

THINK ACT

BEYOND MAINSTREAM



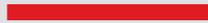
December 2016

Myanmar: A wave of optimism – will it last?

Exclusive: Results and analysis of our comprehensive business confidence survey of the country

THE BIG

3



73%

expect the business landscape to improve.

Page 7

83%

of the firms are ready to contribute to overcoming bottlenecks, e.g. by training and developing staff.

Page 9

97%

of the firms see clarification of a transparent government economic policy as a key measure to unleash the optimism and investment interest.

Page 10

Myanmar is ready for global business.

Investors need to act quickly to take advantage of the opportunities ahead.

Myanmar is experiencing a unique moment in history. An extraordinary series of events, including the transition to a new and democratically elected government, has created the need for a massive and swift transformation in the formerly closed off country. The new political and economic openness has led to opportunities in nearly every sector for those firms that have their finger on the pulse of fast moving developments in the emerging country and can act quickly.

With its rapid transformation and large and young population, as well as its strategic location and abundant natural resources, Myanmar offers tremendous potential to investors. Since detailed policies and regulations are still lacking for many sectors, deep on-the-ground insights will be key to be able to take advantage of these opportunities.

Roland Berger gauged both local and international senior-level executives in Myanmar to create more transparency on how firms are thinking about current

opportunities and challenges. The survey, which builds on Roland Berger's deep expertise working in Myanmar, is the first of its kind in the country.

WHY MYANMAR? WHY NOW?

After decades of lying dormant, Myanmar is quickly awakening to global business. The pace of change from an isolated, closed off economy to one that is open for business around the world has been staggering. As one of Asia's least developed countries, Myanmar is experiencing a transformation unlike any other today and provides a rare opportunity for international firms to be a part of one of the last frontier markets.

Economic reforms began in 2011, leading to Myanmar's reintegration with the international community. The democratically elected government, which came to power in 2016, issued 12 point economic guidelines designed to attract investment, ensure sustainability, increase employment and raise competition in Myanmar.

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The guidelines, which include promoting measures such as a fairer tax system, infrastructure development, intellectual property legislation, increased investments in education and job training, reveal the country's commitment to liberalizing markets and opening up to the rest of the world.

Now, thanks to those leadership reforms and the removal of sanctions, Myanmar has become a rare global spot for sustainable development. The country is again open for business, but those seeking to help the country reach its potential need to have their ear to the ground. They need to understand local markets and the nuances of doing business in the country.

WINDOW OF OPPORTUNITY

These changes present a rare window of opportunity for both local and international firms to help people in Myanmar be part of global progress. Since the country's economy is developing from a low level, opportunities exist in nearly every sector from energy and power, to transport, agri-business, manufacturing and retailing.

As one of the least developed countries in Asia, Myanmar is also the fastest growing. The World Bank expects Myanmar's gross domestic product to increase 8.4 percent in 2017 – that's a higher growth forecast than other regional economies including Laos, Cambodia and Vietnam.

With continued reforms, the country has unique potential to catch up quickly. Roland Berger looked at how long it took other countries to boost per capita gross domestic product from \$1,500 to \$5,000 a year. While the United Kingdom took about 200 years to make that leap, the United States took 90 years and Germany took 80 years. Emerging markets today are making the leap far more quickly – Japan, Singapore, Taiwan, South Korea and China all took 20 years to grow to that level. Myanmar now has the chance to join their ranks at a similar or even faster pace, leapfrogging by adopting new technologies.

For international players, preparing for these new opportunities is crucial for growth in the coming decade. Agility to take advantage of emerging market opportunities, especially in Myanmar, is a key part of how companies must respond today in order to achieve sustainable growth.

EXAMPLE: **THE MOBILE TELECOMMUNICATIONS MARKET**

The mobile market is one example of how quickly the situation can change in the country with the proper policies. Roland Berger worked with Myanmar's government to liberalize the telecommunications market and issue operating licenses to private players. The tendering process was transparent and highly competitive. In early 2014, Norway-based Telenor and Qatar-based Ooredoo received two new telecom licenses and launched operations within months.

At the same time, state-owned operator MPT entered into a partnership with Sumitomo and KDDI to transform itself into a modern operator and fight off competition. Commercial capabilities such as branding, product development, marketing, distribution, and promotion have been built, and technical and organizational capabilities have been upgraded. As a result, MPT has held its own against the new entrants.

This economic liberalization in the mobile market led to a rapid increase in the number of mobile subscribers. Within just a few years, mobile penetration rates skyrocketed from 7 percent of the population to more than 90 percent and prices dropped dramatically. By the end of 2016, penetration is expected to reach 100 percent. It has been one of the fastest mobile subscriber growth rates ever recorded globally, showcasing the ability of Myanmar's economy to achieve leapfrog-style growth.

In addition, the liberalization had a strong spillover effect, boosting overall business confidence in the country and spurring the development of an entire industry, including tower companies and distributors. While many challenges still exist in the country, the story of mobile market growth serves to what's possible with the right strategy and approach in Myanmar.

A

MYANMAR OFFERS ENORMOUS POTENTIAL TO INVESTORS AS A FRONTIER MARKET

Myanmar is strategically located between China, India and Southeast Asia.

KEY FACTS

676,000 square km

in total

2,170 km

longest river (Irrawaddy)

1,930 km

coastline

KEY COMPETITIVE ADVANTAGES

1

Myanmar has a relatively **large population (~53 m)**, potentially serving as a cost-efficient manufacturing and lucrative consumption base

2

Myanmar is a **resource rich nation** endowed with natural gas reserves and other natural resources

3

Myanmar has a **strategic geographical location** connecting **overland trade routes** and bordering two of the world's largest economies (India and China)

4

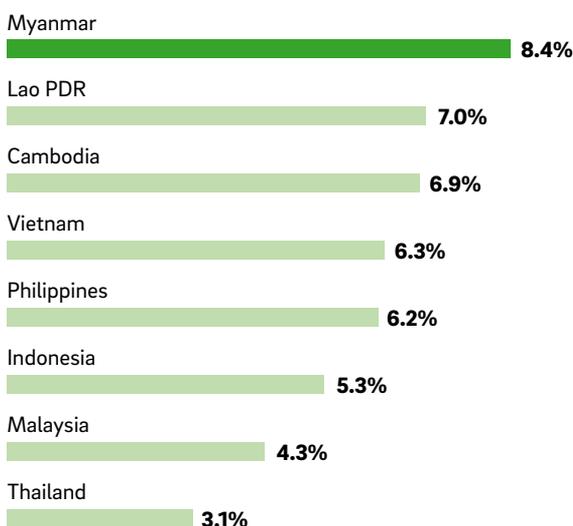
Myanmar is also among the **last few economies** that had not **opened up its economy** to the world until recently, providing abundant growth opportunities now

B

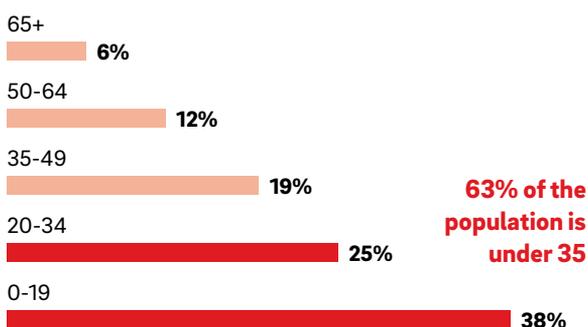
MYANMAR HAS A BRIGHT ECONOMIC OUTLOOK

Some key statistics and pointers.

Average annual GDP growth forecast for 2017



Age structure (% of population)



Key drivers of economic growth

- > Lifting of sanctions
- > Political reforms
- > Liberalization of key industries
- > Abundance of natural resources
- > Strategic geographical location between China and India

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TAKING THE PULSE OF CHANGE

To help firms take advantage of this rare window of opportunity, Roland Berger has conducted a survey to provide valuable guidance for businesses investing in Myanmar. The survey combines the local and international perspectives of senior-level executives to provide a unique and up-to-date snapshot of the business climate in the country. It reveals the confidence that people well acquainted with Myanmar have about doing business in the country.

In August and September 2016 Roland Berger surveyed nearly two hundred senior executives from companies of all sizes to get their take on opportunities and challenges ahead. 90 percent of respondents are owners, directors, executive officers or managers at their firms. The survey includes the perspectives of executives from a range of companies including those operating in telecommunications, media, technology, construction, real estate, utilities, chemicals, retail, banking and tourism.

These executives believe that Myanmar's potential is genuine and that government reforms are here to stay. They are enthusiastic about Myanmar's outlook and they believe that conditions are ripe for firms to grow and expand. They see Myanmar as one of the last few frontier markets, where firms can get in on the ground floor and build presence in a country with a large population and where many companies are starting from scratch.

In addition to the removal of sanctions, Myanmar has many other advantages that make it attractive to investors today. → **A** → **B** The country is strategically located between India and China and is abundant with natural resources such as natural gas reserves. Furthermore, over 60 percent of the country's 53 million residents are under the age of 35. Nearly 80 percent of survey respondents cited the country's status as a frontier market with a large and growing population as a prime reason for investing in Myanmar. 67 percent of respondents think that the government's commitment to reform is a key reason to get in now. → **C**

C

MYANMAR PRESENTS A BIG OPPORTUNITY AND THE OUTLOOK IS POSITIVE

International firms should take a closer look with regard to their industry.

Myanmar is a **large frontier market** with government committed to reform, key reasons to enter:

80% Myanmar's status as a frontier market

78% large growing population

67% Myanmar government's commitment to reforms

The **business outlook** is extremely positive

73% expect the business landscape to improve

83% expect to increase spending on training and employee development in Myanmar over the next year

91% expect to expand their operations in Myanmar over the next year

Conditions are ideal for international firms to expand in Myanmar

67% of international firms prefer organic growth

55% of local firms prefer international partnerships

Lifting of sanctions is expected to boost international investments further

Larger companies and those that have been in the country longer are more satisfied; latecomers may have a challenge

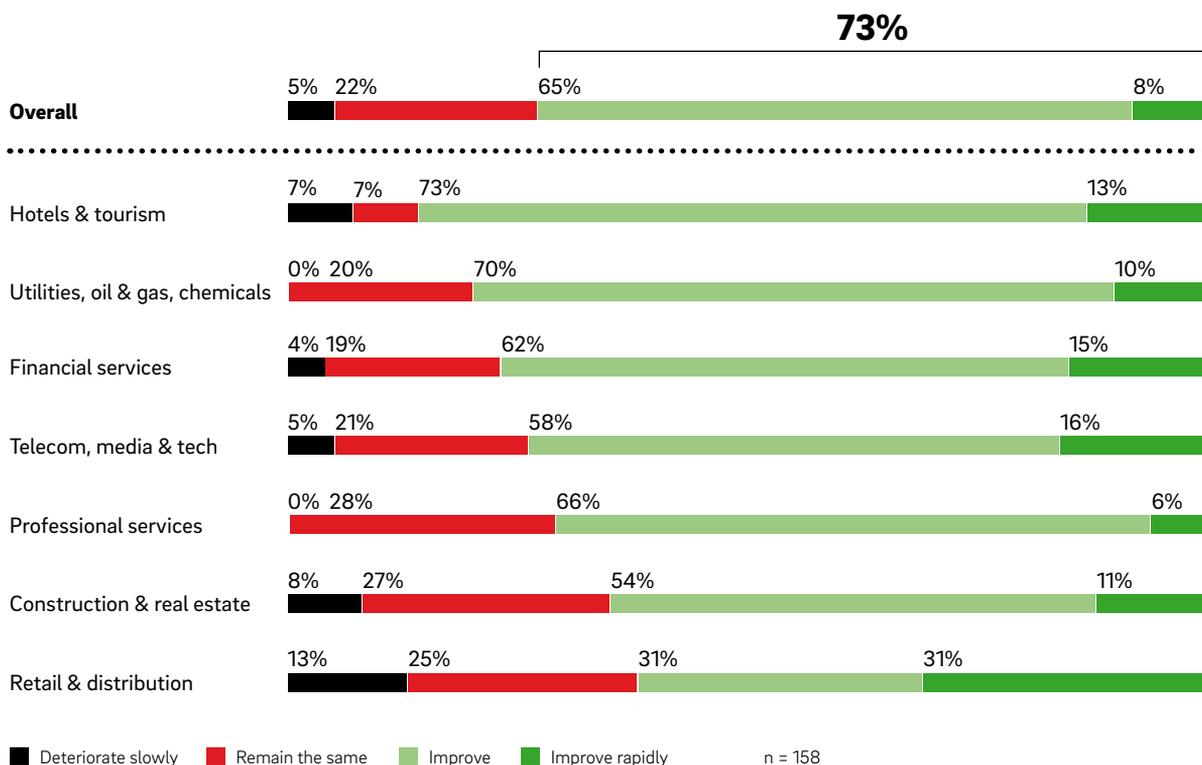
83% of firms with annual revenues > USD 50 m are satisfied with their performance vs. **60%** for smaller firms (annual revenues < USD 50 m)

70% of firms that have been in Myanmar for over 5 years are satisfied with their performance vs. **52%** of newer firms

D

EXPECTATIONS ARE HIGH

How do you think Myanmar's economy and business landscape will fare in the next 12 months?



1 Only industries with 14 or more responses were analyzed; companies operating in multiple industries were counted once for each industry

Source: Roland Berger Myanmar business survey (2016)

Businesses also expect the situation to improve and are planning accordingly. 73 percent expect the overall business landscape to get better. 91 percent expect to expand their operations in the country over the next year. Around two-thirds of those surveyed preferred organic growth while more than half of local firms prefer international partnerships, providing a platform of opportunity for international firms.

Succeeding in Myanmar also takes commitment and patience. About 70 percent of firms that have been in the country more than five years are satisfied with their performance. By contrast, about half of firms that have been in the country less than five years are satisfied with how they are faring. Hence, it is imperative that businesses invest in Myanmar now and go through the apprenticeship period early, thus be-

ing prepared for the exponential growth in the medium term. → **D** → **E**

THE ROAD WON'T BE SMOOTH

Like many emerging markets, Myanmar also presents challenges to firms looking to grow. Firms surveyed believe that labor issues and lack of legislative certainty are the main risks to doing business in the country. About 41 percent of firms say that lack of skilled staff is a very significant issue and for 85 percent it is the most significant one. → **F** As a result, much of the investment in the coming year will be on employee development and training. → **G** Higher skilled workers present the added challenge of rising labor costs, which nearly 68 percent of firms say could be an issue for growth.

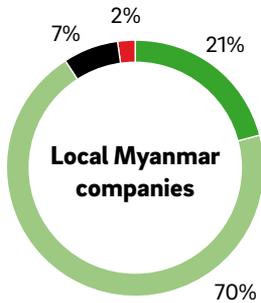
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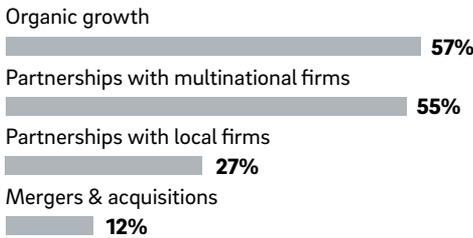
E

LOCAL AND INTERNATIONAL FIRMS ARE ABOUT TO SPREAD THEIR WINGS AND EXPAND

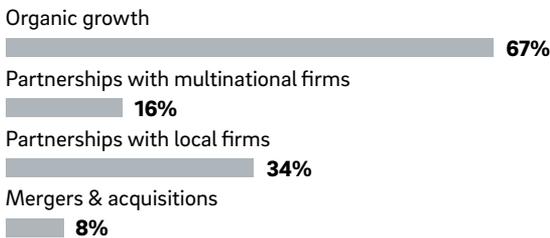
Are you planning to expand your operations in Myanmar in the next 12 months?



If so, by which means do you plan to do so?



If so, by which means do you plan to do so?



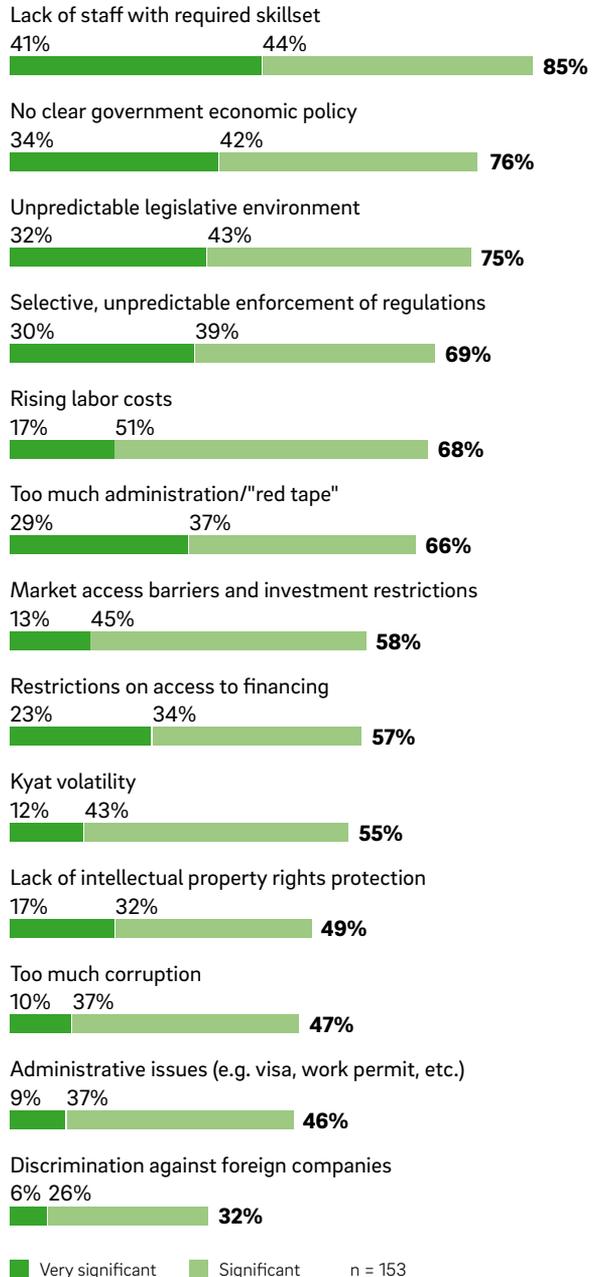
Source: Roland Berger Myanmar business survey (2016)

F

THE GOVERNMENT IS FACED WITH HIGH EXPECTATIONS

Respondents indicate many areas for improvement.

How significant is this issue?



Very significant Significant n = 153

Source: Roland Berger Myanmar business survey (2016)

The biggest question mark for senior executives in Myanmar, however, is over government policy. While there is broad acknowledgement that important actions such as the new investment law have been taken, the business community is missing a program that is broad enough to cover the major parts of the economy, specific enough to build business and investment plans on, and quick enough to take advantage of the goodwill created by the change in Government and lifting of sanctions, before it evaporates.

The clear majority of firms that Roland Berger surveyed said that the lack of a clear economic policy, an unpredictable legislative environment, selective enforcement of regulations and lack of intellectual property rights protection all present major obstacles to business growth and investment in the country. In addition, corruption and administrative red tape created roadblocks for firms trying to do business in the country. Myanmar is among the lowest ranked nations in the World Bank Group's ease of doing business index, despite recent and significant reforms. That said, it has gained ground and improved according to the World Bank's "Doing Business 2017" report.

These obstacles indicate the need for comprehensive public sector reform. Despite ongoing initiatives, meaningful improvements to public services will be inevitably challenging, reflecting urgent need for swift implementation and quick wins. Firms in the survey said that government reforms were crucial for achieving economic growth. The magnitude of the transformation challenge is illustrated by how many firms are suggesting urgent Government action across a wide range of issues. For example, more than 90 percent are calling for transparent government policy, stable electricity supply, better transport infrastructure financial sector reform and promotion of fair competition. → [H](#)

CONCLUSION

Myanmar's potential is real, but so are the roadblocks. For firms seeking to take advantage of the country's window of opportunity, as well as policymakers who want to boost employment and investment, both have roles to play in helping the country develop rapidly.

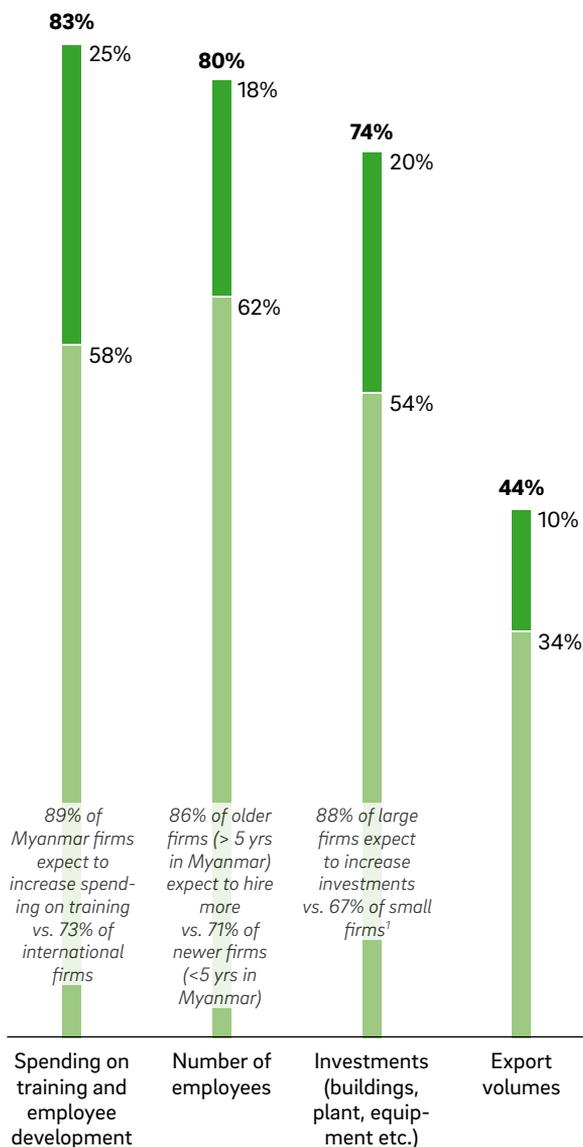
For policymakers, Roland Berger's survey of executives working in Myanmar provides an important insight into how to attract foreign capital in the country.

G

COMPANIES ARE READY TO COME AND SPEND MONEY

Firms planning to invest in spending on training and employee hiring and development.

Firms expecting to increase [%]



■ Increase slightly ■ Increase rapidly n = 158

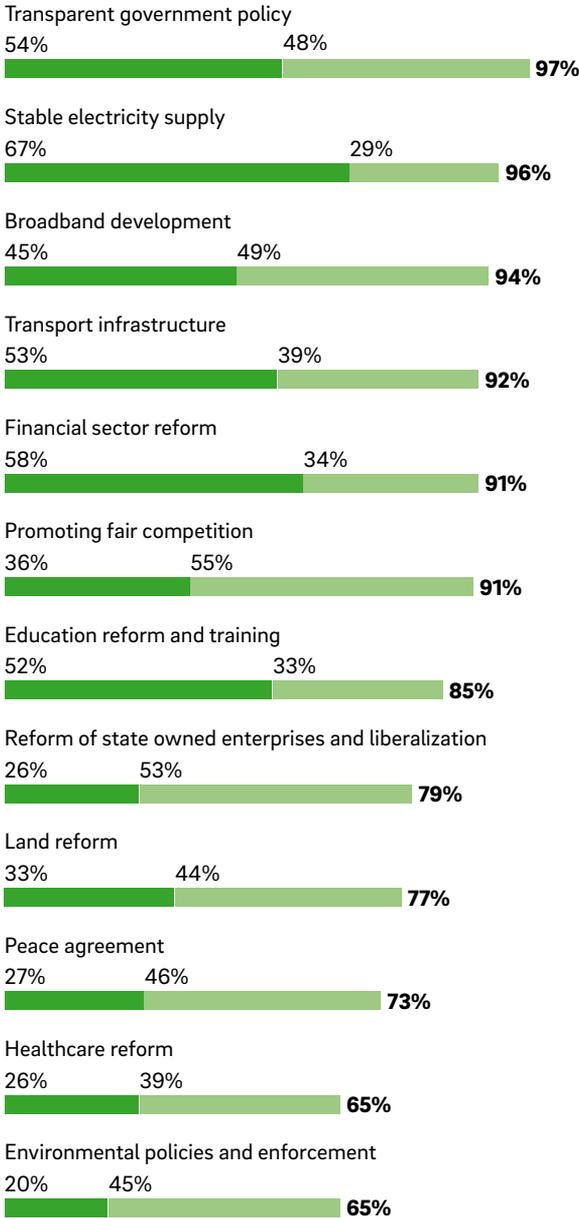
¹ Small firms (<USD 1 m revenue p.a.), medium firms (USD 1 - 25 m revenue p.a.), large firms (>USD 25 m revenue p.a.)

Source: Roland Berger Myanmar business survey (2016)

H

GOVERNMENT CAN SIGNIFICANTLY BOOST THE ECONOMY

Important government measures.



1 Small firms (< USD 1 m revenue p.a.), medium firms (USD 1 – 25 m revenue p.a.), large firms (> USD 25 m revenue p.a.)

Very significant Significant n = 151

Source: Roland Berger Myanmar business survey (2016)

Both international and local firms want more regulatory and legislative certainty as well as transparency. Knowing that business-friendly reforms are moving forward and that economic liberalization won't be rolled back gives companies the confidence to invest in Myanmar over the long term. They will be more likely to set up subsidiaries and build business in the country, creating jobs and boosting the economy if they have reasons to believe that the business climate will only improve. Further investments in infrastructure like a stable electricity grid will only make Myanmar a more attractive place to do business.

Companies, meanwhile, can also take away some key lessons from Roland Berger's first business confidence survey in Myanmar. Myanmar presents tremendous opportunities for international firms that want to expand into new and emerging markets. Companies in all sectors such as tourism, energy, infrastructure and construction, chemicals, consumer goods and retail and many other all have strong prospects in the country.

To start with, firms that want to take advantage of the potential and minimize risks should move quickly, establishing a presence in Myanmar while it is still a frontier market. They also need to understand the nuances of doing business in the country. Partnering with local firms and companies with deep insight may be the key in certain sectors to navigating the challenging and sometimes impenetrable market.

Finally, companies that want to invest in Myanmar need to be prepared for volatility. The country is rapidly developing and changing, but still has a long way to go to catch up. The prospects for Myanmar are bright and those who are prepared to ride out the volatility are likely to be rewarded with new opportunities.

Our conversations with Government officials indicate that there is awareness of the need and urgency to clarify and detail economic policies, and determination to move from planning and deliberation to action and quick wins. If this indeed happens, we will continue to see one of the fastest and most impactful transformations of a nation ever. The key question for you is:

Do you want to be part of it? ♦

ABOUT US

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin.

With 2,400 employees working from 34 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners.

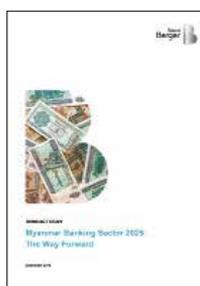
FURTHER READING



SOUTHEAST ASIA'S ECONOMIC OUTLOOK

The Big Picture

As Southeast Asia with countries such as Myanmar, Singapore and Indonesia becomes an even more important growth cluster, the region will continue to be a magnet for commercial activity, given its growing population and above world-average GDP growth. This study by Roland Berger highlights this conclusion and illustrates that the region is set to grow through intra-region investments.



MYANMAR BANKING SECTOR 2025

The Way Forward

In any country, the financial services sector occupies a unique place among all business sectors. It plays a vital role as a catalyst for overall economic development, seeding growth in other sectors by providing the necessary funds to various economic agents. We believe that Myanmar's banking sector has a bright future and we foresee exponential growth for the industry, slated to multiply its current asset base by a factor of eight and create over 120,000 jobs by 2025.

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