

How Covid-19 Will Change Myanmar

August 30, 2020



The coronavirus pandemic has led the people of Myanmar to reflect seriously on their country's future. With the recent addition of 200 internal and imported transmission cases of Covid-19, a second-wave outbreak in Rakhine is now an imminent threat and significant obstacle to enhancing Myanmar's welfare. However, the government and the business community are united in their pursuit of prosperity as they aspire to meet international standards and explore ways to grow the economy, trade and businesses in the "new normal." **Across Myanmar's social strata, people are embracing innovation and adapting to change with one common goal for the future: the need for better education, comprehensive healthcare and expanded wealth.**

After the health and pharmaceutical industries, food security ranks among the government's foremost concerns, and it is acutely aware that shortages may lead to the destabilization of society. As such, the government has targeted the agriculture sector as a key pillar for longer-term economic recovery. It continues to work on comprehensive improvements in transport, communications, energy and electric power to meet future demands. Key reformists in the government pledged they will be more attuned to foreign companies' needs, guide compliance with new policies and offer incentives for foreign businesses. Covid-19 has galvanized public-private partnership (PPP) brainstorming efforts to attract more foreign direct investment (FDI), expand into new markets, diversify supply chains to increase trade, and energize fintech and e-commerce to propel Myanmar into the digital age.



State Counsellor Aung San Suu Kyi

The political risk of doing business in Myanmar depends on the results of the upcoming November 8, 2020 general elections. The 2008 constitution guaranteed the military control of 25 percent of parliamentary seats and it contains provisions that provide ultimate power to the military commander-in-chief. If the National League for Democracy (NLD) **does not retain** a significant majority of seats, any legislation by Parliament could potentially be for and in the interest of the military. Eventually, it could pull the country back toward a dictatorship.

State Counsellor Aung San Suu Kyi recently made public, a signed written statement about a 2004 incident known as "Depeyin" which described how the military made a premeditated attempt to assassinate her. This has been followed by sharing of candid experiences about how life was and could be again under military rule.

Meanwhile, the NLD has regained the people's trust in its handling of Covid-19 and is appreciated for addressing critical political challenges regarding the military and the country's ethnic nationalities. Covid-19 has brought an unprecedented level of collaboration among different stakeholders, with expectations that Myanmar may overcome the 70 year- civil war with the armed ethnic groups along the



border and usher in a period of peace and national reconciliation, and conclude a dark chapter of the country's history.

If you have any questions or comments, please contact BGA Myanmar Acting Managing Director Judy Kim at jko@bowergroupasia.com.

Best Regards,

BGA Myanmar Team

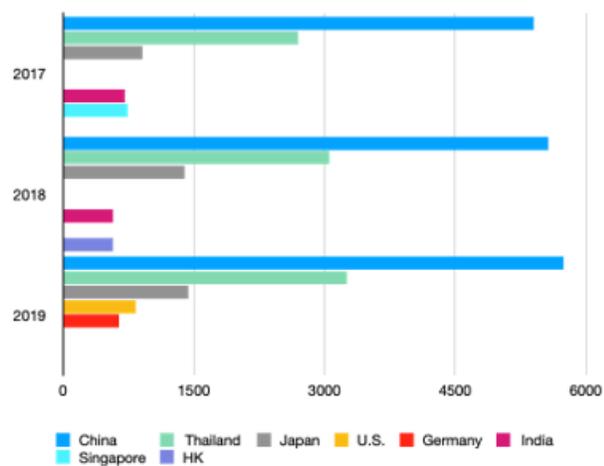
Economy

Economic Outlook and Opportunities

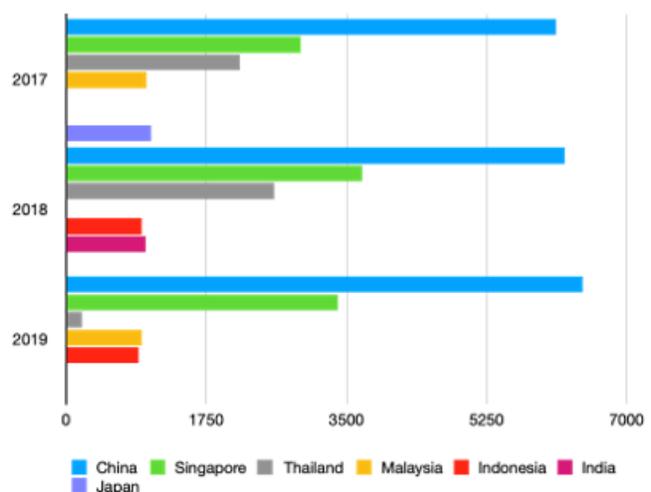
According to the Asia Development Bank (ADB), Myanmar is one of three ASEAN countries projected to see positive economic growth — 1.8 percent — in the remainder of FY 2020 and rebound to 6 percent in FY 2021. As a lower-middle income country with a GDP per capita of \$1,400, the rise in unemployment from Covid-19 is the most threatening problem facing a large portion of the population. To mitigate the impact on the 200,000 domestic and migrant workers who lost their jobs in May and provide for long-term job stability, the 14 states and regional governments are working together to create job opportunities in labor-intensive investment projects. With assistance from international financial institutions, the government launched the Covid-19 Economic Relief Plan (CERP) and the longer-term Myanmar Sustainable Development Plan-MSDP (2018-2030), which have become key in supporting the country's economic development. Moreover, Covid-19 has led to greater dependence on the digital sector, and government and business are looking to e-commerce, fin-tech and e-government as economic bulwarks and springboards to sustainable growth.

On August 6, the government added 71 new projects to the online investment facilitation

Myanmar: Exports by Country 2017-2019 (USD millions)



Myanmar: Imports by Country 2017-2019 (USD millions)





platform, a project bank cataloging different kinds and sizes of power-supply projects across the country. The government said it has met its goal for 2020 in electricity supply and is confident it will meet future needs by 2030. To create an enabling business environment, the government is also working hard to improve its ranking in the World Bank's Ease of Doing Business index. In the 2020 report, Myanmar has improved its ranking by six places - from 171 to 165.

Pharmaceutical, Medical Supplies and Equipment

The spread of Covid-19 has pushed Myanmar to strengthen its weak health sector and pharmaceutical industry and increase its medical and laboratory supplies and equipment. The Ministry of Commerce waived import license fees for all FDA-approved medicines and raw materials for the pharmaceutical industry during this time of need. The government also approved MMK 278 billion (\$205 million) to procure pharmaceutical products for fiscal year 2020-2021 in addition to \$50 million in loans from the World Bank to upgrade intensive care units in 61 hospitals across the country. Starting this October, the Ministry of Health and Sports will invite more bids for essential pharmaceuticals and medical devices. The government has prioritized investment in pharmaceutical and medical equipment manufacturing, and it is offering incentives such as vacant state-owned factories to potential investors.

Agriculture

The government is eyeing the agriculture sector as a major driver to revive the country's economy, and the World Bank has approved \$200 million in loans to support agricultural development. Constituting the largest employment sector in the country totaling around two-thirds of the rural workforce, agriculture will figure prominently in the government's longer-term economic strategy. Many different levels of the society are directly or indirectly involved in agriculture-related activities. The government is inviting the support of foreign firms and experts to draft effective policies, acquire technical assistance and foster strategic collaboration among key stakeholders. The growth potential for agro-based businesses is both extraordinary and achievable to help meet future demand for Myanmar's supply chain needs. Growth in the sector will assuage the rising concerns for food security following disruptions in the food supply chain from Covid-19.

The Ministry of Agriculture, Livestock and Fisheries is coordinating with the Myanmar Rice Federation to assist farmers to take out loans, sell directly to stores, provide employment, secure the supply chain and maximize market opportunities for food products. The government is also offering access to agricultural land depending on the investor's proposed project, because its produce is a major export product with the potential to earn \$1 billion over the next fiscal year.





Amid the pandemic, Myanmar’s agricultural exports earned \$500 million more than over the same period in the previous year.

Foreign Direct Investments, Major Source of Income

Attracting FDI is a major challenge for boosting Myanmar’s economy. However, the disruptions caused by Covid-19 have not stopped the government from achieving its FDI target of \$5.8 billion for 2020. The government now welcomes foreign investors with the best practices in doing business. Relevant ministries pledged to U.S. and other global companies that they will remove any antiquated laws, rules and regulations that impede investment, and they will provide various incentives including the selling and leasing of land, which has been a controversial issue in past recent years.

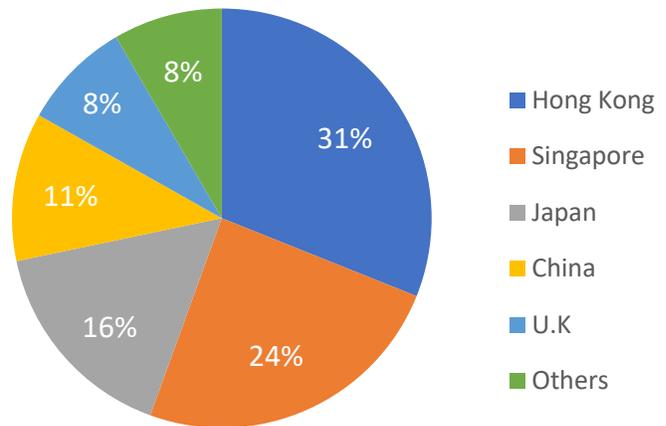


Figure: Foreign Investors in Myanmar (FY 2019-2020)
Source: Directorate of Investment and Company Administration (DICA)

As of June 2020, Myanmar has approved \$ 4.3 billion worth of foreign investment. The top investors are shown in this figure.

Digital Transformation Driven by Growth in E-Commerce Activities

The 30 percent rise in internet traffic after the Covid-19 outbreak is a promising sign for the potential of Myanmar’s digital economy. Therefore, digital technology will form a core pillar of Myanmar’s post-Covid-19 economic growth strategy. Some key developments that are likely to be implemented by the end of 2021 are of a national payment system (NPS) and the launching of e-commerce operation guidelines and e-commerce strategies. E-commerce activities and digital payment transactions have spiked significantly during the Covid-19 crisis. To capture this opportunity, **the government has already initiated a plan to encourage cashless payments and to bring online shops** — mostly micro- and small-scale — into the formal sector by 2021. However, key players must continue to develop a comprehensive policy, legal framework and appropriate infrastructure, which are still missing. The government’s goal is to complete at least 30 percent of the transition to e-government by 2025.

Infrastructure Projects

During the Covid-19 pandemic, Myanmar has focused on generating more electricity to meet rising demand. The largest-ever tender for renewable energy from 30 solar projects, ranging from 30 to 50 MW, is a boon to Myanmar’s renewable energy initiative; it will add to the electrical grid and meet 54 percent of the government’s target of a 57 percent increase. According to the minister of electricity and energy, output will double within a year or two, laying a solid foundation for sustainable development. It would generate a total of 1,060 MW by independent power producers and on a Build-Operate-Own



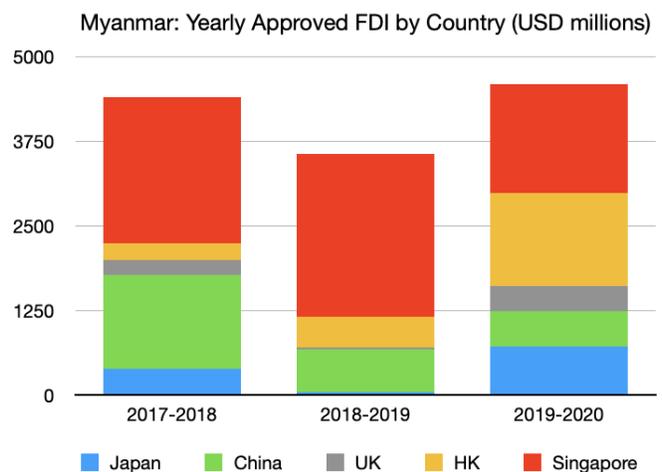
basis. Chinese companies participated in 85 out of 155 bids; others came from Thailand, Europe, the United States and Japan.

The Ministry of Electricity and Energy (MOEE) has signed the following:

- In June, three five-year power purchase agreements (PPA) with a consortium of Chinese companies for the purchase of electricity from Myanmar’s first three LNG power plants with a combined installed capacity of around 1,000 MW.
- In July, Sumitomo Corp, Marubeni and Mitsui & Co signed a notice to proceed, an agreement with the government to build a 1,250 MW LNG power plant in Thilawa. These power plants, when in full operation, will help ensure a stable and reliable power supply to the country’s first special economic zone and the city of Yangon, where several new projects will come online within the next decade. With the expansion of LNG to power plants, Myanmar is likely to see major developments in LNG import infrastructure by 2025.

The Japanese projects have components that will need U.S. technology, expertise and are required to use U.S. products such as spare parts and other downstream products.

Recently, the government approved the development of two new international ports in the Ayeyarwady region and Mon State for foreign investors. Of the nine existing ports along the coast, 90 percent of the international maritime trade operates from the Yangon International Port. Thilawa International Port and International Bulk Terminal Thilawa (IBTT) opened in September 2019, offers bulk terminals with a capacity of more than one million metric tonnes to improve the competitiveness of Myanmar’s supply chain.



The NLD-led Parliament approved a \$483.8 million loan from the ADB in early August to construct a new 62-kilometer Bagon Region-Kyaikto stretch in the Mon State Expressway Project, part of the East West Economic Corridor (EWEC) linking Da Nang port in Vietnam with Thilawa port in Myanmar. This access-controlled expressway will become an important trading route for Myanmar, Laos, Cambodia and Vietnam once it is completed in 2027. This project is part of CERP and will be implemented in 2021. Notably, one of the CERP plans is to fast-track large private pipeline investment from reputable international firms, which is currently experiencing delays.

Society

No-One-Left-Behind Approach To Fight Against Covid-19

The international community and the people of Myanmar have applauded the government for its thorough response in addressing the Covid-19 pandemic. The increase in public trust of the government



is apparent. The government's no-one-left-behind approach, coupled with the support and participation of the whole nation, managed to shield the country from the crisis. Myanmar has seen fewer deaths than many other countries in the region, but the pandemic's impact on trade and the economy has been devastating. After two months with almost no cases of local Covid transmission, the first locally transmitted case was identified in Rakhine's capital, Sittwe, on August 16. Within a week, Myanmar had recorded over 180 cases of local transmission and a total of 200 cases throughout the country. The uncertainties of Covid-19 have become a challenge for the government as it looks to strike a balance between effective methods to stop the outbreak and health management while limiting the pandemic's economic impact. Covid-19 uncertainties are likely to slow the various international trade and business activities until late 2021.

Covid-19 To Strengthen Democratization

With the November 8 general elections in sight, social media has become rife with political discussion and other election activities. Those who have witnessed and suffered under military dictatorship, including top members of Myanmar's leadership, are sharing their experiences with the public openly shedding light on the country's history to many in the younger generation, especially ethnic nationalities and youths who make up about half of new voters, groups that are targeted by no-vote campaigns. On the other hand, the 34 political parties under the umbrella of the Union Solidarity Development Party (USDP), the military's political arm, have issued threats and petitioned for the disqualification of the NLD, its individual members and other leading ethnic candidates. They are also blaming the Union Election Commission (UEC) with being unfair. Despite the political tension, Covid-19 has made it possible to start the healing process as the people of Myanmar discuss their respective grievances, mostly on social media. Neither side is prepared to welcome authoritarian rule; rather, all sides embrace Myanmar's path forward and welcome the "new normal" with renewed vigor. The concern, however, is that the military seems bent on 'sharing' power in future politics.

Myanmar in the World

The government is attempting to reduce its reliance on China, particularly for projects that were signed during the last few weeks of the previous Thein Sein government that stepped down in 2016. Instead of the railway cutting the country in half — from north-east Shan State to Kyaukphyu in Rakhine State — a pending Belt and Road Initiative (BRI) project has now been renegotiated to run from the China-Myanmar border town of Muse to Mandalay. The government plans to extend the rail lines toward Tamu, a Myanmar-India border town. The Chinese strategic Kyaukphyu Deep Sea Port project is witnessing little activity. At the same time as the Chinese government is brazenly pressuring Myanmar President Win Myint to speed up implementation of BRI projects, Myanmar is inviting non-Chinese investment in its mega projects. Currently, Chinese companies comprise the largest portion of investors in the energy industry. But the tide is changing; in July, three Japanese energy giants were awarded an LNG-to-power project worth \$2 billion.

With an improved energy infrastructure, Myanmar is expected to see an increase in foreign investment — from Japan, South Korea, Southeast Asia, the Pacific and potentially the West — in the next five years.