

Myanmar's Huge Potential

South-East Asia is the new battleground for the U.S.-China rivalry and it'll have significant implications for investors in the region. China has badly dropped the ball on the diplomatic front, overplaying its hand in Myanmar and flexing its muscles over disputed islands with Japan and the Philippines. The U.S. has stepped into the breach, culminating in the visit by Barack Obama to South-East Asia over the past week. In this week's issue, I'll focus on Myanmar and how China's loss will not only benefit the U.S. but the likes of Thailand and India. Thailand is the best way to play Myanmar's enormous upside.

Why China Has Egg On Its Face

Famed investor, Jim Rodgers has said if he could put all of his money in Myanmar, he would. A big call, and no doubt overstated, but it's not hard to see why Myanmar is one of the world's hottest investment spots. Ravaged by decades of dictatorship and war, the country is finally opening up to the outside world. The richest nation in Asia in the 1960s, Myanmar is now among the region's poorest. With its immense natural resources, sizable population of 64 million and access to key trade routes, Myanmar has all of the ingredients for a tremendous turnaround story.

To understand the potential opportunities though, it's important to appreciate the context to Myanmar's moves towards reform. One of the key reasons for the recent changes is widespread dis-satisfaction with China's exploitation of the country's resources.

China has been Myanmar's chief benefactor in recent decades. In turn, it's had unlimited access to the country's natural resources. With Western economic sanctions in place since the 1990s, China's had virtually free rein in Myanmar. This resulted in China being Myanmar's largest foreign investor, accounting for 70% of investments and 30% of imports.

China seemingly solid relationship with Myanmar abruptly changed though with the government's suspension of Myitsone, a US\$3.6 billion Chinese-led hydroelectric dam, in September last year. It was the largest dam of several that the Chinese were building on the Irrawaddy river in Kahsin 90% of the energy generated from the dam was destined for the neighboring Yunnan province in China.

The project provoked uproar among Burmese as it meant displacing villagers and flooding land to make way for the dam. More than 1,000 people had already been displaced by that time and another 9,000 would have been forced to leave their homes by the project's end. All for seemingly little benefit to locals, as most of the electricity was earmarked for China. In the eyes of Burmese, Myitsone came to symbolize all that was wrong with the resource-hungry Chinese.

The Myanmar government defended its decision, citing NGO concerns about the impact of the dam on the environment and local people. Meanwhile, the Chinese were reportedly shocked by the move as they had no inkling that it was coming.

It's clear the dam's suspension was the culmination of long-held grievances towards China. And it's also clear that China outlasted its welcome in Myanmar, seemingly deaf to the simmering resentment towards it.

It could come at a tremendous cost to China if Myanmar rediscovers only a fraction of its potential. While China will still undoubtedly benefit from Myanmar's possible rise, the spoils will now be shared among several countries, including arch-rival, the U.S.

Enter the U.S.

Like all good politicians, Barack Obama likes his lofty prose and claiming credit for things that may not be wholly his doing. So it was on his visit to Myanmar, marking the first trip to the country by a sitting American President. In a speech delivered at the University of Yangon, Obama said: "So today, I have come to keep my promise and to extend the hand of friendship. The flickers of progress that we have seen must not be extinguished – they must become a shining north star for all of the nation's people."

But credit where it's due, Obama has played his hand beautifully in Myanmar. Whereas China has emphatically blundered, the U.S. has taken advantage of the opportunity presented.

And they've moved quickly. Ever since 1988, the U.S. had imposed sanctions on Myanmar, in response to the country's military junta cracking down on peaceful protests then, killing thousands. Things only began to change after President Thein Sein took office in March last year.

As the government released political prisoners, signed ceasefires with ethnic rebels and held elections that saw Opposition leader, Aung San Suu Kiy, take a seat in Parliament, the U.S. has normalized diplomatic relations and suspended most sanctions.

The U.S. Myanmar strategy is part of a broader goal of moving foreign policy more towards East Asia and away from areas such as the Middle East (until the current Israeli-Palestinian fight broke out!) The goal is to increase American economic interests in the region and quell those of China. The strategy is well-known in American foreign policy circles but less well-known in Asia, particularly among the investor community.

It's also interesting to note that this comes amid Obama's increasingly skeptical view of China. NY Times did a fascinating piece recently on Obama's journey to taking a tougher line on China. And I don't think it's by accident that *The New York Times* itself has run negative articles on China on an almost daily basis over the past two months. It's pretty obvious where the newspaper is getting its [information from...](#)

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The U.S. knows the potential gold mine that Myanmar offers. Consider some of these facts about Myanmar:

- ✔ It's the second largest country in South-East Asia.
- ✔ It has abundant natural gas reserves, the world's 37th largest.
- ✔ Natural gas exported from Myanmar accounts for around 30% of Thailand's total consumption, mostly used in power generation.
- ✔ It produces 90% of the world's rubies.
- ✔ It's the leading producer of jadeite, the most expensive form of jade.
- ✔ Production of coal, at 1.5 million short tonnes, ranks 42nd in the world.
- ✔ It's the largest export of timber in Indochina.
- ✔ Myanmar's total GDP of US\$52 billion is just 15% of that of neighboring Thailand.
- ✔ Its GDP per capita of US\$1,300 is the world's 13th lowest, behind North Korea and Kenya but just in front of Rwanda and Ethiopia.
- ✔ It reputedly only has about 80 ATM machines across the country, a vastly underdeveloped financial infrastructure.
- ✔ Its wireless penetration rate is only 4% vs Thailand's 102%.
- ✔ Myanmar has a cheap manufacturing labor force, with wages at 61% of Hanoi in Vietnam and 83% of Phnom Penh in Cambodia, according to the Japanese External Trade Organisation.
- ✔ Three out of four people in Myanmar live with no electricity.

To appreciate the full potential of Myanmar though, you must have an understanding of how it could unleash trade routes in all directions.

Myanmar is strategically located on the Bay of Bengal, where China and India's spheres of influence intersect. As Myanmar liberalizes, China has much to gain. To reduce its reliance on the Strait of Malacca,

where 80% of its crude oil imports passes through, it's building pipelines to connect Myanmar to Kunming in China's southern province. There's also a proposed high-speed rail line along this route.

India also has much to gain. Myanmar's renewal could well open up India's land-locked north-east, which has suffered from a bad location and under-development. India's is constructing an energy terminal on Myanmar's coast to carry offshore natural gas north-west through Bangladesh to the state of West Bengal. The possible revival of India's north-east would also stem the flow of economic refugees into the likes of Kolkata and West Bengal. This has been a perennial Indian problem.

Thailand is another key beneficiary from Myanmar's rise. It's the second largest investor in Myanmar behind China. At the recent Asean summit, Thailand and Myanmar agreed to complete a US\$50 billion Dawei special economic zone project which will link Dawei in southern Myanmar with the Thai border. There are plans for the construction of roads, a deep-sea port, power stations, telecommunications, sewerage systems and express trains.

All of this though is not to discount the many challenges that Myanmar has to overcome, including:

- ✔ Political reform has a long way to go. The big test will be the 2015 elections when the current President has said he will step down. If Suu Kyi takes power, it would signal that military rule is over. But whether this happens and happens peacefully is another matter.
- ✔ All major institutions are military dominated. Any new institutions would have to be designed from scratch.
- ✔ Regional and ethnic tensions are the biggest concern. Myanmar has 135 ethnic groups, many with their own languages and armies. Several ethnic minority groups in the hill areas around the Irrawaddy Valley have been battling the Burmese-led army since the early part of the Cold War. There needs to be some sort of compromise with these minorities.
- ✔ Economic reform is clashing with the endemic corruption at the local level. Continued reform will require considerable government willpower.

How to Profit from It

Ok, you're saying by now, I get it: the U.S. and China are battling it out for influence in South-East Asia and will pore plenty of money into the region to promote their interests. But how can I make some money out of this?

Investing directly into Myanmar-base companies is difficult as the country obviously doesn't have its own stock exchange. And there are few companies with Myanmar exposure listed elsewhere. The main one that I know of, Yoma Strategic, a Myanmar real estate company listed in Singapore, has gone up multiple times already this year and looks expensive.

Thailand is your best bet. It's political situation has established and there are some fantastic companies there, many of whom are looking at significant investments into Myanmar. Leading television broadcaster, BEC World, has signed a joint venture agreement to enter the Myanmar free-to-air TV market. Industrial park developer, Amata Corporation, is likely to be involved in the Dawei special economic zone project. And Italian-Thai Development Company is the lead contractor in that Dawei project. These are a few examples.

The more industrious investors might look to companies with exposure to Kunming in China and north-east India. For instance, Hong Kong-listed real estate developer Shui On Land has significant land bank in Kunming, totaling 2.5 million sqm at last count.

To know more about these opportunities [ONLINE VERSION Myanmar Investment Summit](#)