



BRI Pulse

Myanmar Post 2021 Coup

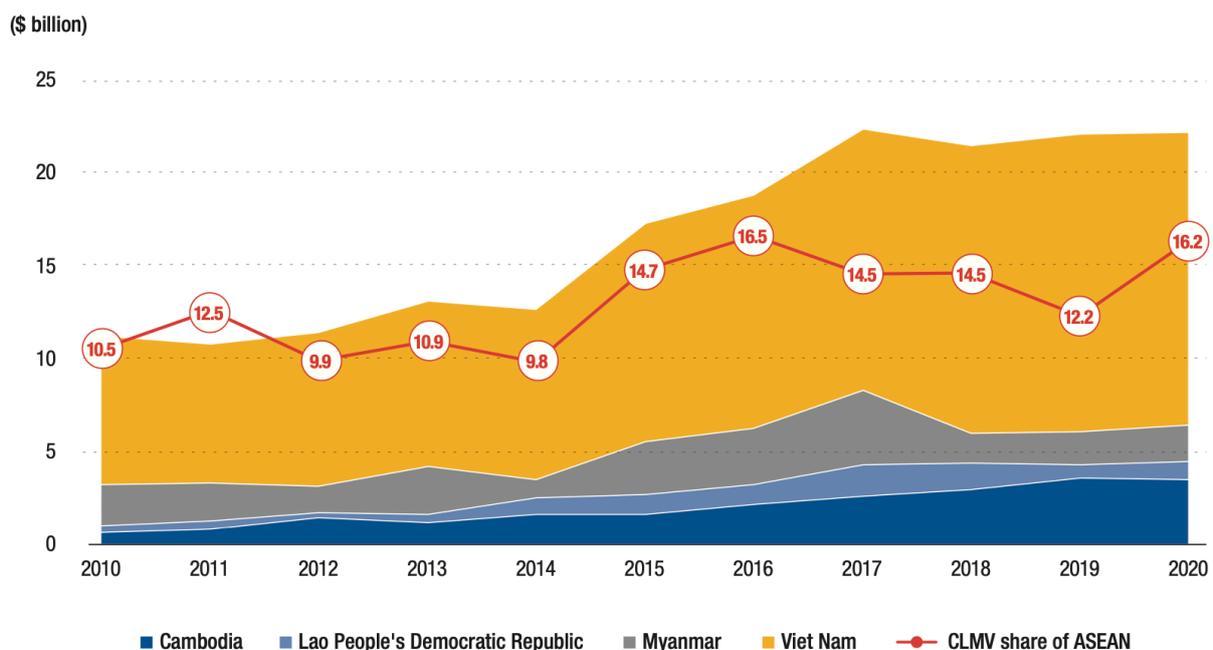
This *BRI Pulse* focuses on the effects on inbound 2021-Q1 2022 investment in Myanmar following the February 2021 Tatmadaw military coup. We begin by discussing Myanmar investment flows pre-2021 within the overall CLMV region. We then look at how investors have many options outside of Myanmar within this high growth region. We then move to analyse major corporate exits of Malaysian assets post-coup but how the Myanmar leadership then moved to more than compensate for the international outflows by accelerating Chinese investment with a focus on CMEC infrastructure projects. It is worth noting that China was actively investing in technology, led by financial technology and e-commerce prior to the coup.

VC and PE Investment

Immediately following the coup, local VC and PE investors were concerned that the capital previously flowing into Myanmar would instead shift into other growth economies in the region which had also been performing very well. It is worth noting that over the prior five years, the Cambodia-Laos-Myanmar-Vietnam (CLMV) sub-region produced annual GDP growth of approximately 6%, double the growth elsewhere in Southeast Asia.

In 2020, while CLMV FDI was flat at \$22 billion, CLMV’s share of ASEAN’s FDI inflows rose from 12.2% in 2019 to 16.2% in 2020. Manufacturing, finance and infrastructure sectors were key drivers.

Table 1
CLMV countries: FDI flows and share of FDI in ASEAN, 2010–2020 (\$ billions and %)



Source: ASEAN Secretariat, ASEAN FDI database.

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Investment funds that previously had allocated capital to Myanmar (Beenext, IFC Omidyar Network, Daiwa Partners, Insitor Partners) either put their plans on hold or began to shift their focus to other CLMV countries, led by Vietnam and Cambodia.

Other attractive CLMV markets outside of Myanmar

Vietnam

- The Venture Capital industry in Vietnam has been developing since 2004, with the establishment of IDG Ventures Vietnam (IDGVV)
- By 2022, there were 61 Venture Capital funds in Ho Chi Minh City – alone
- Some of the most noteworthy investments made by IDGVV include VNG (#1 Internet/Gaming enterprise in Vietnam and arguably Vietnam's 1st unicorn)
- In 2021, there were 106 VC investments into pre-series A start-ups totalling circa \$1.4 billion
- VC overall in Vietnam increased from \$48 million in 2017 to \$2.1 billion in 2021

Cambodia Focused Investors

- Obor Capital (Cambodia) has invested in 5 Cambodian businesses; 1 Vietnamese company
- OCTANE is Cambodia's first indigenous VC firm. Backed by WorldBridge Group
- Emerging Markets Investment Advisers (Cambodia); 3rd fund target of up to \$120 million
- Mekong Strategic Partners based in Phnom Penh; also Thailand, Laos and Myanmar
- In 2020, Cambodia Investors Club launched Cambodian Angel Investors Network (CAIN)
- By the end of 2021, (according to ADB) there were about 30 co-working spaces operating, around 30 incubators/accelerators run by the government, developmental partners, and the private sector. Financing is provided by around 20 angel investors, VC firms, PE firms, and crowdfunding platforms
- Cambodia already embracing blockchain technology. According to data provided by the National Bank of Cambodia in 2021 the payment application processed over 8.16 million transactions worth KHR 2.51 trillion (\$619 million) and \$2.89 billion increasing 62 times and 82 times respectively year-on-year

Laos

- During the period 2015-2019, average GDP growth rate was about 6.6%
- FDI in the Laos increased 28% to \$968 million, driven by renewable infra
- FMO (Netherlands) has proposed a \$10 million investment in an ASEAN Frontier Markets fund, sector agnostic, SMEs in Cambodia and Laos

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Corporate Exits

For the past decade, Myanmar's FDI has grown based on its developments with Asian countries. However, in response to the February 2021 coup and under pressure from activist groups and western nations, several firms began restricting their ties with the Myanmar Economic Holdings Ltd (MEHL), which provides asset management to the military and Myanmar Economic Corporation (MEC).

- Singapore, which has the highest investment in Myanmar since 2011, began removing military affiliated firms from its portfolio in 2021. In 2019, Singapore surpassed China as Myanmar's biggest investor, bringing in an estimated \$24 billion of capital through real estate, banking, shipping and construction
- 11% of the more than 180 Japanese firms stated that they had terminated their operations in Myanmar in 2021. This is despite Japan investing circa \$2 billion equity since 2011 and \$9.5 billion debt over the past decade. However, by 2022, 70% of Japanese companies in the SEZs decided to remain
- In April, South Korean steelmaker POSCO pledged to end a JV with MEHL, a company controlled by the military. POSCO also said it did not believe its unit POSCO International's gas projects in Myanmar had a direct link to the military
- In March, French renewable power producer Voltalia said it would withdraw from its site in the country, where it employed 43 on-site staff, mostly locals
- In October 2021, India's Adani Ports and SEZ Ltd, and its partner KLP (Norway) announced that they would withdraw the \$290 million investment in the military-owned Ahlone Port

Kirin Holdings (Japan) cut its ties with MEHL. Razer (Singapore gaming) decided to divest its indirect stake via MEHL-linked Virginia Tobacco Company. ENEOS Holdings (Japan) announced their departure in May 2021. TotalEnergies (France) and Chevron (USA) announced they would leave Myanmar without any financial compensation, passing control of the Yadana gas field in the Andaman Sea to PTTEP (Thailand), resulting in an estimated \$200 million loss. In January 2022, Australian energy firm Woodside became another foreign company to leave Myanmar.

In April 2022, the Straits Times published an article focussed on Singapore as an important investor in Myanmar despite the 2021 military coup. It made the point that Singapore accounted for \$297 million (\$404 million) approved investment from October 2021 - March 2022. The second largest approved investor during that period was China with \$142 million. The Straits Times story followed the March 2022 sale of Telenor's (Norway) Myanmar operations. The sale was draconian with Telenor writing down the value by \$751 million and later said it would be sold for \$105 million; \$50 million at closing, with the \$55 million in equal instalments over the coming 5 years.

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China to fill the inbound FDI void

As China did following the 1988 coup, China once again moved to fill the inbound investment void as well as to accelerate projects along the important China Myanmar Economic Corridor (CMEC).

It is worth noting that in years preceding the coup, China had already begun growing its Myanmar investments in e-commerce, telecommunications and financial services, with an eye to digitise the economy. Examples include:

Ecommerce

- In May 2018, Alibaba acquired Shop.com.mm. Alibaba then converted the e-commerce shop site to a company following its acquisition of Pakistan based Daraz Group. By 2019, Alibaba's business expansion in Myanmar was underway, as the company aims to expand its current workforce of 230 employees to more than 1,000 over the next few years (mostly locals).

Fintech

- In 2019, Huawei partnered with KBZ Bank (Myanmar's largest privately owned bank) to launch KBZPay. By year end 2020, KBZ pay had become Myanmar's #1 payments provider with over six million registered users and annual transaction value of over \$7 billion.
- In May 2020, Ant Group agreed to invest \$73.5 million for a substantial minority stake in Yangon based payments provider Wave Money, a JV between Telenor Group (Norway) and the Yoma Group/Bank. In 2019, Wave Money's transfer volume more than tripled year-on-year reaching \$4.3 billion. In January 2022, Telenor agreed to dispose of its 51% interest in Wave Money responding to the coup.

During President Xi's trip to Myanmar in 2020, Beijing and the National League for Democracy (NLD) government—since ousted by the coup—signed a letter of intent to speed up implementation of the projects under the countries' BRI agreement. Foreign Minister Wang Yi followed this up with a visit to Myanmar in January 2021 to progress these projects, many of which have been designed to enhance structural connectivity between the Kyaukphyu deep-water port and China. In 2020, both countries had previously agreed to conduct a feasibility study on the \$20 billion Mandalay-Kyaukphyu Railway project designed to connect the Yunnan province to the Kyaukphyu port in the Bay of Bengal. The railway will also run parallel to an oil and gas pipeline that has been already commissioned that will flow energy consignments off-loaded at Kyaukphyu to Yunnan.

In March 2021, one month after the coup, the military regime reportedly reorganized the leading committees charged with implementing the BRI projects. The junta also reorganized the implementation and working committees of the cross-border economic cooperation zones (CBECZ) in Kachin and Shan States, which are key projects under the CMEC (as confirmed by President Xi).

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In April, the Myanmar-China joint committee on economic, trade and technology cooperation was restructured by the junta to oversee and enhance cooperation between Beijing and Naypyitaw.

In May, the regime approved the \$2.5 billion LNG project Mee Lin Gyaing, in the Irrawaddy Delta. The 1,390 MW Mee Lin Gyaing project is to be developed jointly by Yunnan Provincial Energy Investment Group, UREC, Zhefu Holding Group Co. Ltd. and Supreme Group. The project is expected to be complete in 2023; 35% of the power produced will be distributed to Ayeyarwady Region, with the rest going to Yangon via the national grid. The project was the first major foreign investment approved by the regime. There is a 2nd proposed LNG project, this one is valued at \$2 billion.

Power China announced that it has completed the main components [first phase] of a power project in KPSEZ. The \$180 million plant is recognized as an important part of the CMEC and is a joint venture between Power China and Myanmar's Supreme Group. The plant is expected to generate an estimated 1,005 million units of electricity annually for Rakhine State, including the KPSEZ.

We then list below in Table 2 circa \$7 billion of CMEC area projects which have been the focus of both China and Myanmar post the coup. As can be seen, there has been movement on many of these following the coup.

One of the major projects was the development of a deep seaport at Kyaukphyu for \$1.3 billion (as part of an SEZ). CITIC Group owns a 70% majority share in the project, including the development of three SEZs on the Myanmar-China border (bid won in 2015). In September 2021, an agreement to conduct preliminary field investigation work for the Kyaukphyu Special Economic Zone (SEZ) Deep Sea Port Project was signed, signalling another step forward for the project. The agreement was made on 15th September in Beijing.

One of the key BRI projects in Myanmar is the controversial, \$1.5 billion New Yangon City project on the west bank of the Yangon River. The proposed 20,000 acre scheme is projected to be twice the size of Singapore. In April 2018, the New Yangon Development Company Limited (NYDC) signed a \$1.5 billion framework agreement with China Communications Construction Company (CCCC) to build the new city's infrastructure, in exchange for CCCC's right to use of 28 km², (11 mi²) in the city.

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Table 2
China's projects in Myanmar Post-Coup: (BRI)

Name of the project	Total Investment (\$)	Location	Status	Development under the regime
Mee Lin Gyaing LNG	2.5 billion	Ayeyarwady Region	On Going	Approved by Myanmar Investment Commission
Kyaukphyu Special Economic Zone (KPSEZ)	1.5 billion	Kyaukphyu Township, Rakhine State	On Going	Reorganised the Kyaukphyu SEZ management committee with plans to construct
New Yangon City Project	1.5 billion	Yangon	Planning	Land acquisition process is being finalised
Chinshwehaw CBEZ	–	Northern Shan State	Planning	Officials to expedite work on new land border crossing
Kanpiketi CBEZ	22.4 million	Northern Kachin State's Special Region 1	On Going	Approved by Myanmar Investment Commission
Kyaukphyu Power Plant	180 million	Kyaukphyu Township, Rakhine State	On Going	Completed Phase I
Kyaukphyu Deep Seaport	1.3 billion	Kyaukpyu Township	On Going	JV CITIC Myanmar Port Investment Ltd.

As such, it appears that Myanmar's leadership's decision to progress China led developmental projects more than offset capital outflows due to exits of western international companies.

2022 Developments

During 2022, China and Myanmar have moved on to focus on developing both healthcare and digital payments. We list below examples of each.

In March 2022, Myanmar launched the production of Myancopharm COVID-19 vaccines at Myanmar Pharmaceutical Industry (MPI) in collaboration with China. Chinese Ambassador Chen Hai said Sinopharm's cooperative Ready to Fill (RTF) Bulk vaccine plant with Myanmar is the Chinese pharmaceutical company's first COVID-19 vaccine plant officially put into operation in the Asia-Pacific, which will help Myanmar strengthen its capacity to independently produce vaccines.

Minister for Ministry of Industry Than said the ministry and Sinopharm CNBG signed the agreement of RTF Bulk purchase for the production of COVID-19 vaccines in Myanmar in December 2021.

The ministry will be manufacturing 1 million doses of vaccine per month, targeting 10 million doses for 2022-2023 Fiscal Year. The vaccines will be distributed to the Ministry of Health starting in April. As of March 19, over 21.6 million people have been fully vaccinated against COVID-19 across the country, according to the Ministry of Health.

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CBM allows Yuan/Kyat direct payments on China-Myanmar border

Myanmar has allowed Yuan/Kyat direct payments on the China-Myanmar border, according to a notification issued by the Central Bank of Myanmar on December 14. To increase Sino-Myanmar trade and facilitate the flow of goods, Yuan/Kyat direct payments were allowed on the Sino-Myanmar border to facilitate the two countries' payment and clearing systems and to increase domestic currency in line with the objectives of ASEAN Financial Integration. Designated banks have also been allowed to open Yuan accounts of importers and exporters for cross-border trade.

The standard BRI model (as we stated in our Cambodia study in 2018) was to build energy, followed by infrastructure and then followed by private enterprise. Myanmar is an excellent example the flexibility of the BRI model – as well as how China is ready to move when the door of opportunity opens.

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