documentation may be required.

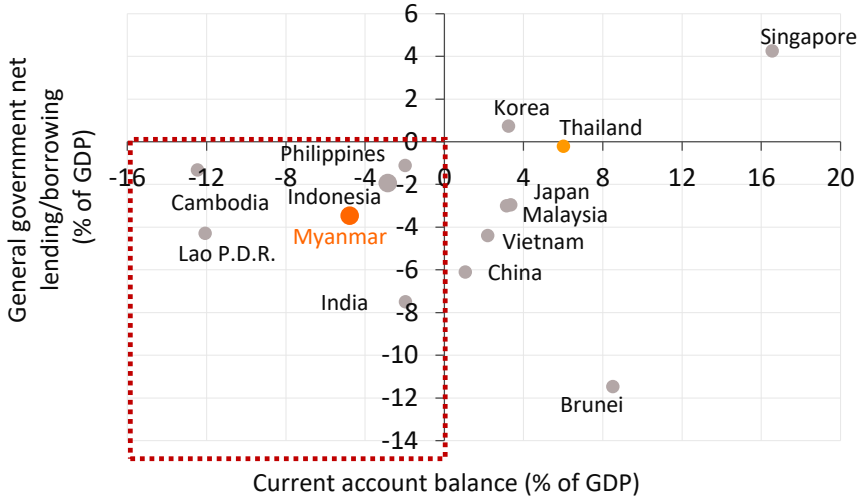




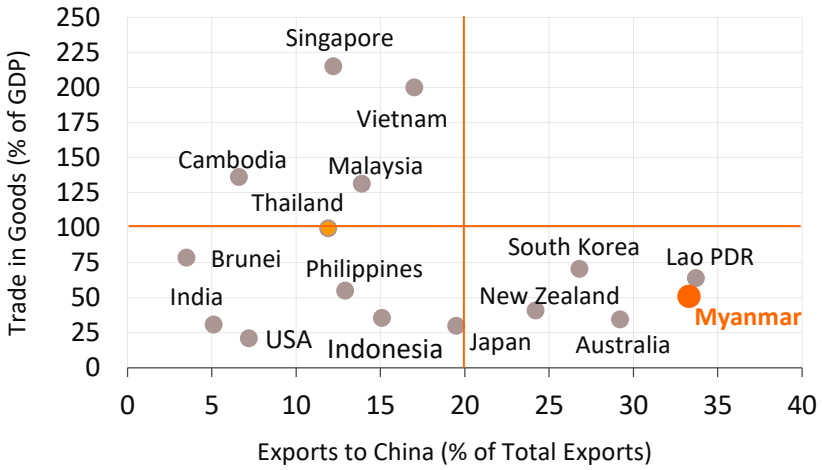
Source: IMF AREAER (2018), CBM, CEIC, Krungsri Research

Challenge 3: External stability remains vulnerable

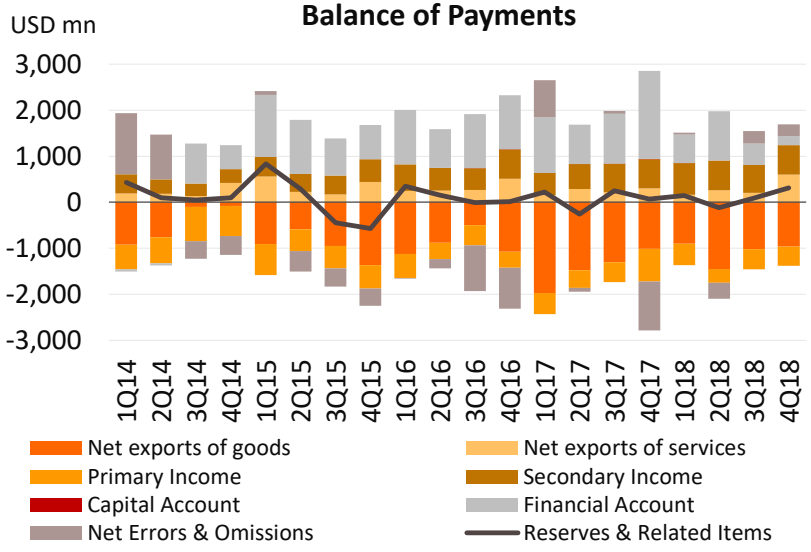
Government Budget Balance and CAB (as of 2019F)



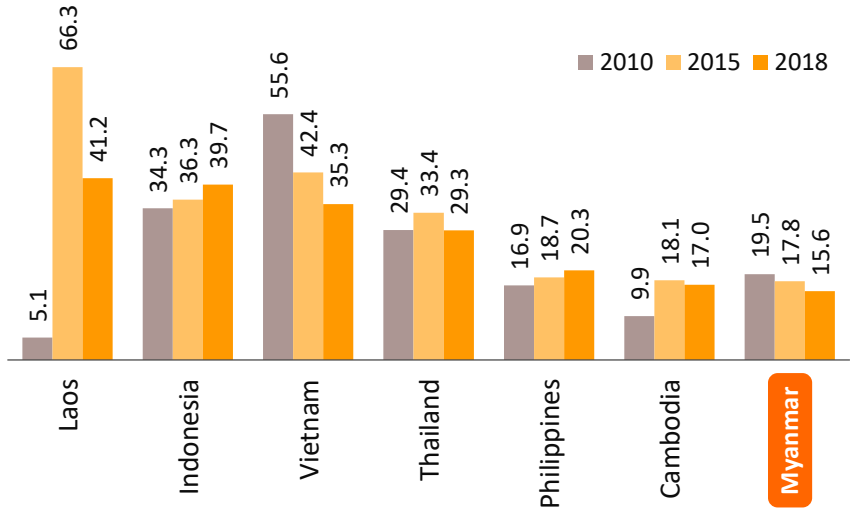
Selected Countries: Export dependence on China (2018)



Balance of Payments



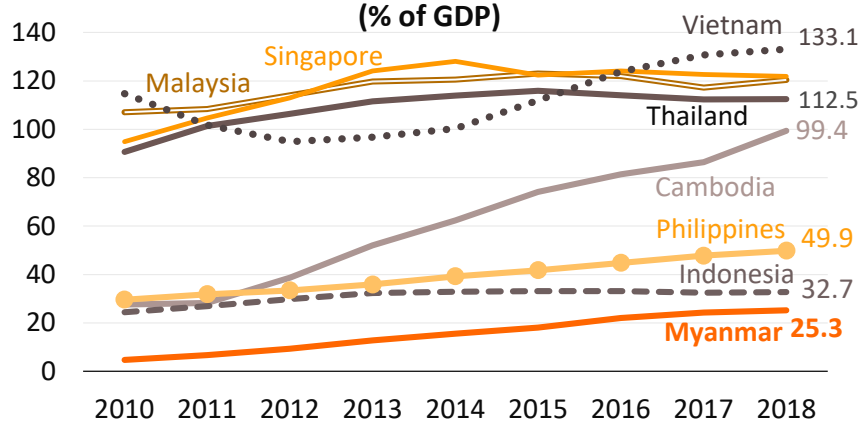
Short-term external debt (% of total reserves)



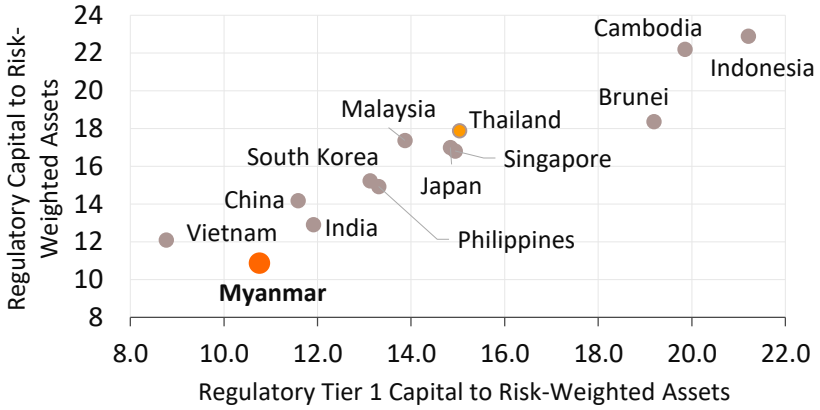
Source: CEIC, World Bank: WDI

Challenge 4: Vulnerabilities in the banking sector have not been successfully addressed

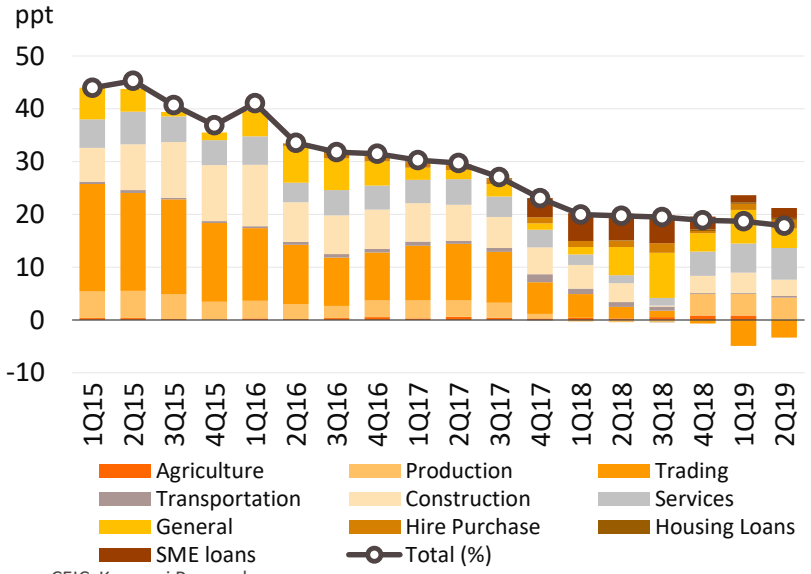
Domestic credit to private sector by banks (% of GDP)



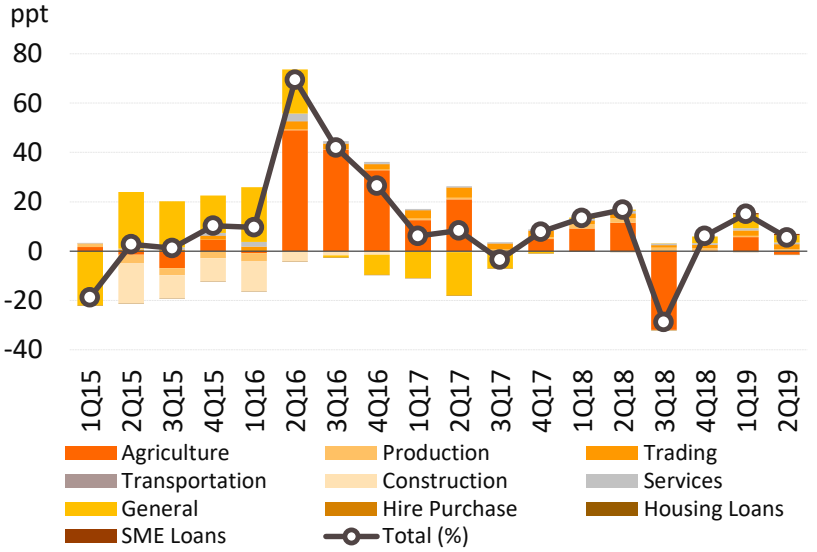
Capital Adequacy of the banking system in ASEAN+3 (2018)



Private Banks' contribution to sectoral loan growth



State-owned Banks' contribution to sectoral loan growth



Source: CEIC, Krungsri Research

Challenge 5: Power shortages/blackouts are among the top challenging management issues for foreign investors

Myanmar

Top challenging management issues	2019 Survey (%)	2018 Survey (%)
1. Power shortages or blackouts	69.2	42.3
2. Difficulty in local procurement of raw materials and parts	65.4	65.4
3. Quality of employees	56.8	57.9
4. Growing market shares of competitors (cost-wise competition)	52.2	47.5
5. Wage hike	50.0	53.4
6. Difficulty in recruiting middle management staff	50.0	41.4

Cambodia

Top challenging management issues	2019 Survey (%)	2018 Survey (%)
1. Wage hike	75.7	70.9
2. Difficulty in local procurement of raw materials and parts	70.3	54.6
3. Power shortages or blackouts	64.9	31.8
4. Difficulty in quality control	56.8	54.6
5. Quality of employees	55.0	49.4

Lao PDR

Top challenging management issues	2019 Survey (%)	2018 Survey (%)
1. Difficulty in local procurement of raw materials and parts	70.6	60.0
2. Difficulty in quality control	52.9	66.7
3. Quality of employees	50.0	56.3
4. Power shortages or blackouts	47.1	40.0
5. Complicated customs clearance and procedures	41.4	36.0

Vietnam

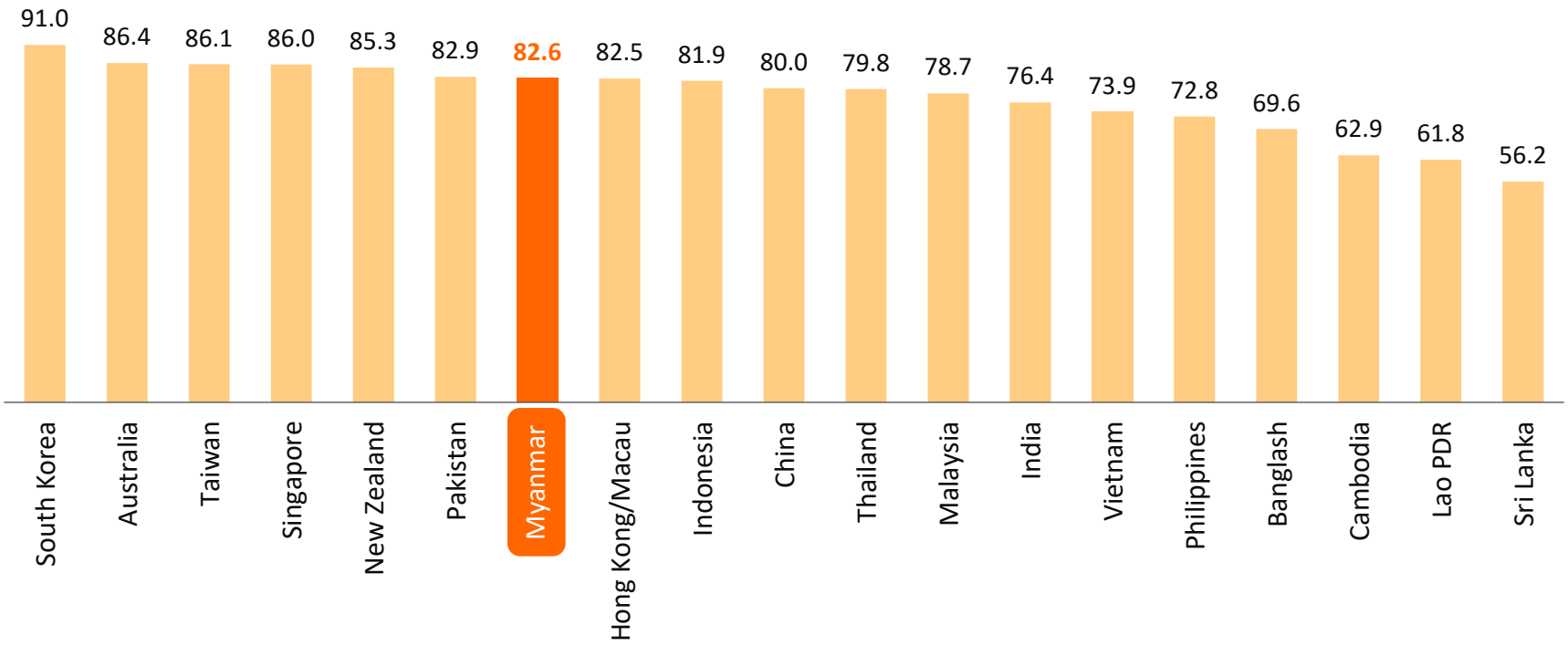
Top challenging management issues	2019 Survey (%)	2018 Survey (%)
1. Wage hike	72.0	73.0
2. Difficulty in local procurement of raw materials and parts	56.2	58.1
3. Difficulty in quality control	49.9	54.7
4. Growing market shares of competitors (cost-wise competition)	48.0	49.5
5. Complicated customs clearance procedures	42.8	45.7

Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

Cost of production in Myanmar may not be favorable compared to that of regional peers when taking quality into account

Although a low wage rate makes Myanmar looks attractive for labor-intensive manufacturing activities, costs of production may be actually higher than those of region peers, for example, when taking quality and skills of labor into account. Qualifications and skills of labor in Myanmar are among the top management issues for foreign forms in the country and international investors should have plans to address these issues.

Local production cost in comparison with production cost in Japan, (Japan = 100, by country/region)



Note: Production costs for Japanese firms operating in those countries which include the costs of all resources consumed in producing a product, such as materials, labor, and others.
Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

KRUNGSRI RESEARCH

Somprawin Manprasert, Ph.D.	**Head of Research Division and Chief Economist**
Phornphan Phoksuphat	Head of Macroeconomic and Industry Research

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research
Churailuk Pholsri	Senior Economist (Forecasting)
Soison Lohsuwannakul	Senior Economist (Regional Economy)
Sathit Talaengsatya	Senior Economist (Regional Economy)
Lookhin Varachotisate	Economist

Industry Team

Sarun Sunansathaporn	Head of Industry Research
Taned Mahattanalai	Senior Analyst (Steel, Medical Devices)
Chamadanai Marknual, Ph.D.	Senior Analyst (Construction Contractors)
Poonsuk Ninkitsaranont	Senior Analyst (Healthcare, Mobile Operators)
Piyanuch Sathapongpakdee	Senior Analyst (Transport & Logistics)
Narin Tunpaiboon	Senior Analyst (Power Generation, Modern Trade, Chemicals)
Puttachard Lunkam	Analyst (Hotels, Construction Materials, Industrial Estate)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
Patchara Klinchuanchun	Analyst (Real Estate)
Chaiwat Sowcharoensuk	Analyst (Agriculture)
Aphinya Khanunthong	Analyst (Energy, Petrochemicals)

Intelligence Team

Pimnara Hirankasi, Ph.D.	Senior Analyst
Talublugkhana Thanadhidhasuwanna	Senior Analyst (Financial Sectors)
Rachot Leingchan	Analyst
Arpakorn Nopparattayaporn	Analyst
Chutipha Klungjaturavet	Analyst

MIS and Reporting Team

Suratchanee Somprasong	Administrator
Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

Subscribe Us

For research subscription, contact
krungsri.research@krungsri.com

Disclaimer

All material presented in this report, unless specifically indicated otherwise, is under copyright to Krungsri Research. None of the material, nor its content, nor any copy of it, may be altered in anyway, transmitted to, or copied to any other party, without the prior express written permission of Krungsri Research. This document is based on public information believed to be reliable. Nevertheless, Krungsri Research would not affirm the accuracy and completeness of this information. We accept no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. Information, opinions and estimates contained in this report are our own, which are not necessarily the opinions of Bank of Ayudhya Public Company Limited and its affiliates. It reflects a judgment at its original date of publication by Krungsri Research and are subject to change without notice.