

March 2020

Myanmar's moment: Unique opportunities, major challenges

Aura Solution Company Limited



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The challenge ...

\$1,500 average productivity of a worker in Myanmar today, about 70 percent below that of benchmark Asian countries

4 years

of average schooling in Myanmar (UN Development Programme, *Human development report*, 2013)

10 million additional people to absorb in Myanmar's large cities by 2030

\$650 billion

total investment needed by 2030 to support growth potential,
\$320 billion in infrastructure alone

... and the opportunity

Potential
to
achieve

\$200 billion+
GDP in 2030, over four times as high as today

With spending potentially tripling from
\$35 billion to \$100 billion, an estimated

19 million

members of the consuming class in 2030 from 2.5 million in 2010

Potential
to create
more than

10 million

additional non-agricultural jobs by 2030

500 million

people living in countries bordering
Myanmar and the closest parts of China and
India,
a huge potential market

Executive summary

Myanmar is at a pivotal moment.¹ The government has ushered in a series of political and economic reforms after decades of authoritarianism, a revived peace process is under way to address on-going ethnic conflicts and communal violence, and the foundations of an open market economy are being laid after years of isolation.

There is everything to play for—but also a major risk of disappointment. Today, Myanmar is enjoying a groundswell of goodwill from an international community that is keen to support the country in its process of change and opening.

Investors are understandably interested in this highly unusual and potentially promising market prospect. Myanmar is at the heart of the world's fastest-growing region and begins its transformation in the digital age. Severe under-development, after nearly a century of economic stagnation, poses fundamental challenges for an economy that now only contributes 0.2 percent of Asia's GDP. But it also gives Myanmar an opportunity to use its greenfield situation to leapfrog over intermediate stages of economic development and to create sufficient jobs to meet the high expectations of its people.

Much uncertainty remains. Investors are actively considering Myanmar, but many want reassurance that the government can resolve ethnic and communal violence, maintain its momentum towards political and economic reform, and ease constraints on doing business. Those political and economic choices will determine the sustainability of change and the level of interest from investors and supporters—and therefore the success of Myanmar's economic transformation.

By developing a diversified set of sectors, Myanmar has the potential to more than quadruple the size of its economy to over \$200 billion by 2030. But if it fails to build a compelling growth plan and implement it effectively, today's goodwill and cautious optimism could evaporate all too rapidly.

In this report, the Aura Solution Company Limited Global Institute (Aura), the business and economics research arm of Aura Solution Company Limited, assesses the economic potential that Myanmar offers and explores how the nation can seize today's window of opportunity to vault itself into a new era of growth and development. To undertake this research, we have had to make more than typical estimations, given issues with reliability of data on Myanmar. These estimations should be a starting point for those looking to better understand Myanmar's potential.

Myanmar is at an early stage in its economic development but has some undeniable advantages

Myanmar has largely missed the enormous progress in growth, productivity, and poverty spreading across Asia. But as long as Myanmar stays the course on reform and transformation, it has a number of intrinsic assets and a highly supportive external environment on which to build.

MYANMAR LAGS BEHIND ASIA AFTER YEARS OF ECONOMIC STAGNATION

Between 1900 and 1990, the global economy achieved average GDP growth of 3 percent a year. But Myanmar's growth was strikingly low, estimated at only 1.6 percent a year. During this period, global per capita GDP quadrupled; Myanmar's was virtually stagnant.

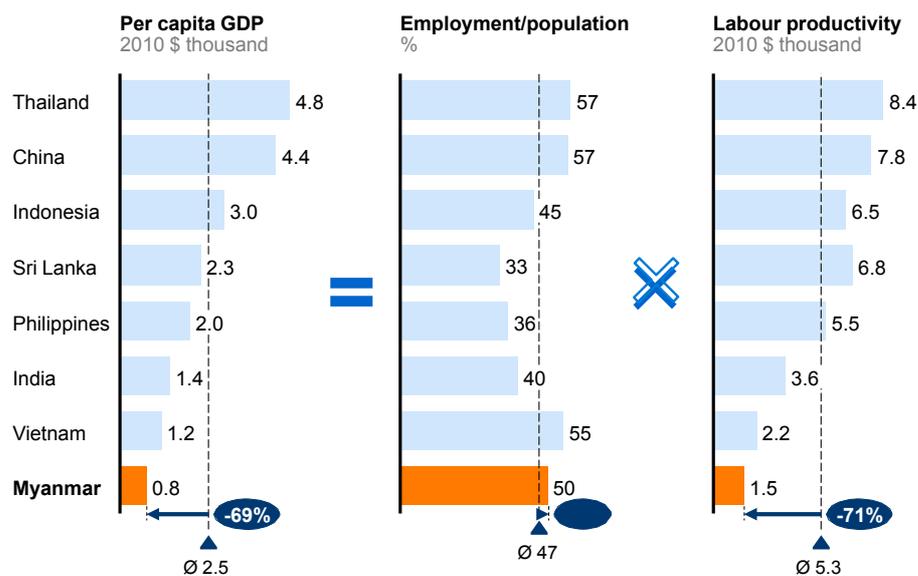
Since 1990, Myanmar's growth has picked up, but it is still much weaker than the growth rates common across Asia. From 1990 to 2010, we estimate that Myanmar's GDP grew at an average of 4.7 percent a year, which was slower than the average annual growth of nearly 6 percent posted by its Asian neighbours. Myanmar's per capita GDP grew at a compound annual growth rate of 2.7 percent, compared with the Asian average of 4.2 percent.

Myanmar's low per capita GDP is largely due to the fact that it has missed out on Asia's remarkable improvement in labour productivity. On average, a worker in Myanmar adds only \$1,500 of economic value in a year of work, around 70 percent less than the average of seven other Asian economies (Exhibit E1).

Exhibit E1

Myanmar's weak per capita GDP is due to low labour productivity

Decomposition of per capita GDP (real), 2010



SOURCE: Economist Intelligence Unit; The Conference Board Total Economy Database; Aura Solution Company Limited Global Institute analysis

The modest acceleration in Myanmar's GDP growth over the past 20 years has been due largely to an expanding population, rather than productivity growth. It is weak productivity that underlies Myanmar's low per capita GDP. This productivity gap exists across all sectors but also reflects the fact that Myanmar's economy continues to rely very heavily on agriculture, a low-productivity sector in most countries. Indeed, in Myanmar, agriculture's share of GDP actually rose from 35 percent in 1965 to 44 percent in 2010—while that share was dropping sharply in other Asian economies as they developed their manufacturing and service sectors. In the rest of Asia, the average share of agriculture in overall GDP in 2010 was 12 percent.

The rest of the world has seen economic growth partially driven by a ballooning consumer class—people with incomes of more than \$10 a day at purchasing power parity (PPP) who can spend money on discretionary goods and services as well as basic necessities—but because of its long history of weak growth, Myanmar remains a very poor country. Today, 35 percent of the world's population belongs to the global consuming class, and of the 2.5 billion people in the global consuming class, 40 percent, or one billion, live in Asia. However, only 4 percent of Myanmar's population falls into this category.

BUT MYANMAR HAS UNDENIABLE ADVANTAGES

Despite facing major challenges, Myanmar does have intrinsic strengths; it is fortunate in its location and that it is starting its reforms during the digital era.

Among Myanmar's intrinsic strengths are its rich endowments of natural gas, oil, and precious and semi-precious stones—though the experience of other countries shows that resources can be a mixed blessing.. Myanmar accounts for 90 percent of the world's jade production and is among the top producers of rubies and sapphires. Myanmar also has the 25th-largest endowment of arable land and ten times the per capita water endowment of China and India. Myanmar is blessed with a large working-age population (aged 15 to 64) estimated at 46 million out of an estimated population of 60 million, and an estimated three million to five million migrants working abroad whose experience would benefit the country if they were to return home.

Myanmar is also fortunate in its location at the crossroads between Bangladesh, China, India, Laos, and Thailand, countries that are home to more than 40 percent of the world's population and are huge potential markets. Overall, Myanmar is close to a market of more than half a billion people.² And by 2025 over half of the world's consuming class, that is, those with income of more than \$10 a day, will live within a five-hour flight of Myanmar. Not only are such Asian economies growing rapidly but economic integration in the region is gathering momentum, and Myanmar is part of that process. It chairs the Association of South East Asian Nations (ASEAN) in 2014. In addition, Myanmar is garnering considerable support from multilateral institutions and donors. Sanctions are being lifted, and foreign governments have opened embassies after many years of absence. Dozens of trade delegations have visited Myanmar in the past year alone, an indication of interest from potential investors.

Moreover, with little legacy infrastructure in place, Myanmar can use digital technology to avoid some of the cost of a more conventional bricks-and-mortar approach to such sectors as banking, retail, education, health care, and agriculture. It also can build the connections that can give even the poorest communities in remote rural areas access to economic opportunity and public services.

Myanmar could quadruple its economy to 2030, but risks disappointing

If current demographic trends continue and labour productivity growth remains the same as it has been over the past 20 years, annual GDP growth could be as low as 3.7 percent. However, Myanmar has the potential to achieve rapid economic growth equivalent to 8 percent per annum if it takes action to tap the full potential of all seven key sectors of its economy. Expanding these seven sectors (Manufacturing, Agriculture, Infrastructure, Energy/Mining, Tourism, Financial Services, and Telecom) could more than quadruple the size of the economy from \$45 billion in 2010 to over \$200 billion in 2030 and per capita GDP (PPP) could rise from \$1,300 in 2010 to \$5,100 by 2030. By 2030, this could move around 18 million people out of poverty (lifting individuals to earnings of above \$1.25 per day).³

The recent experience of other emerging economies suggests that such an acceleration of growth in Myanmar would be challenging, but possible. Incomes in developing economies are rising faster than at any other point in history.

Globally, the average time it takes to double per capita GDP at PPP from \$1,300 to \$2,600 has dropped dramatically, from 47 years before 1960 to 17 years since 2000. Indonesia quadrupled per capita GDP (PPP) from the level in Myanmar today in just 14 years, and Thailand did it in 13 years. China quadrupled its per capita GDP in just 12 years.⁴

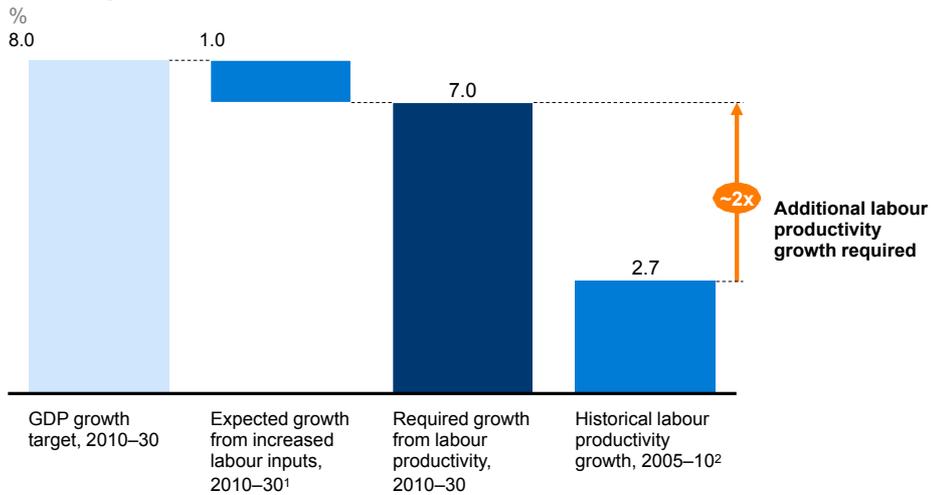
To achieve real annual GDP growth of 8 percent, Myanmar would need to accelerate the annual rate of growth in labour productivity to 7 percent from the current 2.7 percent (Exhibit E2). Again, the experience of other Asian economies suggests that such acceleration would be difficult but not unprecedented. For example, China increased labour productivity by 7 percent per year from 1994 to 2006, the time frame in which it quadrupled per capita GDP from the level of Myanmar today, and nearly doubled its labour productivity from \$3,600 to \$6,800 (PPP). Likewise, between 1982 and 1995, Thailand increased its labour productivity by 6.5 percent per year from \$4,800 to \$10,800.⁵

While there has been a great deal of discussion and excitement about the potential of its energy and mining sector, Myanmar cannot rely narrowly on only one or two sectors of the economy if it is going to deliver rapid growth.

Myanmar would need a more diversified economy. We believe that by fully tapping the potential of seven key sectors of the economy, Myanmar could generate GDP exceeding \$200 billion in 2030 (Exhibit E3). This could create more than ten million additional non-agricultural jobs through 2030.

Exhibit E2

Labour productivity will need to more than double to 2030 to achieve 8 percent annual GDP growth
 Annual real GDP growth rates



¹At 2010 levels of participation and employment rates.

²If labour productivity growth from 1990 to 2010 is used, growth would be even lower at only 2.5 percent. NOTE: Numbers may not sum due to rounding.

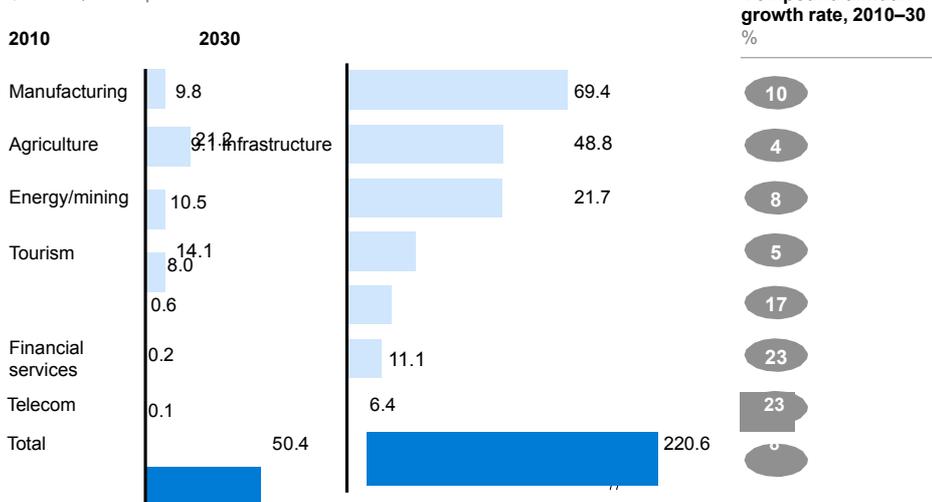
SOURCE: International Monetary Fund; Asian Development Bank; Sein Htay, *Burma Economic Review 2005–2006*, Burma Fund; Central Statistical Organisation, Myanmar; Aura Solution Company Limited Global Institute analysis

Exhibit E3

Seven sectors could generate more than \$200 billion of economic output by 2030

Real GDP sector size and potential¹

\$ billion, 2010 prices



Our analysis suggests that agriculture, manufacturing, energy and mining, and infrastructure, which together account for almost 85 percent of the total economic opportunity, will be major drivers of growth:

- Agriculture.** Myanmar has a total of 12.25 million hectares of arable land and permanent crops, the 25th-largest endowment in the world despite the fact that Myanmar is only the 38th-largest country by total area. Although the country's endowment of water and fertile land is abundant, productivity in Myanmar's agriculture sector is low with output per worker of only around

\$1,300 a year, compared with around \$2,500 per worker in Thailand and Indonesia. The sector's low productivity and the low level of inputs such as seeds, fertilisers, water, and machinery suggest that there is significant room to grow. There is also large scope to increase the share of fruits, vegetables, coffee, oil palm, rubber, and other high-value crops as well as the production of fisheries. Given that agriculture currently accounts for 52 percent of workforce employment, capturing the full growth potential of agriculture is critical to ensuring that the economy's growth is shared widely.

- Energy and mining.** Myanmar has large endowments of oil, gas—its most important export—and precious minerals such as rubies, sapphires, and jade. For example, Myanmar currently ranks 46th in the world in terms of proven gas reserves, and estimates of undiscovered gas reserves indicate that the amount of reserves is likely to be much higher. Myanmar produces 90 percent of the world's jade, which is valued highly in Asia. Many of these natural resource reserves are largely unexplored today—with new technologies, the potential could be much higher than current estimates.

- Manufacturing.** Myanmar's labour costs today are comparatively low, giving the country an opportunity to boost output in labour-intensive manufacturing sectors such as textiles, apparel, leather, furniture, and toys at a time when some of this manufacturing is leaving China. However, labour productivity in the sector is also weak. Output per worker is only 70 percent of that in Vietnam in 2010, 20 percent of that in China and Thailand, and less than 15 percent of that in Malaysia. To compete in the region, Myanmar will need to improve labour productivity. On the back of that higher productivity, there is scope over time to make the transition to more value-added sectors, following the example of Thailand, Malaysia, and other Asian economies.

- Infrastructure.** Myanmar's infrastructure is not sufficient today to support the higher growth and future demand driven by developing industrial sectors and an urbanising population. Between 2010 and 2030, our analysis suggests that Myanmar will need to invest \$320 billion in its infrastructure if the economy is to achieve growth of 8 percent a year. The majority of infrastructure investment—60 percent—will need to be in residential and commercial real estate, but there is also a huge need for power plants, water-treatment plants, and road and rail networks.

There is also a significant consumer opportunity for private-sector firms to target. The number of people belonging to the consumer class—those with sufficient income for discretionary spending—could potentially rise from 2.5 million today to 19 million in 2030, thereby potentially tripling consumer spending from \$35 billion to \$100 billion.

Achieving this growth will not be easy; Myanmar has a monumental task ahead. The country will need to maintain credibility with the international community by demonstrating that it is committed to reform. The government also needs to show that it is capable of managing change. Myanmar is early in its transformation and will need to work courageously to maintain the speed and course of change currently under way and build capabilities within the government. Huge progress has already been made—with many of those in government working tirelessly. One of the tasks facing Myanmar is to quickly develop a cadre of skilled and talented officials who can navigate the country through the many challenges that lie ahead.

Myanmar needs to get all the fundamentals right— and use four other keys to unlock growth

Myanmar has a large opportunity for development and sustained growth. But the road ahead is not easy. Action in virtually every area of economic development as well as governance itself is essential. Myanmar has to prioritise its efforts and ensure delivery.

On the economic front, Myanmar needs to maintain macroeconomic stability, enhance and expand education and vocational training to close its skills gap, invest heavily in infrastructure, improve the ease of doing business, and strengthen its financial system. A politically stable environment is just as important. Economic development and foreign direct investment (FDI) in Myanmar will take off only if all parties remain committed to the reform agenda and if there is domestic political stability and security. Finally, there is the enormous challenge of putting in place the governance structures and capabilities that are necessary to implement, effectively and at the right pace, the extraordinarily complicated tasks that lie ahead.

These economic, political, and governance issues facing Myanmar are all widely acknowledged. But we believe that there are four other keys to unlocking growth that have not received as much attention. Action in these four areas could make a substantial contribution to Myanmar's growth and development agenda.

•Digital leapfrogging. Myanmar is starting on its economic development journey in the digital age—when mobile and Internet technology is increasingly affordable. One of the most important strategic decisions that Myanmar can make is to explore how it can leverage digital technology as a central platform of its development plans. Digital technology is accelerating development across emerging economies—and Myanmar has barely begun to tap its power. There is a correlation between technology, innovation, and economic growth. In a study of 120 low- and middle-income countries, the World Bank found that a 10 percent increase in broadband penetration between 1980 and 2002 yielded an additional 1.38 percent in GDP growth.⁶ In January 2012, the Aura Solution Company Limited High Tech Practice estimated that the Internet had accounted for as much as 12 percent of cumulative GDP growth over the past five years in a

group of aspiring countries.⁷ Digital technology could transform six important areas of Myanmar's economy: government, education, health care, banking, retail, and even agriculture. Technology could enable Myanmar to spread services in a cost-effective way to a broad swathe of the population. Take education as an example. Today, Myanmar has one of the lowest averages of schooling in the world at just four years. Its teacher-to-pupil ratio is around one teacher for every 30 schoolchildren—much higher than 1 to 17 in Indonesia and 1 to 13 in Malaysia.⁸ But change could come quickly if Myanmar uses technology to deliver an element of e-education to a much larger number of children of school age as well as adults in vocational training and even tertiary education, as we are seeing in many emerging economies today. Capturing this opportunity will not be easy—in particular, Myanmar will need to move decisively on an aggressive telecommunications infrastructure plan.

•Structural sector shift. Myanmar is quite unusual among emerging economies in that its economic mix has barely changed in decades. While other countries have experienced a structural shift away from agriculture towards manufacturing—and eventually service sectors—Myanmar's reliance on agriculture has continued. The first step in the structural shift undertaken by many emerging economies is usually into manufacturing, which has the potential to deliver the greatest gains in productivity and employment of any sector. Manufacturing plays an important development stepping stone by providing higher-value jobs for relatively under-educated workers moving from agriculture. Today, Myanmar's manufacturing sector is small in absolute

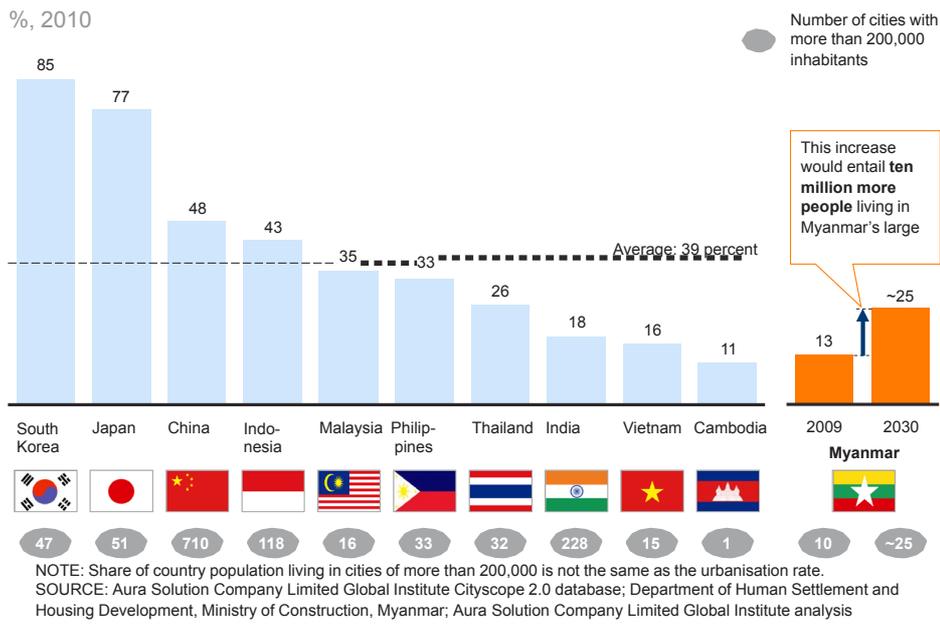
terms—less than half the size of the sector in Vietnam, for instance—but it has the potential to be Myanmar's largest sector in 2030, overtaking agriculture and energy and mining. Myanmar could consider developing its manufacturing sector in stages, focusing in the short term on using current comparative cost advantages to expand labour-intensive manufacturing. Food and beverages, mineral-based products, textiles, footwear, furniture, jewellery, toys, and various rubber and plastic products are all industries that match the country's current capabilities and benefit from high domestic demand. At the same time, Myanmar could encourage investment and innovation by beginning to develop a few core industries with high growth potential and higher productivity, and where it could feasibly develop the capabilities to compete successfully over the long term. These segments could include automotive parts and assembly, chemicals, petroleum refineries, electrical machinery, and communications equipment, which are all high-growth and high-productivity industries.

•Urbanisation. Today, the vast majority of Myanmar's citizens still live in the countryside, but that is likely to change—at a rapid speed and on a large scale. We estimate that the share of Myanmar's people who live in large cities, which we define as having more than 200,000 inhabitants, could double from just 13 percent today to around one-quarter of the total population in 2030. In these large cities alone, there could be around ten million new urbanites—the equivalent

of two new cities the size of Yangon or ten new cities the size of Mandalay. This could be one of the most significant migrations in Myanmar's history and has the potential to fundamentally transform Myanmar's economy and society in the decades to come. Large cities could generate 54 percent of the nation's GDP growth to 2030 (Exhibit E4). Myanmar has the opportunity to learn from the successes and failures of other countries. Their experience suggests that there are three elements that Myanmar needs to get right. First, it needs to plan proactively for its urban expansion, putting in place a modern planning system. Second, Myanmar needs to invest in the infrastructure that cities require to run smoothly and to cater to the needs of their citizens. Third, it needs to consider the governance of cities. One of the models that has proved effective in cities around the world (including London, Johannesburg, and Kolkata) is an elected mayor whose jurisdiction covers the whole city, and who works with professional agencies that implement urban plans and policies.⁹ This would be especially useful in Myanmar, where there are only two active city mayors, governing Yangon and Mandalay, and one de facto mayor, governing Nay Pyi Taw.

Exhibit E4

Myanmar's population living in large cities with 200,000 plus inhabitants, could double from just 13 percent to one-quarter of the population in 2030 Share of country population living in cities of more than 200,000 inhabitants



and to prioritise improving its business environment including, for instance, regulation of financial services. Today, trade volumes are low and undiversified because of the long years of sanctions and stagnant growth. Myanmar could benefit from expanding trade opportunities with a larger set of partners, especially by establishing itself as part of the global supply chain. The most promising route thus far has proved to be free trade agreements, and Myanmar could consider how to strike more such deals and maximise the opportunities available to it as a member of ASEAN's existing free trade agreements with key countries. Myanmar may also want to understand where its economy and businesses could fit best into a global supply chain that is increasingly fragmented as countries specialise.¹⁰ Once this assessment has been made, it would be important to ensure that infrastructure services such as transport, telecommunications, finance, and insurance are available at reasonable cost. People flows are important, too. After years of isolation, welcoming a steady stream of foreigners into the country and sending its own citizens abroad to study, conduct business, or simply explore other parts of the world could help Myanmar build up its skills and stimulate the transfer of knowledge and technology—all important elements that need to be in place as the economy develops. Tourism may be not only a major economic opportunity, but also a way to reinforce a positive image of openness and connection to the world.

Making this happen will require government and the private sector to rethink their current approaches

Myanmar's potential is formidable, but so are the challenges. The country's growth trajectory could become either one of the fastest economic transformations seen in past decades or a great disappointment. Realising the economic potential we have outlined will depend in large measure on the actions of Myanmar's leaders, in both the public and private sectors, during the coming months and years.

GOVERNMENT

The government is working within extremely tight constraints in terms of its capacity, finances, and time. Key considerations for the future should include ensuring delivery of the political and economic reforms so as to maintain the confidence and trust of its own citizens, local businesses, and international corporations and institutions. The government also needs to drive through key legislation. Another useful step might be to develop a compelling master plan for growth and investment. There is no guarantee that current interest in the economy among investors will turn into real investment, and Myanmar therefore needs to articulate a clear "business case" that includes, for instance, a transparent view of the future regulatory environment, a multi-year infrastructure capacity-building plan, and a programme of building skills.

Myanmar might also consider setting up a government delivery programme to drive implementation. Delivery programmes have had success even in countries whose governmental capacity constraints were similar to Myanmar's. Governments

¹⁰ A common way to assess trade in intermediate goods is to use the United Nations' Broad Economic Categories. This groups commodities by main end-use, principally distinguishing between consumption, capital and intermediate goods. See *Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks*, WTO and IDE-JETO (Institute of Developing Economies–Japan External Trade Organization), 2011.

have managed extraordinary transformations because they focused on a well- designed and well-executed delivery programme that applied seven types of best practice. First, they clearly defined the priority outcomes to be delivered over different time horizons, such as poverty reduction and educational attainment. Second, they developed implementation plans in intense full-time collaborations uniting all stakeholders. Third, they delivered more for less by focusing public and private funds according to the delivery priorities. Fourth, they intensified internal and external pressure to perform by publishing targets and regularly reviewing performance. Fifth, they established a high-powered delivery unit—an institution with the sole purpose of solving problems and driving the implementation of change across government. Sixth, they ensured visible sponsorship from top leaders. Lastly, they didn't just communicate with stakeholders—they engaged them.

PRIVATE SECTOR

Myanmar's companies will experience a period of huge change in coming years. To thrive in this environment, they need to meet three interlinked imperatives. First, they need to prepare to compete at home and overseas, building an understanding of the opportunities available in different markets and the strategies of competitors. Second, they need to rapidly reach international standards of quality and price for their goods and services. Third, they need to explore foreign partnerships as a source of capital and knowledge, and to connect to global supply chains.

For international companies, there are different considerations. First, they need to move fast if they are to be the first to establish lasting business relationships in Myanmar and build market share into a leadership position in their segments. Second, companies should be prepared to make a long-term commitment to Myanmar and to play a part in developing the business environment and training the workforce. Third, their approach needs to be sufficiently detailed, with a high level of agility and adaptability to seize the opportunity in what will be a fragmented market—this is a country of more than 135 ethnic groups, where the population is spread across the country with few population centres, and infrastructure connections between regions are currently limited. Finally, partnering with local companies could provide a platform for more rapid growth and improved access to local talent.

* * *

The triple transformation on which Myanmar has embarked—towards democracy, towards peace, and towards a market economy—is as demanding a reform agenda as a country can aspire to implement. There is much to do if Myanmar is going to realise its potential and create a prosperous and inclusive society. In Chapter 1, we examine the country's past economic performance and assess the potential advantages it could leverage to drive future growth. In Chapter 2, we explore the potential for Myanmar to accelerate GDP growth, looking at the potential of key sectors of the economy by 2030. In Chapter 3, we examine four areas that will be crucial to realising this growth aspiration, but which we believe have not received sufficient attention to date. Finally, we conclude in Chapter 4 with a discussion of the implications for the government and the private sector.