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MYANMAR

Special Edition for the World Economic Forum on East Asia 2013

Courageous Transformation

Dubbed the next Asian hot spot as it progresses towards democracy and a market-driven economy, Myanmar has just successfully hosted the WEF on East Asia 2013. Discover more in the following digital version of the 4-page special as published in The Daily Telegraph's Business Section on 7 June 2013


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A Special Message from the Myanmar President on Sharing Prosperity

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MYANMAR

Special Edition for the World Economic Forum on East Asia 2013

Domestic and Global Cooperation Vital for Continued Progress

Since its return to the international fold, Myanmar's progress has been little short of astounding. A historic visit from President Obama last year was followed by an invitation for President Thein Sein to go to the US this year. Last month yet another landmark face-to-face took place - this time on American soil.

BY SORCHA HELLYER & GABRIELE VILLA ➤ Formerly tense dealings between the two countries have given way to a new era of understanding. According to Obama, "What has allowed this shift in relations is the leadership that Thein Sein has shown in moving Myanmar down a path of both political and economic reform." But the incumbent leader is not alone in his efforts. The world community is undoubtedly most surprised by the fact that the groundswell of opinion in Myanmar is actually in favour of change and decisive action. Of course this new and very young democracy is not without its teething problems - and perhaps that is the greatest sign that a definite transformation is underway. In fact, this period of positive upheaval and policy change is bound to be fraught with complex ramifications. The challenges that lie ahead are many. However, acknowledging that these issues exist, and that they are part of the process, is a good start. Having international assistance, guidance and aid to address them is even better.

Having countries like the US and the UK as your allies, keen for constructive advances to take place, is a boon for any nation. What is important is how this can be of benefit to the people of Myanmar. After his bilateral meeting with Thein Sein last month, Obama remarked, "We've seen credible elections and a legislature that is continuing to make strides in the direction of more inclusivity and greater representation of all the various groups within Myanmar. President Thein Sein has also made genuine efforts to resolve long-standing ethnic conflicts within the country, and has recognised the need to establish laws that respect the rights of the people of Myanmar."

Clearly this journey will require collective determination from not just one corner but all corners of the Golden Land. Myanmar must catch up with the other ASEAN members as well as much of the rest of the world. This Southeast Asian giant has awakened from its 50-year slumber and is preparing itself for what the future holds. Perhaps seen as a minnow when compared to India and China - its two largest neighbours - Myanmar is the biggest country in mainland Southeast Asia. The bounties of its lands and seas are phenomenally underdeveloped and its geo-strategic position is considered unrivalled. These are undeniable facts and the reality of how many opportunities have slipped through Myanmar's fingers over the past decades has finally dawned. With the birth of the Asian century underway and the "pivot to East Asia", it is small wonder that lasting peace is much sought after, and that reconciliation is deemed vital to the future success of the nation's progress.

Both local and foreign investors appear confident of the reform process as they weigh up prospects in all areas of the economy but particularly oil and gas, mining, ICT, banking and industry. Capital injections aside, increased global exposure and the transference of know-how will see improved productivity in all sectors for the benefit of the whole population. The lifting and removal of sanctions has also resulted in growing interest from international trade partners. Given that the government has an aim to lift a quarter of its citizens out of poverty, the creation of jobs in labour intensive industries like manufacturing and tourism needs to be accelerated.

Just as the US signalled its intent to re-engage with Myanmar, so too did the UK. In fact, in 2012 David Cameron was the first UK Prime Minister to visit Myanmar since it gained its independence from Britain in 1948, and the first Western leader to visit the country since opposition leader, Aung San Suu Kyi's election to parliament. Assisting the nation to regain its rightful position at the crossroads of two impressively powerful neighbours will be one task, but an even more pressing one awaits the global community. That is, how it can help Myanmar grow into a truly equitable, democratic society that embraces its diversity, and bring an end to communal and ethnic unrest, particularly in remote regions of the country. If local and foreign entities can work together to that end, this is just the beginning of Myanmar's path to almost inevitable success.

A Special Message from the Myanmar President on Sharing Prosperity

In the spirit of the World Economic Forum's theme, we are pleased to host the WEF on East Asia under the auspices of Sharing Prosperity. Holding this incredibly important event in our capital is indicative of how ready we are to foster the new Myanmar and what our hopes are for our people. It is an exciting time for the Union of Myanmar. Recent years have seen us emerge on the global stage and start to work diligently towards objectives that will take the nation forward. The path we are on will not be easy but we should all relish the challenges and rewards that we find along our journey.

"On one hand we have much to offer and on the other, much progress to make"

HIS EXCELLENCY, THEIN SEIN
President of Myanmar

"How we work together, share together and grow together is fundamental to our progress, not only as a country but as human beings"

Myanmar is rich in culture, heritage, traditions and breathtaking scenery. We have a great deal to be proud of because these are all elements of our nation that define us. However, we must look to the future too. The modernisation of our country with the opening up of the economy - as well as the reduction of poverty and upgrading the lives of the whole population - will require a lot of effort. Yet we are fortunate to have a wealth of natural and human resources which - if managed carefully and in a sustained way - will see our Golden Land shine ever more brightly.

The juncture we find ourselves at is a critical and transformative stage in our nation-building. It is not about reaching a destination - although it is good to have an objective to aim for - it is more about embracing this journey. How we work together, share together and grow together is fundamental to our progress, not only as a country but as human beings. We are all connected and we owe it to each other to respect, celebrate and capitalise on our diversity for mutual benefit. Working towards an inclusive and integrated society is not an option. It is a must. Creating opportunities and promoting the wellbeing of all segments of society - regardless of age, gender, race and religion - is vital to our success.

As Myanmar unites behind these common goals, we should celebrate all that makes us unique and invite the rest of the world to get to know us better. On one hand we have much to offer and on the other, much progress to make. We invite you to discover the warmth of our hospitality, explore the beauty of our lands, to participate in our development and growth and share in our future prosperity.

We welcome you most cordially to...let the journey begin.

Myanmar's Courageous Transformation

by Professor Klaus Schwab

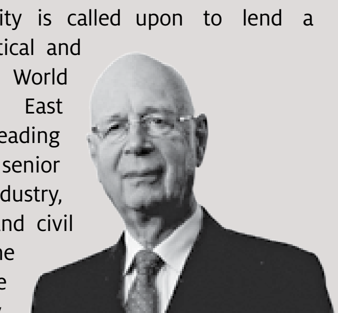
Some pundits have recently claimed that Myanmar is at a crossroads. As an avid observer of Myanmar and its developments I do not agree. In fact, I believe that after a series of bold economic and political reforms the country is moving in the right direction. The people of Myanmar have embarked on an ambitious journey towards global integration, economic growth and social inclusion.

By mending old bridges and building new ones across the Greater Mekong region and beyond, Myanmar's course gives us good reason to be optimistic about its future. It is becoming clear that the country is re-entering the global stage as a responsible and constructive actor. As Myanmar is set to chair ASEAN in 2014, it will have a critical role in guiding the bloc's 10-member economies towards planned economic integration in 2015. This new positive trajectory will not only help Myanmar, but also the whole region in its quest to become an important geo-political and geo-economic pillar of the global economy.

All efforts to firmly ground Myanmar in the global community need to be mirrored by ongoing domestic reform efforts and a reconciliation process. Again, we can see the first effects of the new course at work. The decision to lift most of the long-standing restrictions on freedom of the press is most welcome. It is also an essential ingredient for an inclusive model of social and economic progress. The dynamism that Myanmar's budding news media is showing is a good sign. It will ensure that political processes remain transparent, inclusive and accountable.

Of course, there are many challenges ahead. Civil society needs time to develop and conflict lines along political, economic or social issues, or - as we have seen in the recent past - along religious fault lines, require careful leadership and cooperation. Myanmar will have to develop resilience to withstand these inevitable setbacks in the future.

The global community is called upon to lend a hand to Myanmar's political and business leaders. The World Economic Forum on East Asia will be the first leading international gathering of senior decision-makers from industry, government, academia and civil society to be held in the country. We hope to create an unrivalled opportunity to understand and to make a contribution to Myanmar's courageous transformation.



PROFESSOR KLAUS SCHWAB
Executive Chairman and Founder of the World Economic Forum

BUSINESS


Myanmar International Convention Centre (MICC) in Nay Pyi Taw plays host to the WEF on East Asia 2013

Launching the Asian Century

Burgeoning economies and shifting social trends have pivoted international interest in the direction of Asia. Myanmar has recently emerged as the next hot spot, with a highly strategic geographical position in between highly populous Asian powerhouses. It is also a key maritime stronghold. Testament to the belief that Myanmar is finally part of what many have dubbed "the Asian century", the 22nd World Economic Forum (WEF) is currently underway in Nay Pyi Taw, Myanmar's administrative capital. For 3 intense days, non-partisan and impartial political, business, academic, and other society leaders are debating and devising cutting edge solutions to positively influence global, regional and industry agendas.

Welcoming the international community to Myanmar for this meeting reflects the country's newly found desire for openness. Since his 2011 election, President Thein Sein's government has taken unprecedented steps towards democratic reform. No one can deny the startlingly forward moves to increase civil liberties; from the freeing of political prisoners and reaching out to rebel groups and nationals in exile, to allowing peaceful demonstrations. There are still areas of tension of course, but this is seen as being part and parcel of the new era of democracy. Where once the nation was afraid to speak out, now dialogue has quickly become the new norm.

It is hoped that this year's forum on East Asia will help advance the Myanmar spirit of exchange. Participants are actively contributing to constructive, lively debates. It is hoped that these sector-specific and industry-focused intensive discussions and interactive sessions will result in concrete action points for participants to follow up on. The week has also seen a myriad of brainstorming meetings, open question and answer rounds, debates between top government, business and civil society leaders, and interview sessions with a select group of global thought experts. To highlight the forward-thinking nature of the region, events kicked off in Yangon, Myanmar's commercial capital, with Young Global Leaders sharing their ideas and experiences with the express intention of inspiring change.

With the official theme of the World Economic Forum on East Asia being "Courageous Transformation for Inclusion and Integration," it is supremely appropriate that Myanmar is the host. The country's business mandate is clear: to improve accountability, prevent corruption, implement best business practices, and to empower the bottom of the pyramid by focusing on indigenous solutions. Furthermore, entrepreneurs are seeking to drive sustainable and equitable growth, by generating employment opportunities, tapping into the existing diverse labour force to improve capability and capacity. However, to truly make progress, the country has to face up to significant hurdles. For example, Myanmar lags behind other ASEAN countries in virtually every area of infrastructure. This makes it the ideal platform to explore what is required to execute responsible global economic expansion alongside democratic reform.

However, the theme of 2013's WEF on East Asia is fundamentally applicable to all nations. Inspiring inclusive transformation, achieving total integration and cultivating locally spun solutions for resilience is high up the ASEAN nations' agenda as it moves towards the ASEAN Economic Community in 2015. To that end, the forum offers space to explore how foreign business leaders and investors can best partner with local institutions to help augment the whole region's relatively underdeveloped potential.

It is hoped that this year's forum on East Asia will help advance the Myanmar spirit of exchange

Onwards and Upwards

In the midst of a momentous transition towards democracy and a market-driven economy, Myanmar is making progress while it grapples with its many challenges. Adam Htoon, Group CEO of Air Mandalay shares his thoughts on where the country is headed.

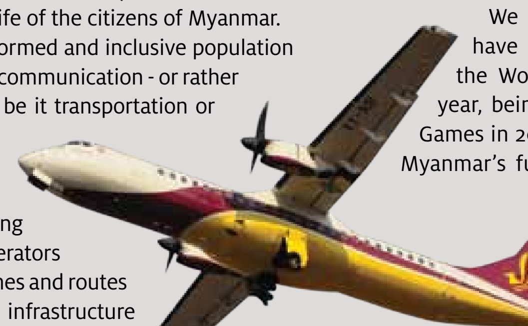

ADAM HTOON
Group CEO of Air Mandalay

"There is no doubt that consolidated peace will be vital to success, and will only be achieved if the constraints of continued distrust and inequality are addressed. The general population wants to feel the positive impact of the multitude of political, social and economic reforms. This will of course take time. The so-called trickle-down effect has not yet been felt at the rural and grass-roots levels.

Myanmar's ability to translate hope into real change will require the effort of the entire nation. It will also take time and funding. The updating of basic infrastructure (electricity and water supply systems, transport and communication) as well as educational establishments and healthcare services is long overdue. The provision of these is imperative to see an improvement in the quality of life of the citizens of Myanmar.

In order to have a more informed and inclusive population in the whole transition process, communication - or rather connectivity - is highly crucial, be it transportation or telecommunication. Currently there are new roads, bridges and power stations being built, cheaper mobile SIM cards being sold, 4 telecommunication operators in tender process, and new airlines and routes being opened up etc. However, infrastructure alone will not suffice since the capacity of the workforce needs to be increased in order to cope with, and sustain, these developments. The available supply of competent workers could easily fall short of demand and, as a result, could curb growth to a certain degree. Expansion in every sector needs to be proactively planned and monitored so that there is equitable, sustainable and secure progress - rather than a simple reaction to ad hoc needs.

Change is occurring at such a rapid pace in various sectors that it may not be visible to those who are not closely following the topics. In this transformative stage there is so much to be done that it can be bewildering at times. Ideally everything should be strategically planned and coordinated, but Myanmar - not unlike other countries in transition - has witnessed hectic and often disorganised change.



We have many milestones to reach and we have much to look forward to. From hosting the World Economic Forum on East Asia this year, being chair of ASEAN and holding the SEA Games in 2014, to having general elections in 2015, Myanmar's future in the global arena is positive. It has the potential to be even more so if we all work together for the common good of the nation."

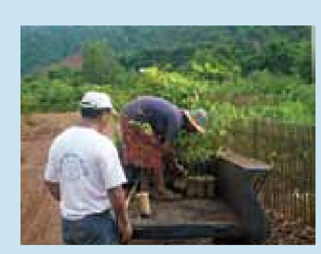
Digging Deep for Better Solutions

Nestled between Southeast Asia and the Indian subcontinent, Myanmar boasts a varied topography saturated with natural assets. Thousands of acres of arable land, forests, a plethora of minerals, unexplored oil and natural gas fields, abundant freshwater and marine resources, make for a particularly attractive investment destination. Indeed, a substantial percentage of the GDP comes from exporting its plentiful raw materials. Extraction is an income-generating business for savvy companies, especially for industry leaders like DELCO, founded in 2007 and already one of the country's most lucrative entities in the mining sector.

With its headquarters in Yangon, DELCO is the nation's largest mining, mineral processing and metallurgical company, specialising in tin-tungsten and mixed-ores. In the wake of Myanmar's recent transformation the possibilities seem endless, taking into account how untapped many areas remain. Understanding how best to expand extractive industries - responsibly, sustainably and with yet with greater efficiency and higher margins - is becoming the order of the day. As DELCO's Chairman, Ding Ying succinctly points out, "Our focus is, and must be, on modernising the mining sector and unleashing its potential."

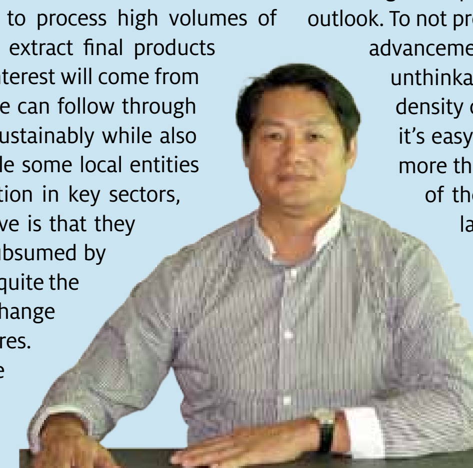
Highly successful in its own right, DELCO believes that with a capital injection for improved technology and technical expertise it could increase its own productivity and profitability by 30-40%. This would make it a contender on the global stage. Technological deficiency has long been Myanmar's cross to bear, having resulted from many years of failed socialism, military rule and international sanctions. As the geopolitical cloud of isolation dissipates, many entrepreneurs like Ding Ying are hopeful that the tide is turning, "Zinc, lead, iron, tin-tungsten are our areas of specialty," he explains, "But tin is of particular interest because it is bullish even in a crisis due to its applications in electronics and hi-tech products."


DELCO's mining site in Dawei



After the sector's privatisation, companies like DELCO employed Chinese technology. China's close proximity and extraordinary economic growth mean that it has long welcomed Myanmar's impressive resource wealth, conveniently located on its doorstep. However, exports to such markets (necessary due to restrictive sanctions) left profit margins low. "China put a 17% import tax on our exports whereas other ASEAN nations like Thailand, Indonesia and Malaysia collect 10% or less," continues Ding Ying, "Since a credit system didn't - and still doesn't exist - in Myanmar, we had to invest our own money and operate with limited financial capacity. Extremely complicated procedures for obtaining proper import licenses and transferring money, not to mention the fact that clients had to pay into an escrow account 3 months before receiving the shipment, meant that DELCO was 1 of only 2 registered mining companies - engaged in cross-border trade out of a total of 200."

With an investment of about $30m in more modern equipment, Ding Ying believes it's entirely feasible for his company to experience growth of 30-40%. These figures may well be based on continuing exports to China, however the possibility to trade elsewhere, other than Myanmar's gigantic neighbour, means that profits will leap significantly, according to the Chairman. Today, he looks to Canada as the best role model, citing the latter's ability to process high volumes of natural resources and efficiently extract final products 95% of the time. He hopes that interest will come from those kinds of quarters so that he can follow through on his commitment to develop sustainably while also protecting the environment. While some local entities shy away from foreign participation in key sectors, Ding Ying's considered perspective is that they are not in any danger of being subsumed by international enterprises. In fact, quite the opposite, he is hungry to see the change that Myanmar deserves and requires. In addition he emphasises the rich possibilities for income-generating cooperation where companies like DELCO can help global companies navigate a new environment in exchange for infusions of cash and technology. As he astutely puts it, "It is difficult for a foreign investor to operate in a capital intensive market when there is no active credit market, no stock exchange, and no corporate bond markets."


DING YING – *Chairman of DELCO*

During the first decade of the 2000s, deals were next to impossible, in large part due to western sanctions against the country. However, all of that is changing. Prospective investors now hover on the horizon, prepared to offer leadership and inspiration for the country's incorporation into the international marketplace. And yet, they wait patiently for the right time. The Economist's Asia Outlook 2013 reports that only 15% of surveyed multinational companies said they have already invested in Myanmar, but double that number admitted to watching the country carefully, scanning for the best investment opportunities.

The desire to modernise, and to look outward rather than only inward, is not limited to private enterprises. The government has taken a genuine interest in stimulating the process of economic growth for companies like DELCO. Sweeping reforms have had a strikingly positive impact on business. "One of the most significant stimuli has been the reduction in export tax from 10% to 2%, freeing up money for research and development," says Ding Ying. "Parliament is also considering a revision on collection of the government share, now 30% of generated output or products turned over to the government. The new mooted proposal would likely see a 10% reduction on that amount." While it sounds small, this disposable income will contribute to making Myanmar more competitive among other ASEAN countries, and more attractive to international investors.

Progress seems inevitable for a nation that has slipped behind most of its neighbours - especially in a region that is seeing an upward trajectory with a prolonged positive outlook. To not provide concrete prospects and socio-economic advancement for the people of Myanmar would be unthinkable. Simply taking the country's population density of just 85 people per km versus the UK's 260, it's easy to get some perspective of this. In a country more than 2.5 times larger than the UK, vast swathes of the nation remain underutilised or completely lacking in development, and electrification is one of the key reasons. As such DELCO is also investing heavily to develop a large-scale hydropower project in Dawei District - an extremely geo-strategic locality, poised to transform both Southern Myanmar and aid the fortunes of the entire country's commercial activities. With this project, DELCO hopes to increase the production of electric power from 10MW to 24MW for the 700,000-person strong, and ever-growing, residential area in Dawei. Providing inclusive opportunity to the wider population and ensuring that the correct infrastructure exists to facilitate this will be key to preventing social instability.

Ding Ying's perspective is clear, "The sectors of energy and mining have a very bright future and could save our country." In talking about DELCO's efforts he asserts, "Initiatives like these are very important for the business community since we can all share our difficulties, challenges and future prospects." To that end, DELCO stokes its diverse interests with an eye towards putting Myanmar - and its people - on the international map of industry.

BANKING

Taking Stock of Myanmar's Banking and Finance Sector

David Proctor has 30 years of international advisory and banking experience. He began his career with Bank of America where he was CEO Thailand and Chairman, Thai Foreign Banks' Association throughout the 1990s Asian Financial Crisis. Proctor has held senior roles at Standard Chartered Bank - including CEO (United Arab Emirates and Europe), Group Head (Risk Strategy and Multinationals) and Director (Securities, Islamic Banking, Brand Management, Nepal and Jersey). As Advisor, then CEO for Al Khaliji, a start-up Qatari bank, he led it through a $2bn capital raising, regional expansion and acquisition of a European bank. Now Chairman of Consilium, he puts his acumen at the service of the market. Consilium provides management consultancy, capital introduction and training services to financial institutions, businesses and entrepreneurs from offices in Australia, Singapore and Myanmar. Here Proctor offers opinion and sharp insight into the challenges that Myanmar's banking and finance sector currently faces.

"Over the last 12 months, Myanmar's international status has veered from one extreme (pariah) to another (Asia's last frontier). In time it will settle at an equilibrium, but for now unrealistic expectations prevail. Given that Myanmar is wakening after 50 years of hibernation, foreigners are demanding too much clarity too soon from decision makers in both the public and private sectors. How will federal and state level government operate? What are the detailed social and economic development plans? When will the legal system be overhauled, land reform occur and international standards be adopted?

Similarly, locals hold implausible aspirations over the pace and size of new foreign direct investments - aspirations which reflect the tsunami of foreign trade delegations they have strained to host. It will take a while for the country to strike the right balance between a fully open economy and an appropriate period of protectionism for its fledgling industries and services.

Myanmar's banking and finance sector is caught in the midst of this maelstrom, but faces yet one more challenge - how to re-establish its credibility and trust. The 2002/3 Myanmar banking crisis remains seared in the populace's memory - from the collapse of informal finance companies; the closure of some of the country's largest banks; the inability of the Central Bank of Myanmar (CBM) to provide liquidity support; as well as the long-term restrictions on customer withdrawal of deposits and enforced recalling of customer loans. 10 years later, more than 50% of the cash in circulation is held outside the banking system, all bank loans must be collateralised, private banks are restricted from lending to the agricultural sector, and ATM and POS terminal networks are only starting to re-emerge.

To relieve the burden for Myanmar's hapless poor, there is a need to offer more alternatives to banks, in the form of properly regulated and capitalised deposit-taking finance companies and microfinance companies

The sector's transformation will involve multiple dimensions including the CBM, financial regulation and supervision, financial system infrastructure, foreign and local banks, finance, microfinance and insurance companies as well as capital markets.

Central Bank of Myanmar

The new 2013 Central Bank Law (in draft form at the time of writing) will establish the independence of the CBM, its role in managing monetary policy and the re-allocation of responsibilities between the CBM and other state-owned banks. Thereafter, the real work begins. What is the right monetary policy? How quickly can accurate economic data be developed to guide it? When will the CBM have the tools it needs to implement the policy (statutory reserves, repo market, effective exchange rate basket etc)?

Financial Regulation and Supervision

An effective financial regulatory and supervisory regime is required to operate in parallel with an independent CBM. Ideally, one regulatory body should oversee banks, finance companies, microfinance companies and remittance and payments enterprises. Its priorities will include superseding the current manual audit of banks' handwritten ledgers with a more modern risk based approach, applying a stepped increase over time to the minimum capital requirement for banks (some of Myanmar's private banks have only $5m of paid up capital). In addition it will need to implement the adoption of Basel 1 standards (Basel 2 can be applied later - and Basel 3 much later), better control over the issuance of licenses (118 microfinance licenses were issued between November 2011 and November 2012) as well as a more integrated approach to meeting international anti-money laundering and anti-terrorism financing standards. A similar reconstruction is required in the separate regulatory bodies supervising the planned insurance (12 licenses have been issued to private local companies but none are yet operational) and securities sectors (domestic stock exchange and bond market).

Finance System Infrastructure

The lack of key financial system infrastructure is another reason why Myanmar's 4 state-owned and 19 private banks are operating in a cash-based economy. The CBM has no real time gross settlement (RTGS) systems - for either high volume/low value, or high value/low volume transactions. Cheque clearing is done manually at 2 centres in Yangon and Mandalay. The recently launched Myanmar Payments Union (MPU) has adopted a pricing system, which acts as a disincentive to the expansion of bank ATM fleets and charges customers a higher fee for ATM withdrawals in secondary cities compared to withdrawals in Yangon. There is no credit bureau and no deposit insurance scheme. The unofficial *hawala* remittance system is cheap, fast and very effective (aside from the occasional fraud, most recently in Singapore in December 2012). The largest, most commonly available banknote denomination is worth the equivalent of $5, so bank branches typically have 10-15 staff who spend their days counting banknotes and helping carry sacks of cash into and out of customers' cars.

Foreign Banks

It is alluring to believe that allowing foreign banks entry to Myanmar will be a quick solution to many of these problems. Unsurprisingly (given Myanmar's 60m population, large high net worth customer segment, vast demand for short, medium and long-term loans, coupled with rapidly increasing need for trade and remittance services) foreign banks' jostling for entry and issuing of siren calls began some time ago. However, the likely outcome - both in my experience and in numerous research papers sponsored by the IMF - will be different. Foreign banks have already completed due diligence on local banks and, in the main, concluded there is little to be gained from entering into a joint venture. Instead, they hope to use Myanmar's ASEAN free trade 2015 obligations as a lever to gain domestic branching rights. If that happens, salary inflation will occur among English speaking Myanmar nationals as foreign banks poach the brightest and the best from local banks and other industries, the lack of a credit bureau will restrict foreign bank lending to the largest local enterprises (pushing out the local banks from this sector) and local banks will increase fees and charges to SME enterprises to offset lost income. In return, relatively few new local jobs will be created as foreign banks will use their offshore trade finance, remittance, foreign exchange, loan booking and call centres to process transactions.

Local Banks

Private local banks have responded to Myanmar's new status by adopting the "collecting hobby" strategy. Restricted for years to the provision of only very basic services at fixed interest rates (8% deposit rates,13% lending rates), local banks are rushing to "tick-each-box" by adding new services (ATM's, international remittances, links to VISA, Mastercard, CUP, Western Union etc.), and opening more branches. In the stampede, key factors such as differentiation, product management, customer and product profitability, service quality and risk management (cash flow assessment, operational risk etc.) are being overlooked. The first local banks to realise there has to be a better way than spending $1m to buy land and build a branch, or follow their peers by launching "me-too" services, will have the best chance of surviving the impending foreign bank invasion.

Finance Companies and Micro-Finance Companies

Unofficial moneylenders charging usurious rates are all too commonplace in Myanmar. To relieve the burden for Myanmar's hapless poor, there is a need to offer more alternatives to banks, in the form of properly regulated and capitalised deposit-taking finance companies (currently non-existent in Myanmar) and microfinance companies. Co-operatives and various international and national nongovernmental organisations (NGO's) including PACT, GRET, World Vision and Proximity introduced microfinance to Myanmar in the 1990s. However, the recent spate of new microfinance licences risks a future crisis similar to the one in India's Andhra Pradesh region in 2010. Also of concern is the motivation of new holders of microfinance licences - particularly those solely interested in using it as a vehicle to access a full banking licence in the future - via a reverse merger with a bank or an upgrade to their licence.

Capital Markets

For many years the Myanmar Securities Centre languished with just 2 "listed" stocks. Today, there are already worrying signs that excited but naïve local investors may suffer a similar soar-then-crash equity market trajectory seen in Vietnam and other newly emerging markets. New "public" companies - many "green-field" start-ups - are being announced almost weekly in Myanmar, aiming to take advantage of this fresh source of capital. What will happen to investor confidence (for equities as well as the planned domestic bonds) when Yangon and Mandalay's unrealistically high real estate prices crash, or when some start-ups inevitably fail?

The transformation of Myanmar, and its banking and financial sector, can be fraught and dangerous, or considered and calm - and the international community can exacerbate, or facilitate this choice

Conclusion

The World Economic Forum meeting in Nay Pyi Taw is an opportunity for world business leaders to offer Myanmar some sober and constructive advice. The transformation of the country, and its banking and financial sector, can be one of two things - fraught and dangerous or considered and calm - and the international community can exacerbate, or facilitate this choice. As a foreigner living in Myanmar, I hope the government and people of Myanmar will be allowed the time to determine their own future and the nation's rightful role in the world. Myanmar will make mistakes, but responsible leaders, managers, teachers and parents know this is often the best way to learn lasting lessons. How ironic that the success or failure of Myanmar's courageous transformation will rely in large part on another courageous transformation - the global business community choosing not to follow its traditional path focused on grabbing quick profits, but instead concentrating on helping Myanmar learn from the policy mistakes of other newly emerging countries."

The Makings of a Modern Economy in Traditional Dress

Today's Myanmar is undergoing staggering progress as it pushes past half a century of serious underdevelopment. In the wake of decades of British colonialism, followed by socialist and military rule, the nation is reinventing itself. The country is now Southeast Asia's hottest "new" destination with its pristine beaches, snow-capped mountains and cultural heritage spanning more than 2,000 years. Fortuitously, Myanmar's location between two economic giants - India and China - combined with a 60m-strong population and resource wealth, means that it invites ambitious investment plans. Indeed, President Thein Sein has made clear his government's intentions to capitalise on the country's offerings and accelerate the pace of change, with the aim of tripling the size of the economy in the next 5 years. But it won't be easy and there will be inevitable growing pains. Among the multitude of challenges, the country's antiquated financial system is one of the most sizable stumbling blocks to expanding the economy, tourism and foreign investment. Political leaders and fiscal experts widely believe that improving the financial services sector is essential to promoting Myanmar's international and domestic growth. As Than Lwin, Vice Chairman of Kanbawza Bank (KBZ Bank) pithily emphasises, "We have always been the awkward member of the ASEAN but now we are looking for transformation and modernisation."

THAN LWIN
Vice Chairman of Kanbawza Bank (KBZ Bank)

Global interest in Southeast Asia has skyrocketed in the last 10 years, including foreign penetration into the area's varied economies. As a testament to this, many Western firms have based senior decision-making representatives in Asian markets, so as to better maximise their advantage in trade and investment. The numbers say it all. Just 5 years ago, only 19% of non-Asian companies had stationed key players in the region, a figure that has since more than doubled. Such focus has been a significant contributing factor to a 5.3% expansion in the Southeast Asia workforce during 2012, a number that is expected to be even higher this year. While Mongolia, Cambodia and Laos are all on investors' minds, it is really Myanmar that has captured the world's business imagination. A success story in the making, the Asian Development Bank has noted that the economy grew by a striking 6% during the last fiscal year, and continues to rise. Even more promising is the fact that, for the first time, the services industry has outpaced agriculture in terms of percentage of the GDP - with extractive industries like oil, gas, mining and timber being the most productive segments of the economy. This shift symbolises Myanmar's move into the global marketplace. However, the country's bold moves to open up trade and encourage foreign investment, need to be supported by a deepening of the financial sector.

"We hope that the City of London will lend its expertise to help our financial sector develop"
THAN LWIN
Vice Chairman of KBZ Bank

Fiscal reform and institution building is underway but is still considered way behind the curve. The Central Bank of Myanmar has yet to be made independent, and most banks are under-capitalised. Founded in 1994 as a local bank in the Southern Shan State, KBZ Bank is now the nation's biggest in terms of assets, capital and number of branches. Well equipped to take a leadership role, KBZ's success is surprising when the history of the banking sector is taken into account. "The onset of sanctions meant that Myanmar was secluded from the foreign banking community for 25 years," explains Than Lwin, "Access to capital abroad was impossible and added to this we suffered a series of false starts in the past - due to nationalisation, our banking crisis, and the Asian crisis. Trust was broken in the past due to a rolling back on commitments but this is a new era." With nearly 20 years of experience, KBZ has learned to adapt to Myanmar's changing times, as evidenced by the fact that the bank has turned its initial capital of 477m kyats (approx. $0.5m) into 69bn kyats (approx. $74m) to date. Furthermore, its Vice Chairman brings to the table a varied professional background, having formerly served as Deputy Governor of the Central Bank, Controller of the Foreign Exchange, and Technical Assistant to the Executive Director of the IMF. With a view of the banking industry influenced by so many different perspectives, Than Lwin is undoubtedly well placed to understand what the country needs. He speaks frankly but affectionately about the British colonial era, "We disliked colonisation but not the Brits. We appreciate how much they gave the country in terms of rule of law and a good education. We are not a bitter people or resentful like many other places in the world. We are grateful and now we hope that the City of London will lend its expertise to help our financial sector develop, just as the Bank of England offered its expertise to the Central Bank of Myanmar in the past."

On a broader scale Than Lwin firmly believes that incentivising investors to engage in Foreign Direct Investment (FDI) is a top priority. Determined to convince Myanmar of the potential benefits he insists, "We keep telling our people not to be afraid of competition. When you frame the FDI law, doing away with onerous laws, the truth is that it will positively impact job creation, transfer of technology, know-how and HR capacity." KBZ firmly believes that cooperation, much like the Memorandum of Understanding they signed with SMBC of Japan, will help the bank realise its full potential in time. On the policy side, a law regulating joint ventures between foreign and local banks is in the pipeline for 2014. Whereas the entry of foreign banks in the market seems far off to some, Than Lwin speaks of the inevitability of global integration and the need for local entities to stake their own claim. As he so eloquently puts it, "We cannot compete with foreign banks since ours are weaker, but we can complement them."

The bank is an essential part of KBZ Group of Companies, and there is a solid ethos throughout the conglomerate to cultivate a strong work ethic and operate with integrity. Testimony to this, the group recently won the World Finance "Best Corporate Governance Award in Myanmar for 2013" and its Chairman Aung Ko Win was also awarded the State Excellence Award. Receiving first prize among entrepreneurs for the highest tax payments to the State Budget's Revenue (FY 2011-2012) is an impressive achievement in a country where transparency and accountability have been largely overlooked in past decades. And KBZ is in good company because other winners of Best Corporate Governance in 2013 include National Australia Bank and Royal Bank of Canada - to name just two prominent recipients. The stage has been set for more businesses to follow KBZ's lead since 2012 saw the Ministry of Finance publish a directory with the nation's top 100 companies. In this way, foreign partners can recognise like-minded local ones and future investors can identify attractive opportunities.

As it capitalises on its roots and looks to the future, KBZ Bank is gathering momentum with pioneering initiatives. Partnering with Visa it has announced that they are expanding point-of-sale (POS) acceptance of credit cards across the country in hotels, restaurants and shops. Such an effort dovetails with the attempt to widen the appeal of Myanmar as a destination, by making it easier for tourists to pay for food, hotels and souvenirs, in a country that is predominantly cash-based. Visa is working directly with KBZ to enable more than 1,000 retail locations, a move that will empower local merchants as it gives them access to the increasing pool of local cardholders as well as foreign visitors. Such changes would not be possible, however, without the government's strong commitment to liberalising the former state-controlled economy. In anticipation of 2015, when Myanmar is scheduled to join the ASEAN Economic Community and to fully integrate into the global economy, the country has made remarkable strides towards an open and free market. Whereas times past witnessed tourists exchanging their currency on the black market to circumvent rapid fluctuations, today's kyat is stablised and rates are set. Even more important is the striving for clarity. In late 2012, the first set of more than 180 detailed foreign investment regulations was issued. They outline matters regarding land usage and leasing, mortgages and subleasing, transfer of shares, employment and repatriation of funds.

The conglomerate of which KBZ Bank is an integral part, has anticipated well the level of interest from foreign investors and visitors. Just a few years back, the bank purchased an 80% share in Myanmar Airways International and followed this with the launch of its domestic carrier, Air KBZ. By engaging in the tourism trade at this level, the group affirms its ultimate commitment to not only serving the sector but also reimagining the nation and all of its future possibilities. Fiscal innovation, institution building and substantial political reform have helped usher Myanmar into a new, modern century. As the country reinvents itself, it has the potential to offer the region a vast, untapped consumer market as well as to offer up to the world its beauty and intrinsic hospitality. Having already embarked on a remarkable journey, the Myanmar people would undoubtedly prefer to look forward rather than look back.

TOURISM

TOP PICKS iD's Choice of Hotels

Tried and tested by the film crew shooting on location for Myanmar's nation-branding campaign, here are our favourite places to stay.

Traders

in Yangon

www.tradershotels.com

Located in the very heart of Downtown Yangon, Traders is the number one choice for business travellers and for hosting conferences. Besides being efficient, well-managed and well appointed, it is famous among locals and foreigners alike for its splendid breakfast.

Kandawgyi Palace

in Yangon

www.kandawgyipalace-hotel.com

Lavish, lush and lakeside are some of the best words to describe Kandawgyi Palace. An abundance of teak, traditional styling and its picturesque setting make you forget you are in a city, while its service-oriented staff leave you smiling.

Mandalay Hill Resort

in Mandalay

www.mandalayhillresorthotel.com

Besides its grandeur, Mandalay Hill Resort impresses because of its proximity to the pleasures of the former royal outpost. This, coupled with a spectacular pool in an opulent setting, means it's undoubtedly the ideal abode for your stay in the city.

Aye Yar River View

in Bagan

www.ayeyarriverviewresort.com

Tucked away and yet perfectly positioned for sightseeing, Aye Yar River View has it all. In keeping with its surroundings - from locally inspired touches to the architecture to verdant gardens around the pool - it ticks all the boxes in bewitching Bagan.

Hu Pin Khaung Daing

in Inle Lake

www.hupinhotelmyanmar.com

Upon arrival at Hu Pin, pretty over-water and land bungalows greet you - nestled against the shoreline and up the banks of iconic Inle. Don't miss the al fresco breakfast while enjoying the peace and quiet of this part of the lake.

Amazing Ngapali

in Ngapali Beach

www.amazing-hotel.com

Amazing by name, amazing by nature. The hotel is right on the beach offering lovely rooms, relaxation and a host of tasty dishes to delight the palate. Accessible even for a long-weekend, the beauty of Ngapali remains unspoiled and perfectly serene.

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This is the third in a series of features dedicated to Myanmar. If you missed Part 1 and 2 please email us at myanmar@imagediplomacy.com for a digital version

Beginning the Journey of a Lifetime

This will undoubtedly be a week to remember for mainland Southeast Asia's largest country - also cited as one of its poorest. As if hosting the 22nd World Economic Forum on East Asia 2013 was not enough, Myanmar has also proactively stepped out into the arena of the international media with the launch of its nation-branding initiative.

Together, the government and Image Diplomacy (iD) inaugurated Myanmar's campaign yesterday, timing the launch to coincide with, and capitalise on, the platform of the World Economic Forum; not least because of the relevant themes of the East Asia summit - those of courage, transformation, inclusion and integration.

The endeavour is strongly supported by a consortium of FDI hoteliers, who are either already operating or have hotel projects underway in Myanmar. This clearly demonstrates their faith in the future of the tourism and hospitality sector, as well as the growing interest from the global community. It is an industry that is widely believed to be highly instrumental in bettering the lives of the citizens, through the creation of jobs, foreign currency generation and exposure to international best practices.

The various elements of the campaign include a TV commercial and 4-minute tourism showcase accompanied by a 5-minute show reel on socio-economic development (shown at the Forum). All aim to portray the inherent cultural values of the old Myanmar and the optimism of the new Myanmar. In addition, a commemorative book demonstrating the beauty of the people and the country - as well as the progress taking place in Myanmar - was also published by iD with the proud participation of Shwe Taung Group and DELCO, two of Myanmar's leading corporations.

Improving the image of the country and the lives of the nation's citizens - by raising the profile of Myanmar abroad - is at the heart of the initiative entitled "Myanmar LET THE JOURNEY BEGIN". Although the government evidently wants more tourists to come (it hopes to triple 2012's figures by 2015) it is starting from a relatively low base - something which can be turned to its advantage by expanding the tourism sector in a responsible and sustainable manner. That will certainly be vital to the preservation of its precious cultural heritage and environment. Thankfully progressive development seems to be on the cards. The government launched its Tourism Master Plan on 5 June 2013 at the WEF on East Asia demonstrating a strong commitment to this. Devised with the international assistance of the Norwegian government and the Asian Development Bank, the Minister of Hotels & Tourism, Htay Aung explains, "By nature or by product, Myanmar can be a global tourism destination. It has all the potential required. However, for the long-term we need proper preparation. This is why the Master Plan covers a specific timeframe of 7 years from 2013 to 2020. We don't want the market to be saturated and ruin what we have. It is important to manage everything well for the benefit of the people of Myanmar."

"Development on all levels - including infrastructure, institutional framework, as well as products, staffing and services - is imperative in order to be able to responsibly and sustainably expand the sector, and be ready to receive a targeted 2m tourists this year"

HTAY AUNG – *Minister of Hotels & Tourism*

Htay Aung is mindful of the country's limited capabilities in terms of infrastructure, human resources and inventory - all of which are being addressed to accommodate an increase in visitor numbers. "Development on all levels - from infrastructure, institutional framework, as well as products, staffing and services - is imperative in order to be able to responsibly and sustainably expand the sector, and be ready to receive a targeted 2m tourists this year."

The wide-reaching nation-branding campaign rolls out globally today on BBC World News, Channel News Asia & www.bbc.com. To view the wonder of Myanmar on demand, go to www.myanmartourism.org & www.myanmarbranding.com.