

The Belt and Road Initiative in ASEAN



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Research Methodology

The study aims to provide insights into the political, institutional, and environmental factors that affect the design and implementation of Belt and Road Initiative (BRI) projects in Myanmar, the potential for BRI investments to spur private investment and other foreign direct investment (FDI) opportunities, and any potential role for the Hong Kong SAR.

The key research questions that drove the study were:

- What changes has the BRI brought to Myanmar?
- What are the key sectors or areas experiencing growth and what are the key BRI projects?
- What factors seem to be affecting the success of the projects?
- What are the key opportunities and challenges in Myanmar?

The case study employed a mix of quantitative and qualitative data. The primary data were mostly qualitative and included a combination of in-depth interviews, informal interviews, and field notes based on observation. The primary data also included datasets and documentary evidence exclusively obtained from informants. Other quantitative data consisted of datasets

describing Myanmar's economic, environmental, and social dimensions which were used to support the analysis as well as the selection of specific projects or sectors.

Interviewees included a wide range of stakeholders such as government officials, representatives of business associations, entrepreneurs, members of civil society groups, academics and consultants both in Myanmar and in the Hong Kong SAR.

The research process involved three phases: 1) preparation, 2) fieldwork and data gathering, and then 3) data analysis and write-up. In the preparation phase researchers examined the background of the case through desktop research and identified key issues and projects. Afterwards, key topics to be explored were selected in consultation with UOB staff in the Hong Kong SAR and Myanmar. Before the fieldwork, both UOB and the researchers contacted potential interviewees to brief them on the research and inquire about their availability and willingness to partake in the project as informants. Subsequently, phase 2 consisted of two visits to Myanmar during which the researchers carried out interviews and site visits. The last stage focused on gathering the data into themes, analysing it and writing up this case report.

Highlights

- After the 2019 Belt and Road Forum for International Cooperation, the Burmese government led by Aung Sang Suu Kyi revived its support for the China Myanmar Economic Corridor. The government has created a 'Project Bank' to streamline the evaluation and approval of large infrastructure projects.



- In 2019, Myanmar was not able to attract relocating factories from the US – China trade tension due to its lack of infrastructure and skilled labour. Hence, the country remains a less saturated market for investments in capital and labour-intensive industries with medium technology requirements.

- While Myanmar lags behind other countries in Southeast Asia in the Ease of Doing Business ranking, new foreign-invested Special Economic Zones and industrial parks provide good supporting services and facilities. Government reforms are underway to attract more foreign investments to the country.

- The Hong Kong SAR is an ideal base for investing in Myanmar, as the city hosts an established and organised community of investors in manufacturing that offers supporting services.

- Mainland Chinese companies in Myanmar should prioritise establishing better communication and engagement with local community to ensure their investments do not trigger environmental or social concerns and with workers to generate better employee satisfaction and retention.

- The government of Myanmar successfully contained the spread of the pandemic until August 2020, when the largest wave of cases hit the country. While many sectors have been hit, the less wealthy segments of society have been particularly affected. Still, the country's economy will likely avoid recession. After launching its pandemic relief plan (the CERP) in April, the government is now (in late 2020) preparing and economic recovery and reform plan (the MERRP).

Background



Situated between the world's two most populous countries, China and India, Myanmar has a population of over 54 million people with 135 different ethnic groups officially recognized by the Burmese government. After the 2011-12 democratic reforms and the victory of the Aung Sang Suu Kyi-led National League for Democracy (NLD) in the 2015 general elections, the country opened its economy to foreign investments and started its transition towards democratisation.

The NLD party won an absolute majority in 2015, and while new parties have been established ahead of the upcoming elections in 2020, it still enjoys strong support.

Myanmar's longstanding diplomatic relations with China marked 70 years in 2020. The Burmese government has suspended construction of the 6,000 megawatt Myitsone dam hydropower project ostensibly because it would have irreversibly changed the course of the Irrawaddy River, a river considered the birthplace of Burmese civilisation. But Myanmar nevertheless remains supportive of China's BRI. State Counsellor Aung Sang Suu Kyi attended both Belt and Road Forums held in Beijing in 2017 and 2019. In November 2017, China's Foreign Minister Wang Yi announced the goal of developing a China-Myanmar Economic Corridor, and a memorandum of understanding with Myanmar was released in February 2018. Key sectors for collaboration include basic infrastructure, construction, manufacturing,

agriculture, transport, finance, human resources development, telecommunications, research and technology. So far, the Burmese government's priority has been to choose projects that align with the Myanmar Sustainable Development Plan (MSDP), approving only 9 of the thirty projects that China has proposed under the CMEC. Progress on implementation is sluggish, as is the progress on economic development. Institutional capacity problems associated with the fact that the country was closed for so long are a key reason. Bureaucrats are learning many things anew, but this seems difficult with the ample red tape involved in the government's administration. The strong activism of civil society improves accountability, but it also politicises many government decisions, sometimes delaying much-needed policies. Better dialogue and engagement between the government and civil groups is needed. Financing is also a major constraint, but foreign banks face regulatory barriers to bring in foreign capital.

Since opening up in 2012, Myanmar's economy has not yet experienced the booming growth analysts expected for Southeast Asia's last frontier market. Before the COVID-19 pandemic hit, the country was still warming up to foreign investment. It was still tightly constrained by regulations and a lack of supporting infrastructure. The international condemnation of human rights violations in the country has led to uncertainties in investment from Western economies, as the negotiations for

the Investment Protection Agreement between the EU and Myanmar remain suspended. In 2019, the country was forecast to be the third fastest-growing in Southeast Asia. After the pandemic struck, GDP growth forecasts shrank from 6.5% to 1.8%, but growth is expected to rebound in 2021. The driving sectors of the economy in 2019 were services (42.2%), followed by industry (31.6%). Both were severely hit by the pandemic, but agriculture (26.2%)¹ showed more resilience. The services sector includes telecommunications, tourism and travel, wholesale and retail trade, education and financial services. Industry includes garment manufacturing, oil and gas,

pharmaceuticals, agricultural processing and jade and gem mining. The agricultural sector provides 70% of employment in Myanmar.

Myanmar is rich in natural resources, including forestry, agriculture and minerals. It also has oil and gas reserves, and has hydropower and solar power development potential among the greatest in Southeast Asia. Key exports include fuels, copper, various agricultural products, as well as pearls and precious stones. The other major component of exports is manufactured goods, particularly apparel and footwear.

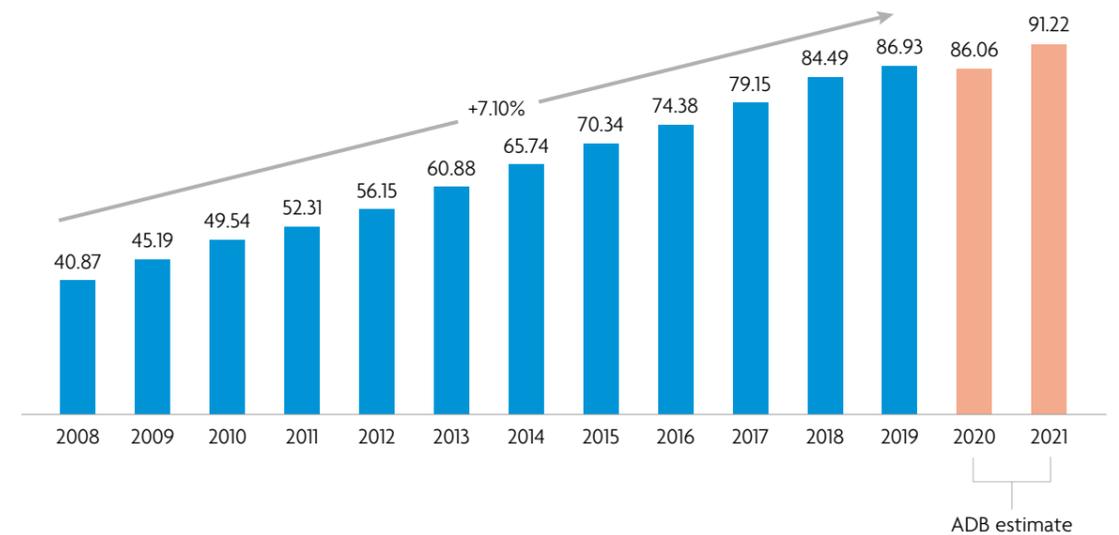


Figure 1. Myanmar Real GDP (US\$ million). Source: World Bank World Development Indicators; Asia Development Bank.

¹ World Bank, 2020. Myanmar Economic Monitor: Myanmar in the time of COVID-19. June 2020. Washington: The World Bank Group.

Chinese Trade and Investments

Before it opened up its economy in 2012, Myanmar traded mostly with neighbouring countries. Since 2013, the country has benefitted from the European Union's Generalised Scheme of Preferences and its Everything but Arms scheme, which grants unilateral duty-free,

quota-free access for Myanmar's exports to the EU. In 2019, the country's exports totalled US\$15.4 billion and its imports totalled US\$24.2 billion. Myanmar's main trading partners today are China, Singapore, Thailand, the United States, Japan, and India.

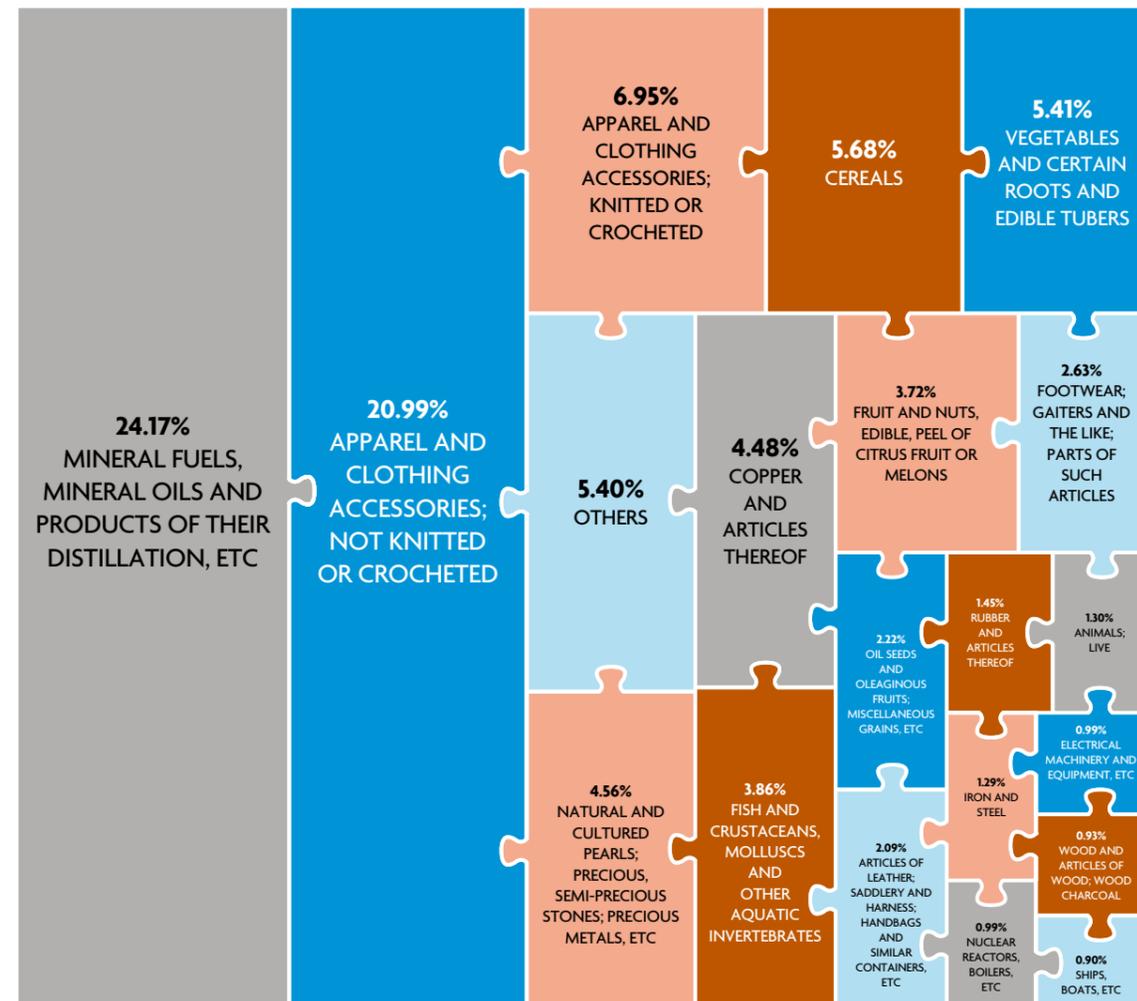


Figure 2. Myanmar's Exports to the World in 2019. Source: UN Comtrade. Classification: 2-digit HS1992 Commodities.

Due to their geographic proximity, China and Myanmar's economic ties are long-established. China is Myanmar's leading trade partner and source of FDI. In 2018, the overall trade volume between them surpassed US\$11 billion, of which half flows through the borderlands. Myanmar has 17 border trade camps, of which four are along the Chinese border. Muse is the most popular and fastest growing, but Lwejel, Chinshwehaw and Kanpikete are also relatively important.

The border areas of Myanmar are important for the nation's trade and connectivity as part of the CMEC, but they are conflict-ridden and support very significant informal and unregulated trade and investment from mainland China. Agricultural commodities flow in abundance from Myanmar into Yunnan, and China has increasingly tried to prevent such trade for protectionist reasons. However, farmers along the border rely heavily on those exports; hence, this was a primary focus issue for negotiation during the last BRI forum.

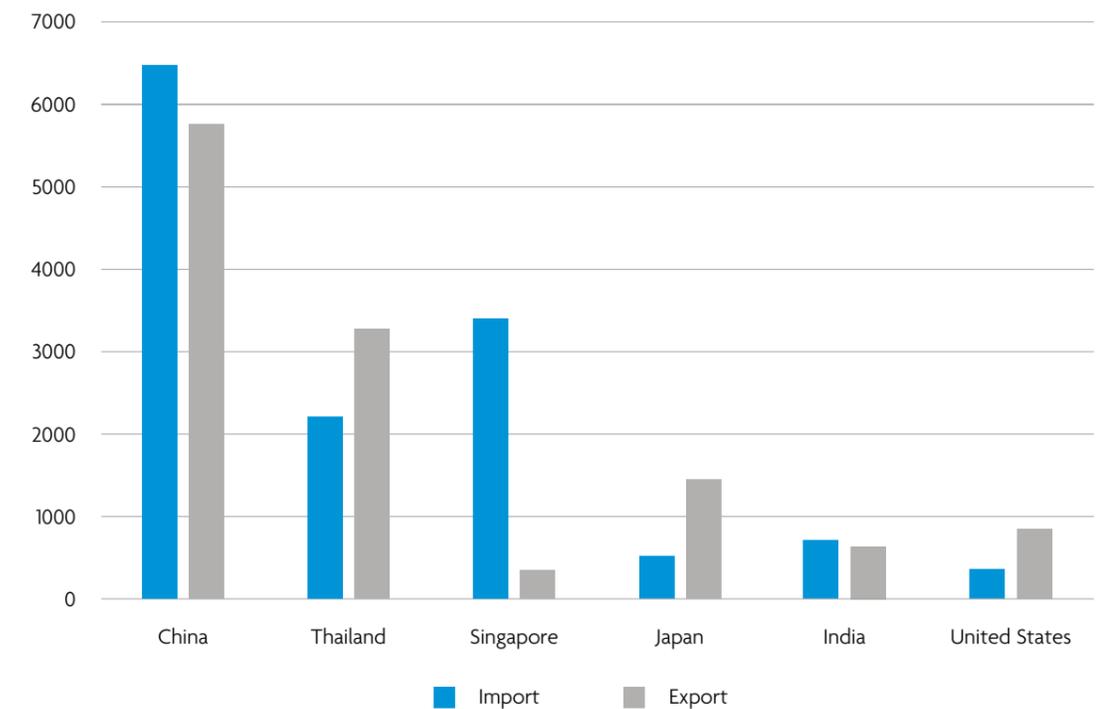


Figure 3. Myanmar Top Trading Partners in 2019. Source: CEIC Database.

The Role of Hong Kong

Increased Chinese investments in plantations are thought to be strengthening local elites and independent armies, which influences the domestic political situation. In 2019, armed groups destroyed key connecting bridges, effectively halting trade with China.² The COVID-19 pandemic has put further stress on border trade.

Mainland Chinese investments in Myanmar over the last three decades reached their peak in 2011, after President Thein Sein's government took office. In 2012 they declined due to the controversy over the US\$3.6 billion Myitsone hydropower project, which was halted by the Burmese government after large protests. Nevertheless, investment continued rising from 2014 onwards.

Data from 2018 show that after Singapore, mainland Chinese companies are the biggest investors in Myanmar, making roughly a quarter of all investments. And indeed, some of the investments from Singapore could in fact originate in mainland China.

Most Chinese investment in Myanmar has been in the energy sector, particularly in hydropower dams and in oil and gas projects. There have

also been large Chinese investments in mining and agriculture. Most of the companies investing in those sectors are state-owned, while private companies dominate investments in manufacturing and retail. Manufacturing companies are mostly in the garment industry, but there are also some producing food and tobacco products, vehicle components and electronic products. In recent years, Chinese companies have also begun entering the real estate and the financial and business services sectors.

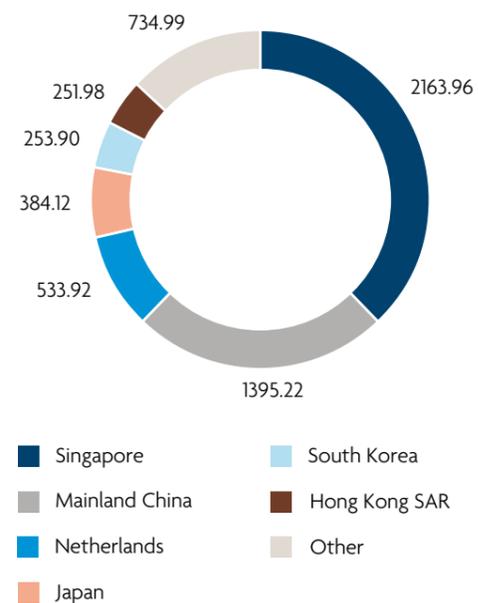


Figure 4. Foreign Investments In Myanmar 2018 (US\$ Million). Source: Central Statistical Organization, CEIC.

The Hong Kong SAR is an important trading partner for Myanmar. As of 2018, Hong Kong was the nation's fifth largest export market. Investments in Myanmar coming from Hong Kong are on the rise and accounted for over 10% of the total foreign investment in 2019. Here too, much of the investment may in fact originate from mainland China. Exports to Hong Kong included photographic and optical equipment, watches, fish and crustaceans, articles of apparel and clothing accessories and office machines. Key imports from Hong Kong include yams, textiles, telecommunication and sound recording equipment and other manufactured products.

Hong Kong investments are mostly in the manufacturing sector and Myanmar's consul in Hong Kong says his country "wants to attract more of them because of Hong Kong's numerous success stories". In 2013, the Hong Kong Myanmar Manufacturers' Association was established, and it now counts over 40 members, 80% of whom are in the garment industry. There have also been investments in the energy sector. V Power, a company part owned by CITIC, has recently undertaken four projects across the country. During the 2019 Belt and Road Summit in

Hong Kong, Co-Founder and Co-Chief Executive Lee Siu Ming said that the company believes that

“ The private sector involvement [in BRI projects] will rise and so will the importance of the role of HK as a super connector. ”

At the same event, the Minister of Investment and Foreign Economic Relations U Thaung Tun remarked "Hong Kong and Myanmar are strategically located along the Belt and Road project. The Hong Kong SAR is a major economic entrance to mainland China, a central area for logistics and is also a centre for financial services. On the other hand, Myanmar is a fast-growing country and so will cooperate with the Hong Kong SAR and with other countries along the Belt and Road project".³ In line with this, the Myanmar Sustainable Development Plan includes sectors such as finance, logistics, and industry as investment sectors for implementing the Belt and Road Initiative. In 2016, Hong Kong-based Kerry Logistics was granted a concession to build and operate a dry port between Yangon and Mandalay together with the local company Resources Group Logistics.

³ Htwe, C. M., 2019. Myanmar to collaborate with Hong Kong SAR on BRI projects. <https://www.mmmtimes.com/news/myanmar-collaborate-hong-kong-bri-projects.html>

² Htwe, C. M., 2019. Shwe Haw at standstill due to blasts. <https://www.mmmtimes.com/news/chin-shwe-haw-standstill-due-blasts.html>

An Overview of Key Belt and Road Economic Corridor Projects in Myanmar



During his visit to Myanmar in November 2017, China's Foreign Minister Wang Yi put forward the proposal to build a China-Myanmar Economic Corridor (CMEC) as part of mainland China's Belt and Road Initiative. The corridor aims to connect Yunnan Province to different parts of Myanmar, crossing the country from East to West, reaching the Bay of Bengal, and also connecting Myanmar's North with the better-developed Southern part of the country. As the executive of a leading Singaporean company has pointed out, all of the BRI's corridors aim to connect China to the rest of the world. In this sense,

“ Myanmar is the blue-eyed boy that everyone is looking at in Asia. Its unique geographical position makes us think that many opportunities will come this way. ”

“The CMEC is an ambitious project to bring much-needed infrastructure to Myanmar,” comments the Vice-Chairman of the Hong Kong Myanmar Manufacturers' Association.

“ The Myanmar government welcomes the Belt and Road Initiative. Since its establishment, Myanmar became a founding member of the Asia Infrastructure Investment Bank and signed the first BRI framework agreement in 2015 during the first international collaboration meeting. It is a very big project and Myanmar cannot stay behind in this cooperation opportunity. We must go along with it in line with our national requirements ”

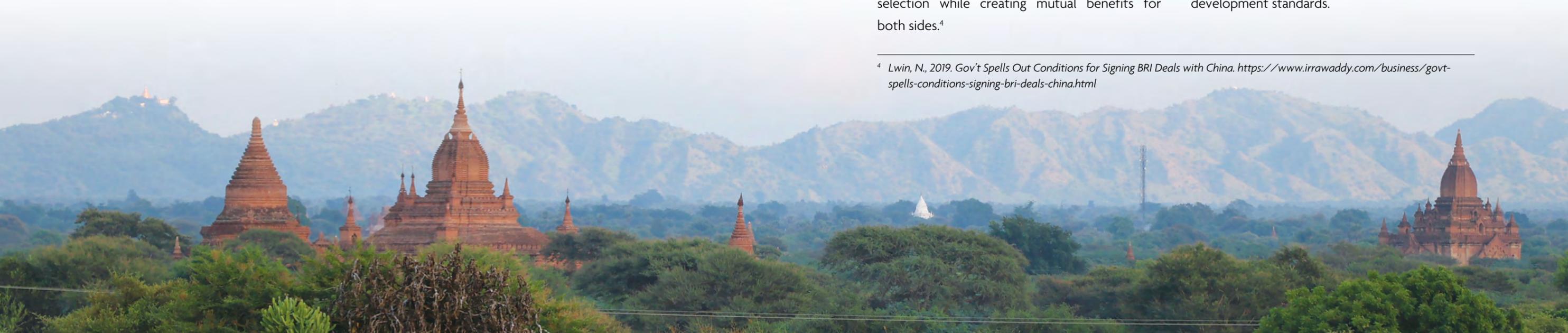
(Interview with Myanmar's consul officer in the Hong Kong SAR).

While the Myanmar government is supportive of the CMEC, and recognises the economic opportunities that the increased connectivity would bring, it is also aware of potential challenges. Firstly, being a lower middle-income country, the country is avoiding overly large infrastructural projects to prevent unsustainable sovereign debt.

Secondly, the country is striving to balance the growing Chinese influence in the country with other foreign powers, including Japan and the West, who are also engaging in infrastructure building through their official development assistance programs. During the last BRI forum for international cooperation, the Burmese government established three key points in the memorandum of understanding (MOU) for the CMEC. China must allow Myanmar to: seek financing from international financial institutions to implement the projects; invite international tenders to ensure international investment in the projects; have the ultimate say in the project selection while creating mutual benefits for both sides.⁴

As part of Myanmar's Sustainable Development Plan, the country launched a 'Project Bank' mechanism to help prioritize and screen public investments, particularly in the infrastructure sector. Any project with public participation above US\$1.3 million (MMK2 billion) is eligible. The Project Bank is an interactive, web-based platform aimed at aligning development assistance with the nation's budget allocations. It intends to increase private sector investment in infrastructure while ensuring greater transparency in project selection. The Ministry of Finance and Planning's newly-established Public-Private Partnership Centre will be responsible for evaluating projects, and the relevant government departments will be responsible for their implementation. There is also proactive talks in Myanmar to promote the “Third-party market cooperation” principle, to encourage multinational corporations (MNCs) typically from developed economies to participate in BRI projects with the purpose of broadening financing channels and raising project development standards.

⁴ Lwin, N., 2019. Gov't Spells Out Conditions for Signing BRI Deals with China. <https://www.irrawaddy.com/business/govt-spells-conditions-signing-bri-deals-china.html>



The Muse – Mandalay Railway

The first plan to build a railway connecting China with Myanmar dates from 2011 when the two countries' governments signed an MOU to build a line between Ruili and Kyaukphyu via Muse. After public opposition, the then-president suspended the project, and the agreement expired in 2014.

In October 2018, China Railway Eryuan Engineering Group (CREEG) and Myanmar Railways, two state-owned companies, signed a new memorandum of understanding agreeing to conduct a new feasibility study, wholly funded by CREEG, for a 431 kilometre line from Muse to Mandalay. The feasibility study started in January 2019 and in August 2019 it was announced that a route had been tentatively selected. The new line was proposed to have 36 stations passing through 11 townships and was projected to cost about US\$7 billion.

The government is planning to conduct consultations to discuss issues related to land compensation and job opportunities once the construction starts. The railway line will use electric trains that can run at speeds of up to 160 kilometres per hour, cutting the travel time from 15 hours on the current trains or eight by road to three hours.

It is intended that the Muse-Mandalay railway will eventually be extended to Kyaukphyu and will be supplemented by an expressway. The plan is to connect that East-West road with the Southern part of the country. A loan from Japan's International Cooperation Agency is being used to upgrade the railway line between Mandalay and Yangon and on to India and Bangladesh through a separate road running across northern Myanmar.

KEY OPPORTUNITIES

- Create much-needed nationwide connectivity that will spur economic growth in nearby villages
- Connect also with other regional infrastructure, generating more cross-border activities

KEY CHALLENGES

- Possible land compensation difficulties with villagers
- The line will pass through conflict zones where independent armed groups are active

The Kyaukphyu Deep Sea Port and Special Economic Zone

While the railway link is still in the feasibility study stage, the construction of the deep sea port to which it will eventually connect is already underway. Located in the conflict-ridden Rakhine State, Kyaukphyu has a strategic location facing the Indian Ocean and is close to offshore gas deposits. The area is already an entry point for two 480 mile (770km) pipelines which since 2013 and 2014 have transported oil and natural gas through Myanmar to China's Yunnan province.

In 2012 and 2013, the government of Myanmar initiated preliminary feasibility studies and site surveys for a Kyaukphyu Special Economic Zone (SEZ) Project, and opened international tenders for consulting on and investing in the project. A consortium led by CITIC won the tender to develop the deep sea port and SEZ. In November 2018, the Management Committee of the Kyaukphyu SEZ and CITIC Group signed a

framework agreement to implement the project in accordance with international standards to ensure its environmental, social, and financial sustainability. Two terminals of the port are under construction, and V Power, has completed the installation of 100MW gas-fired DPG station to support initial operations.

As part of the new agreement, a CITIC-led consortium of mainland Chinese companies will take 70% of the project (not 85% as initially planned). The remainder will be divided equally between Myanmar's government and a consortium of 42 Burmese companies.

Furthermore, the US\$7.5 billion project has been scaled back and divided into phases, the first of which will cost US\$1.3 billion. In 2020, the government approved the joint venture between CITIC and the government-backed Kyaukphyu Special Economic Zone Management Committee. In a statement, Chang Zhenming, Chairman of CITIC Group, claimed that the project will generate around 100,000 new jobs for locals and that he expects that in a decade Myanmar workers will fill 90% of the managerial positions. The port is predicted to bring in a total of US\$6.5 billion in tax revenue and the industrial zone \$7.8 billion over a 50-year period.⁵

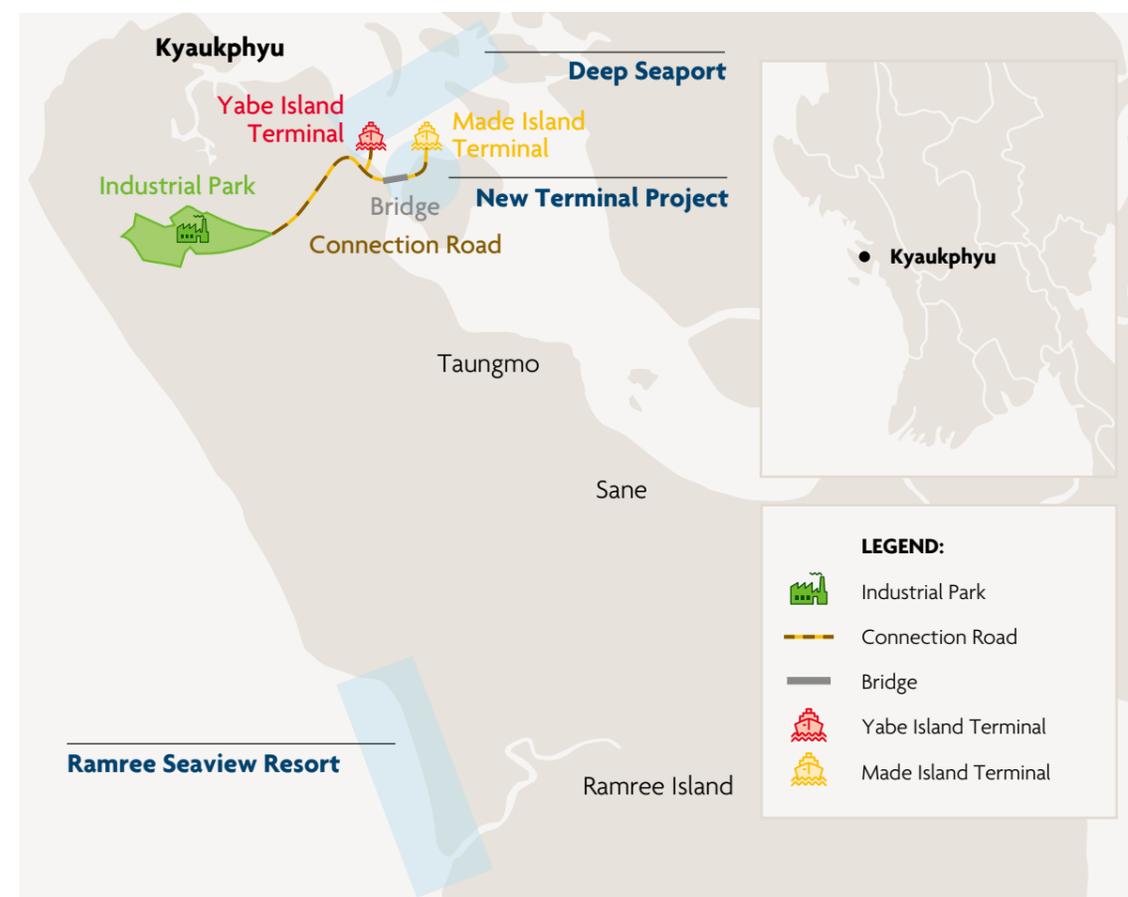


Figure 5. The Myanmar Kyaukphyu Deep Sea Port and Special Economic Zone and the Proposed Projects.

⁵ Chau, T. and Thant, H., 2018. Kyaukphyu port: What happens next? <https://www.mmimes.com/news/kyaukphyu-port-what-happens-next.html>



Key Projects along the China-Myanmar Economic Corridor

- The Corridor
- Three Border Economic Cooperation Zones
- Other Special Economic Zones under Development*
- Kyaukphyu SEZ and Deep Sea Port
- New Yangon City Development
- Planned Railway and Road
- Yangon-Mandalay Railway*
- Gas Pipeline
- Oil Pipeline

- Oil and gas pipeline stations
- Offshore gas production plant
- Gas terminal
- Deep-sea port and storage
- Oil pump station
- Off-take and pigging station
- Gas off-take station
- Oil off-take and pigging station
- Oil off-take and pigging station
- Gas off-take station
- Oil pump station
- Gas compression station
- Oil pump station
- Oil and gas metering station

* Not part of the CMEC

The SEZ will take in an area of 4,200 acres and hopes to attract industries such as oil refining and textiles. So far, Myanmar Bright Prospect International Logistics, a joint venture with Yunnan Baoshan Hengyi Industry Group and the Myanmar firm Delco involved has proposed three projects worth US\$800 million. The first is a new logistics terminal on Maday Island 10 kilometres east of Kyaukphyu to support the deep sea port project. The second is a project in Za Yet Pyin village on Ramree Island called the Sea View Beach, 40 kilometres south of Kyaukphyu District. And the third is a US\$5 million fishery in the Than Zit River.⁶

KEY OPPORTUNITIES

- Creating the first deep sea port in the country will spur trade and investment
- If inclusive, economic development may bring positive effects to local communities and lessen internecine conflict

KEY CHALLENGES

- Despite CITIC Group's commitment to Corporate Social Responsibility (CSR) and to supporting local communities, there are concerns about the loss of livelihoods for local fishermen
- Rakhine State remains an ethnically divided area with a strong and independent army group present

The New Yangon City Development

Building a new city near Yangon was originally proposed by the former Chief Minister of Yangon but planning later suspended. In 2017, the new Chief Minister announced the project would resume, and in March 2018 the New Yangon Development Company Limited was established under the Special Companies Act with initial capital of MMK10 billion (approximately US\$6.5 million) to carry out this development project as a public-private partnership. The following month, the company concluded a framework agreement with Chinese state-owned China Communications Construction Company (CCCC).

The development plan includes two phases. In the first, 88km² West of the Yangon River will be developed, including 23km² of industrial, commercial and residential space. It hopes to attract 1.2million inhabitants and create 900,000 jobs by 2050.

CCCC was initially awarded the project, which will include the construction of five village townships, two bridges, 26km of arterial roads, a 10km² industrial estate, a power plant with its transmission and distributions facilities, as well as fresh water supply and wastewater treatment plants. The second phase aims to develop a new airport, another SEZ and another deep sea port.

On 15 October 2020, the Myanmar government called for expressions of interest (EOI) of companies to compete in an open "Swiss challenge" tender process overseen by German consulting firm Roland Berger. The Ministry of Investment and Foreign Economic Relations said it has received 16 proposals of which nine qualified to compete against CCCC's proposal for the NYCD project.

Under the process, the initial development proposal by CCCC will be made public to allow these firms, which are based in places such as Singapore, France, India, and Taiwan, to offer better terms by 18 January 2021. The Swiss Challenge Tender Committee will then give CCCC

45 working days to match the winning challenger. The winning bidder, if it is not CCCC, will need to pay a reimbursement to the Chinese firm for costs incurred. Investment minister U Thuang Tun said the construction of the industrial zone will be given priority to ensure the project's commercial viability and to create jobs to mitigate the economic impact of COVID-19.⁷

KEY OPPORTUNITIES

- The project may reduce the problems of increasing congestion and high rents in Yangon
- The new city may spur investment and create new jobs



Figure 6. The Plan for the Two Phases of the Project has been Developed by Aecom Aiming for a Resilient, Intelligent, Green, and Peoplecentred City. Source: AECOM's Masterplan.

⁶ Myint, M., 2019. China-Backed Venture Proposes \$800M Development Near Kyaukphyu Seaport. <https://www.irrawaddy.com/business/china-backed-venture-proposes-800m-development-near-kyaukphyu-seaport.html>

⁷ Lwin, N., 2020. Myanmar Receives 16 Proposals for New Yangon City Project. <https://www.irrawaddy.com/news/burma/myanmar-receives-16-proposals-new-yangon-city-project.html>; Lwin, N., 2020. Nine Firms Qualify to Challenge Chinese Proposal for Myanmar's New Yangon City Project. <https://www.irrawaddy.com/news/burma/myanmar-receives-16-proposals-new-yangon-city-project.html>

Opportunities for Investments in Myanmar

KEY CHALLENGES

- Slow progress
- Concerns about the land being prone to flooding
- Concerns about a previous history of corruption and irregularities involving some of the institutions and companies involved in the project

The Three Border Economic Zones

In May 2017, during the Belt and Road Forum for International Cooperation, representatives of China and Myanmar's Ministry of Commerce signed an MOU to establish three economic cooperation zones along the country's borders. The areas will be in Kanpiketi town in Kachin State, Chinshwehaw in Shan State's Laukkai Township and Muse, also in Shan State. The area that the Chinese government wishes to prioritise is Muse, which is already the most thriving of the three, but its development presents difficulties related to an existing illegal trade in arms and drugs.⁸

The Joint Committee on China-Myanmar Border Economic Zones is responsible for overseeing the implementation of the zones. During bilateral

meetings in 2019 the governments discussed details such as the demarcation of the border, the welfare of local residents, what activities to promote in the industrial zones, land compensation and the transportation infrastructure required. The upgrading and construction of new roads in Shan State is particularly needed to improve connectivity, and that may involve Chinese construction companies. The zones will feature trade and processing areas, small and medium-sized industrial facilities, trade logistics centres, and centres for packing agricultural products to be exported to mainland China.⁹

KEY OPPORTUNITIES

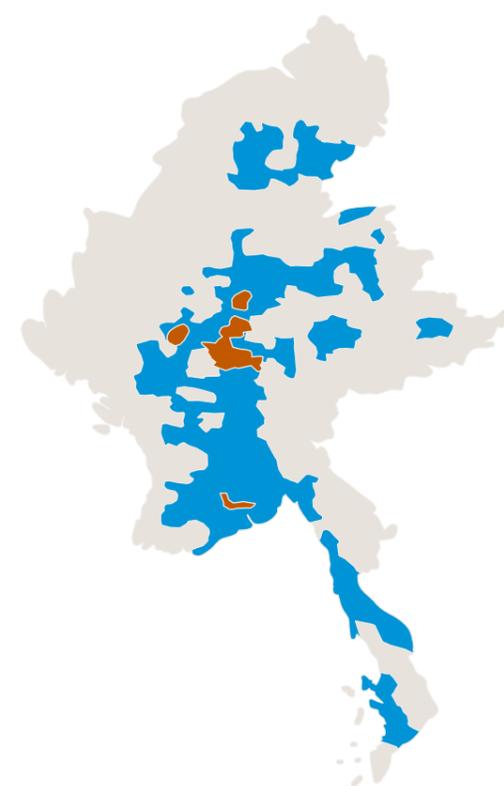
- By boosting and regulating border trade, the zones could help reduce conflict and bring stability to these regions. This would in turn enhance the logistics between mainland China and Myanmar

KEY CHALLENGES

- The zone could strengthen the economic viability of independent army groups, exacerbating the conflict between them and the Tatmadaw

⁸ Agence France-Press, 2019. On Myanmar-China border, the town of Muse overflows with guns, drugs and cash. <https://www.scmp.com/news/asia/southeast-asia/article/2184442/myanmar-china-border-town-muse-overflows-guns-drugs-and>

⁹ Lwin, N., 2019. Myanmar Set to Ink Pact with China on Border Cooperation Zones. <https://www.irrawaddy.com/news/myanmar-set-ink-pact-china-border-cooperation-zones.html>



Eligibility		
Investment Business in Promoted Sectors		
Location of Business		Tax Holiday
Zone 1	Less-Developed Zone	7 Years
Zone 2	Moderately-Developed Zone	5 Years
Zone 3	Developed Zone	3 Years

Figure 7. Development Zones. Eligibility for Tax Holidays.
Source: Myanmar Information Management Unit, 2017.

Myanmar offers among the lowest labour costs in Southeast Asia, and it has thus become a hub for light manufacturing, especially in textiles and garments. As a long time investor in the country suggests, "Being still relatively untouched and not completely open, the economy still offers plenty of opportunities." The government of Myanmar has a list of sectors in which it intends to promote investment, including in agriculture, infrastructure, manufacturing, education, tourism, health, technology, and renewable energy.

Today, investments are concentrated around Yangon, which is the nation's main economic hub. But mainland Chinese investments through the CMEC as well as other local and foreign investors' ventures are opening up new opportunities in other areas of the country. Given the current unbalanced state of development, Myanmar is providing incentives in the form of tax holidays of up to seven years to investors in the promoted sectors that invest in less-developed regions.

However, despite the incentives and opportunities for investment, Myanmar remains one of the most difficult destinations in Southeast Asia for foreign investors according to many official indexes and rankings. Investor protection is uncertain, obtaining permits is burdensome, and supporting infrastructure and skilled labour are insufficient. The proposed SEZs and industrial parks are intended to overcome these challenges. They promise to offer investors a reliable supply

of electricity, streamlined investment approval, as well as the tax holidays and other incentives. Most of these proposed are not yet operational, however. And in certain cases such as the Dawei SEZ, criticism has raised concerns about their future.

The Thilawa SEZ was born out of a request by the government of Myanmar to the government of Japan in 2011 to assist in its development. The two governments signed an MOU, started a feasibility study, and agreed to US\$2million of development

assistance, which led to the establishment of a joint venture consortium in 2014.

Currently, 107 companies from Japan, Thailand, Hong Kong SAR, Korea, Taiwan, Singapore, Europe, Australia, and the USA are located in the Thilawa SEZ. Their activities include the manufacturing of construction materials, garments, food and beverages, agricultural products, electronics and electrical parts, medical products and equipment, automobile parts, as well as services.

Name	Location	Established by	Area	Capacity	Status	Incentives & Dedicated OSS
Thilawa SEZ	Approx. 25km from Yangon	JV between Japan and Myanmar	2,400 ha	106 located, 16+300 available	In operation	Yes
Myotha Industrial Park and City	58km from Mandalay	JV between Mandalay and a private company	4,400 ha	NA	In operation	Yes
Patheingyi Industrial City	70 km from Patheingyi city	Ayeyar Hinthar	1,090 ha	NA	In construction	Yes
New Mandalay Resort City	Pyin Oo Lwin, Mandalay	Surbana Jurong	4,050 ha	NA	In construction	NA
Korea – Myanmar Industrial Complex	Approx. 10km from Yangon	Cooperation between Korea and Myanmar's government	224 ha	200 companies	In construction	NA
Dawei SEZ	31km from Dawei City	Cooperation between Thailand and Myanmar's government	19,600 ha	NA	In construction	Yes
Myanmar Singapore Industrial Park (MSIP)	Hlegu (Yangon)	Sembcorp (Singapore), Phatama Group and Myanmar Agribusiness Public Corp (Myanmar)	436 ha	NA	Approved	Yes
Sittwe New City	Sittwe waterfront	Gold Coast KTMG Myanmar (Malaysia)	2,800 ha	NA	In negotiation	NA

Figure 8. Major SEZ and Industrial Park Projects in Myanmar.

The SEZ has a dedicated One-stop Service (OSS) centre and has built a track record for the reliability of its energy supply better than the Burmese national average. The project has often been praised for its success in improving access to land, for providing utilities and for its regulatory framework favourable for investors.¹⁰

The Myotha Industrial Park City is a joint project between the Mandalay Regional Government and the Myotha Mandalay Industrial Development Public Co. It aims to start shifting industrial production towards the Mandalay area. The project is located 58 km from Mandalay City, 33.5 km from the airport and near the Semeikhon Port which connects it to Yangon and to the Northern part of the country.

Target industries include light manufacturing, high-technology and capital-intensive industries,

consumer and producer-related service industries, as well as supporting industries such as logistics, warehousing, and infrastructure. So far, Myotha hosts a range of companies from Australia, Japan, mainland China, Thailand, Vietnam, Indonesia and Egypt as well as Burmese companies. They operate in a variety of industries including automobile assembly, plywood, animal feed, food, garments, cement, metal recycling as well as real estate and retail. So far, the Yunnan-based Baoshan Group is the largest investor in the park. The group took a 20ha sub-section and has invested more than US\$390 million to bring in as many as 200 companies from mainland China.

The park also includes a large golf club and residential development. Once completed, it aims to create more than 20,000 jobs.



The One Stop Service of the Myotha Industrial Park City. Photo by: Angela Tritto

¹⁰ Htet, K. S., 2019. 'No magic bullet' behind Thilawa's success. <https://www.mmmtimes.com/news/no-magic-bullet-behind-thilawas-success.html>

Key Lessons for Mainland Chinese Investors

Services and Consultancies

Plenty of opportunities exist in the services and consultancy sector. Since the opening of Myanmar's economy, the telecommunication sector has boomed, going from less than eight out of 100 people with a mobile subscription in 2012 to over 113 in 2018.¹¹ The large population is woefully under-banked, and with the increasing internet penetration and the strong growth in private consumption, digital ventures have good opportunities.

Another sector of interest is consultancy. As an interviewee explained, "This country is not fully open yet, and we are waiting for opportunities to be unlocked. The growth is slow now, so companies coming here need to take a long-term approach. The economy is still in its infant stage of development, so there is plenty of need and opportunities for advisory services, feasibility studies, and other consultancy roles."

¹¹ World Bank data, <https://data.worldbank.org/indicator/IT.CEL.SETS.P2?locations=MM>

Despite the pandemic, Myanmar's economy today offers good growth potential with plenty of opportunities for mainland Chinese investors. Reforms underway seek to facilitate investment procedures and improve the business environment. Foreign investments are welcome and needed in order to bring new technology, increase connectivity, and improve the power supply nationwide.

Over the past few years, Chinese investments in Myanmar have encountered some challenges. This has in part been a consequence of poor oversight from their part. The Myitsone dam is an example, with the concerns over its environmental and social impact. The project started in 2009, causing the relocation of many villagers, but President Thein Sein suspended it in 2011 because of large counter-mobilisation. Similarly, Aung Sang Suu Kyi also seems weary of continuing with such a large project, especially given that most of the power generated would serve China's Southern Power Grid.

Another controversial investment has been Wanbao's copper mine in Letpadaung. The mine faced strong local opposition in 2012 and 2014. An investigation chaired by Aung Sang Suu Kyi concluded that the mine should resume work subject to certain conditions, including more engagement with the local community. These examples emphasise that mainland Chinese companies should conduct proper environmental and social assessments for their investments, starting from the communities they might affect.

The Vice President of the Myanmar Federation of Chambers of Commerce and Industry has asserted that,

“ In my opinion, Chinese investors need to understand Myanmar's present administration and its bureaucracy. If their projects are responsible investment, in line with United Nations' Sustainable Development Goals, they will be very much supported by the Myanmar government. The Chinese government should propose and introduce Chinese investors through diplomatic channels so [as] to induce more confidence in them. This would also expedite the approval of the projects. Furthermore, it is always very wise and strategic to work with strong and experienced international and local partners, rather than doing the infrastructure projects only by 100% Chinese investment. ”

Some mainland Chinese companies have made headlines due to strikes and mobilisation of their factory workers.¹² When asked about this, the owner of a Chinese manufacturing company with over twenty years' experience in the country explained that,

“ In Myanmar, investors cannot follow 100% of the policies that they apply to the Chinese factories. They need to establish a more emotional connection with their workers. Burmese people are very kind, but also proud. ”

Her company now has a very high retention rate, with 70-80% of the workforce having been employed for at least 10 years. So investors in Myanmar need to establish a good relationship with their workers through communication. This is fundamental.

¹² AFP, 2018. Myanmar Garment Workers Remain on Strike Over Abuses in Chinese-Owned Factory <https://www.rfa.org/english/news/myanmar/myanmar-garment-workers-remain-on-strike-10172018171721.html>



Special Section on COVID-19

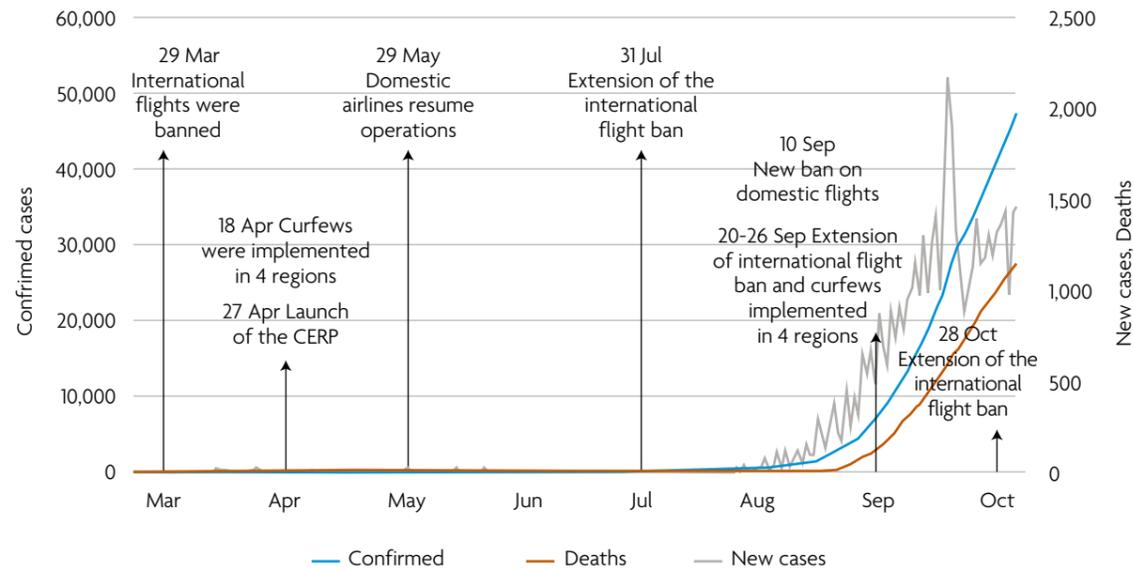


Figure 9. Myanmar COVID-19 Cases. Source: Johns Hopkins University Center for Systems Science and Engineering.

The first confirmed COVID-19 cases in Myanmar were announced on 23 March 2020. As of 4 November, there were 55,804 confirmed cases, with 1,307 deaths and 39,063 who have recovered.

The Myanmar government successfully managed to contain the virus until August, when the first large wave of new cases hit the country. The government took several precautionary measures to control and limit the risk of the virus' spreading. On 31 January, 2020 the President's Office set up a special committee to deal with the coronavirus crisis. The next day, Myanmar suspended offering visas on arrival for mainland Chinese tourists, and on 29 March the suspension was extended to all foreign nationals, banning all commercial passenger flights

into the country. On 13 March, the government banned public gatherings before the upcoming celebrations of the Thingyan festival. Subsequently, some regions implemented measures to enforce social distancing and restrict movement. On 18 April, the government implemented curfews in the regions of Yangon and Ayeyarwady and in the Nay Pyi Taw Union Territory. The government required all Myanmar factories to close for COVID-19 inspections from the 20th to the 30th of April, and only allowed them to reopen after passing an inspection. New closures were implemented in September and October with movement restricted in the Yangon, Mandalay, Bago and Ayeyarwaddy regions. Domestic travel limitations were applied until the end of November.¹³

¹³ Xinhua, 2020. Myanmar extends COVID-19 restriction until end of November. http://www.xinhuanet.com/english/2020-10/27/c_139471527.htm#:~:text=YANGON%2C%20Oct.,the%20spread%20of%20the%20virus.

Economic Impacts

The pandemic is expected to reduce Myanmar's GDP by as much as 5% in 2020 according to the ADB, but it is likely to rebound in 2021. However, unlike most countries, Myanmar is expected to escape a full-blown recession.¹⁴ The sectors of the economy that have been hit hardest are manufacturing, retail, hospitality, and transport, while agriculture has shown more resilience. Myanmar has reduced its dependence on trade in recent years compared with its neighbouring countries. Trade now accounts for 30% of GDP, as opposed to 47% in 2015, and this has spared the economy some of the negative effects of COVID-19. The pandemic has affected Myanmar's exports more severely than imports, widening its trade deficit. The fiscal deficit also is expanding due to the combined effect of declining revenue and rising relief expenditures. Foreign investment has been slow in 2020, but it is expected to pick up next year. The economic downturn may, however, have serious consequences for household welfare, as poverty levels could take until two or three years to fall back to pre-COVID-19 levels.

The pandemic has affected Myanmar's labor-intensive and consumer-related industries the most. The garment sector, which employs over 700,000 workers and creates US\$4.6 billion in export revenue, equivalent to 10% of all

exports, has taken the biggest hit.¹⁵ Mainland China supplies about 90% of the industry's raw materials, and shipments to Myanmar were suspended from January to March because of the pandemic. Meanwhile, the European Union, the main export market that accounts for 70% of the country's clothing exports, cancelled a large number of orders, resulting in the closure of factories and more than 60,000 workers being laid off across the country.¹⁶ The pandemic also affected people's consumption behaviour. Consumers have become more cautious about spending on apparel, vehicles, and jewellery. On the other hand, contactless transactions have become more popular, with a 50% increase in online shopping.¹⁷

Myanmar's tourism industry has been hard hit by pandemic-related travel restrictions. According to the World Travel & Tourism Council tourism contributed 10.3% of Myanmar's GDP (US\$8.9 billion) in 2019. International arrivals have of course dropped significantly this year due to the outbreak.¹⁸

The pandemic has also affected the progress of major infrastructure projects. In March, companies from Japan, mainland China, and Korea requested an extension of the deadline to bid on the US\$1 billion Yangon Elevated Expressway. The tender was extended to 30 April, but the Chinese company Gezhouba/Great Genesis

¹⁴ World Bank, 2020. Myanmar Economic Monitor. Myanmar in the time of COVID-19. June 2020. Washington: The World Bank Group.

¹⁵ Bharat, S.S. 2020. COVID-19 Threatens Myanmar's Economy. The Diplomat, <https://thediplomat.com/2020/04/covid-19-could-leave-myanmars-economy-in-ruins/>.

¹⁶ Thura, M., 2020. COVID-19 Leaves Over 60,000 Workers Jobless In Myanmar. Available at: <https://www.mmtimes.com/news/covid-19-leaves-over-60000-workers-jobless-myanmar.html>.

¹⁷ World Bank, 2020. Economic Monitor. Myanmar in the time of COVID-19. June 2020. Washington: The World Bank Group.

¹⁸ Lwin, N. 2020. Myanmar Unveils \$70-Million Stimulus Package To Ease Economic Blow From Virus. <https://www.irrawaddy.com/news/burma/myanmar-unveils-70-million-stimulus-package-ease-economic-blow-virus.html>.

Gems Consortium from Wuhan nevertheless Withdrew. By November the winners had not yet been announced. The start of construction is now likely to be delayed.¹⁹

The US\$8-10 billion Dawei Special Economic Zone and the US\$137.1 million Dawei-Htee Kee Road have also been delayed, but an agreement between the government of Myanmar and Thailand to build key supporting infrastructure was reached in October. The construction of five power plants tendered by the government in 2019 also has been affected. And two of the three liquefied natural

gas plants constructed by V Power that will have a total power generation of over 900MW have started operating after a few months of delay.²⁰

However, according to the Vice President of the Federation of Chambers of Commerce & Industry,

“ The COVID-19 also had some positive effects on Myanmar’s economy. Some examples are: digitalisation efforts, simpler processes and fast-track approvals in Government systems that improve the

1	Provide Monetary Stimulus	Lower banks' deposit and lending rate ceilings by 3.0% and banks minimum reserve requirements*; credit auctions;	Implemented*/ Immediate	
		Allow Central Bank to finance fiscal deficit; Reduce treasury bond/bill auction sales	End of 2020 (Fiscal deficit is implemented, but there is no information found on treasury bill auction sales.)	
2	Measures for private sector & banking	Firms	Low cost funds*, credit guarantee scheme, tax & fees deferrals and waivers*, exempt lease fees*, tax credits, loans restructuring & rescheduling*, support for farmers and agribusiness	Implemented* Before end of 2020
		Banking	Policy flexibility on prudential controls*, easy the impact of NPLs	Implemented*
		Investments	Expedite investment approval process*, expedite renewable energy projects & key infrastructure projects for entry in Project Bank, simplify procurement process, prioritize high impact public investments*	Immediate* Before end of 2020
		Trade	Trade financing, facilitate import processes*, facilitate export processes*.	Immediate*; Before end of 2020
3	Measures for laborers	Labor benefits extension*	Implemented*; Before end of 2020	
		Implement labor-intensive community infrastructure projects		
4	Measures for households	Electricity tariff exemptions	Implemented	
		Unconditional cash and in-kind transfers	Partly implemented	
		Easing of liability burden with financial inst.	Immediate	
5	Innovation measures	Promote the use of mobile payments	Immediate	
		Promotion of e-commerce		
6	Measures for healthcare	Extend and improve quarantine facilities	Immediate	
		Import of key medical products		
		Improve preventive measures		
7	Increase access to COVID-19 response financing	Budget reallocation, flexibility, and increase access to COVID-19 development finance	In process	

Figure 10. Key Measures in Myanmar COVID-19 Economic Relief Plan. Source: Eurocham Myanmar.

¹⁹ Bharat, S.S., 2020. COVID-19 Threatens Myanmar's Economy. *The Diplomat*. <https://thediplomat.com/2020/04/covid-19-could-leave-myanmars-economy-in-ruins/>

²⁰ Liu, J., 2020. Magwe gas plant starts running, VPower says. <https://www.mmtimes.com/news/magwe-gas-plant-starts-running-vpower-says.html>

ease of doing business, stimulus packages, shorter and more efficient supply and value chains, e-commerce, and new opportunities in agri-food production and export. Negative impacts are obvious in [the] hospitality sector, but we can rely on domestic tourism in the short and medium term, until foreign tourists are allowed to enter Myanmar again. ”

Policy Interventions

On 27 April 2020 the government of Myanmar launched its COVID-19 Economic Relief Plan (CERP) to support the economy. In October, after reviewing the plan's achievements, the government announced the drafting of a new Myanmar Economic Recovery and Reform Plan (MERRP) intended as a long-term policy reform.

Myanmar has received international assistance totalling US\$1.673 billion as of 18 October 2020 to support these measures, mostly from the IMF and the World Bank.²¹

China, the BRI and COVID-19

The CERP includes significant opportunities and incentives for potential investors in Myanmar. Under its Policy 2 on investments (Figure 10), the government opened in May 2020 a new tender for 30 solar projects to add 1,060MW to the grid. Private Chinese company Sungrow, state-owned China Machinery Engineering Corporation and Datang Power submitted the largest number of bids.²² To support digitalization, China and Myanmar have launched a new collaboration to

develop a system for cross-border e-commerce which will allow trade to flow smoothly even during the pandemic. As part of these efforts, Yunnan Province will provide training for e-commerce operators in the Mandalay region to promote exports of agricultural products such as rice, beef, bananas, and pineapples to mainland China.²³ In June, technicians from mainland China started construction of the Kunlong bridge to improve cross-border transportation and logistics. Online shopping in Myanmar has grown 50% during the pandemic. “However, it is still in an early stage of development. The area that has grown the most is online food and groceries. The ICT industries are moving forward with telecom operators promoting data packages and expanding investments in basic telecom infrastructure,” said ZTE's Finance Director. The status of key BRI projects is mixed. While the Muse-Mandalay railway is still under review, the government of Myanmar hired the Canadian firm HATCH in July and approved the registration of a joint venture to move ahead with the construction of the Kyaukphyu Special Economic Zone.²⁴

The pandemic has mobilised Chinese government assistance. Moreover, Chinese Chinese enterprises such as State Power Investment Corporation and Myanmar Yangtze Copper Ltd. have also provided support to Myanmar. As part of these renewed efforts, China will provide US\$6.78 million to develop 22 projects under the Mekong-Lancang cooperation initiative, which covers a wide range of sectors from agriculture to information and technology. The first two projects were launched in August seeking to enhance the food-processing capacity of local businesses through the introduction of new production technology.²⁵

²¹ ADB, 2020. Myanmar | ADB COVID-19 Policy Database. <https://covid19policy.adb.org/policy-measures/MYA>.

²² Kean, T. and Aung, H.L., 2020. Chinese companies dominate bidding for Myanmar's billion-dollar solar tender, *Frontier Myanmar*. <https://www.frontiermyanmar.net/en/chinese-companies-dominate-bidding-for-myanmars-billion-dollar-solar-tender/>

²³ Lwin, N., 2020. Myanmar, China to promote cross-border e-commerce systems. <https://www.irrawaddy.com/news/burma/myanmar-china-promote-cross-border-e-commerce-systems.html>

²⁴ Lwin, N., 2020. China's Strategic Port Project Moves Step Closer to Reality as Myanmar OKs Joint Venture. *The Irrawaddy*, <https://www.irrawaddy.com/news/burma/chinas-strategic-port-project-moves-step-closer-reality-myanmar-oks-joint-venture.html>.

²⁵ Embassy of China in Myanmar, 2020. Myanmar's first batch of Lancang-Mekong cooperation projects launched in 2020. <http://mm.china-embassy.org/chn/sgxw/t1807725.htm>

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United Overseas Bank (UOB) is a leading bank in Asia with a global network of more than 500 offices in 19 countries and territories in Asia Pacific, Europe and North America. Since its incorporation in 1935, UOB has grown organically and through a series of strategic acquisitions. UOB is rated among the world's top banks: Aa1 by Moody's Investors Service and AA- by both S&P Global Ratings and Fitch Ratings. In Asia, UOB operates through its head office in Singapore and banking subsidiaries in China, Indonesia, Malaysia, Thailand and Vietnam, as well as branches and representative offices across the region.

Over more than eight decades, generations of UOB employees have carried through the entrepreneurial spirit, the focus on long-term value creation and an unwavering commitment to do what is right for our customers and our colleagues.

We believe in being a responsible financial services provider and we are committed to making a difference in the lives of our stakeholders and in the communities in which we operate. Just as we are dedicated to helping our customers manage their finances wisely and grow their businesses, UOB is steadfast in our support of social development, particularly in the areas of art, children and education.

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