EUROCHAM MYANMAR

BUSINESS CONFIDENCE SURVEY 2016

FUNDED BY

EUROPEAN UNION

IMPLEMENTED BY

CCI FRANCE MYANMAR
FRENCH MYANMAR CHAMBER OF COMMERCE & INDUSTRY

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EUROPEAN CHAMBER OF COMMERCE IN MYANMAR

EuroCham serves as the voice of European business in Myanmar. Its main mission is to significantly increase the presence of European companies in the country and to facilitate market access, particularly for European SMEs, by advocating for member interests with the government and organisations in Myanmar, the ASEAN region and Europe.

With a strong, growing network of partners, EuroCham offers on-the-ground assistance for European businesses interested in commercial endeavours in Myanmar, whether in the form of advocacy, business services, research or networking.

Myanmar currently finds itself at a political and economic crossroads. After opening up to the world in 2011 and holding its first credible elections for decades in 2015, interest within the European business community in the many underdeveloped economic sectors in the country is on the rise.

Now that Myanmar is in the process of re-entering into the global community, there could be no better time or opportunity for the European business community – and particularly, European SMEs – to invest in one of the fastest-growing economies in the world.

This business confidence survey provides key insights into the current business environment of Myanmar, as experienced by European companies. Furthermore, understanding which sectors are represented and how the companies feel about doing business in Myanmar is a key economic indicator for the Myanmar business outlook.

Yangon, December 2016

EUROCHAM MYANMAR

EUROCHAM CHAIRMAN OF THE BOARD

Dear business colleagues in Myanmar,

EuroCham is on the move. We are growing a bigger presence in Myanmar amongst government authorities, not only in Yangon, but also with our staff in Naypyidaw.

I am excited to present to you EuroCham Myanmar's first ever Business Confidence Survey. As you may know, Myanmar is entering the world stage. Many fellow European companies have grasped the business opportunities that Myanmar has to offer. However, not much is clear on how and where the European businesses in Myanmar operate, and more importantly, what obstacles and opportunities they see down the road. The Business Confidence Survey gives us the right means to focus our efforts where they are needed most.

I would like to thank the many companies that contributed to this survey. You are from all over Europe and from many different sectors. Thanks to your contributions we have been able to develop a solid and representative overview of the state of play for European business in Myanmar.

Wishing you successful business in the coming year!

Sincerely yours,

David Levrat

Chairman of the board of the European Chamber of Commerce in Myanmar

EU AMBASSADOR TO MYANMAR

Dear friends of Europe,

With great pleasure, I received EuroCham's first business confidence survey. The results of this survey are noteworthy and are an important source of information for anybody interested in EU-Myanmar business relations.

Myanmar's opening-up has had a very positive effect on the country's trade relations with the EU. More and more European businesses are willing to invest in this 'last frontier market' of ASEAN. I am delighted to see that European companies - leading both in know-how and corporate social responsibility - are prominent players in Myanmar's economic development.

The companies currently active in Myanmar, who responded to this survey, have been important door-openers for other European SMEs that are now looking to invest in this fascinating Asian market.

This is only the beginning. I very much look forward to an ever-strengthening relationship between European companies and Myanmar.

Sincerely yours,

Roland Kobia

Ambassador of the European Union to Myanmar

EUROCHAM
MYANMAR

Your partner in one of the world's fastest growing economies

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INTRODUCTION: BUSINESS CONFIDENCE SURVEY

Business surveys provide essential information for short-term forecasting, economic surveillance and economic research. Moreover, they are widely used to detect turning points in the economic cycle. Surveys are, therefore, a key insight on top of official statistics, which often only become available after long delays, particularly in emerging markets.

The data generated through this Business Confidence Survey is particularly useful for monitoring economic developments in Myanmar, which will be facilitated by publishing the results on an annual basis.

SURVEY OBJECTIVES

- Measure European business sentiment on Myanmar's economy
- Get an overview of sector representation of European companies in Myanmar
- Investigate the issues and concerns faced in Myanmar by European businesses
- Budget 2015-2016 and impact of economic restructuring
- Plot 2016-2017 investments, business strategies, expansions and manpower (a fiscal year in Myanmar runs between 1st April and 31st March)

This is EuroCham Myanmar's very first Business Confidence Survey (BCS) and we are very satisfied with the high number of respondents, enabling us to provide you with an in-depth overview of the Myanmar business environment. We look forward to next year's survey outcome, where we hope to see a further increase of the positive results already reported, indicating Myanmar's improving business environment.

EXECUTIVE SUMMARY

METHODOLOGY

In EuroCham Myanmar's first BCS, we contacted 103 European companies active in Myanmar and received 56 complete responses, which gives the survey a completion rate of 57.7%.

$$Sample\ Size = \frac{\frac{z^2 \times p(1-p)}{e^2}}{1+\left(\frac{z^2 \times p(1-p)}{e^2 N}\right)}$$

From the population size of 103 and the survey sample size of 56, we have attained a confidence level of 95%, and a 9% margin of error on the statistical truth of the results.

The construction and execution of this survey follows the standards and guidelines on how to develop a survey provided by the EU Commission[1] and the Rotterdam Business School.

RESULTS

The respondents tell us that **98% of European businesses in Myanmar have their headquarters in Yangon. 46% of the European companies** currently active in Myanmar started their operations **after 2011**.

The **sector in which European companies employ the most local personnel is manufacturing.**

Over the last 12 months, **31% of businesses state that the business environment has improved.** 61% feel it has remained about the same.

Regulatory issues and legal uncertainty remain the biggest challenges in Myanmar.

The **biggest reason** for European companies to come and **do business in Myanmar** is the **opportunities in Myanmar's domestic market.**

[1] http://ec.europa.eu/economy_finance/db_indicators/surveys/method_guides/index_en.htm

KEY FINDINGS

82% of European companies active in Myanmar employ fewer than 250 people and have a local annual turnover of less than 50 million euro. Almost all of these companies represent either local offices or subsidiaries of larger European corporations and multinationals.

Of all the respondents, **48%** chose to set up business in Myanmar as a local subsidiary, in the form of a Limited Company.

Furthermore, **16%** of European companies still operating in the market now were already active in Myanmar before 1996.

54% of the European companies in Myanmar employ fewer than 5% of expatriates or foreign passport holders as a percentage of their total staff. **16%** employ between 20-50% expatriates or foreign passport holders.

One third of the companies in the survey stated that they feel the business environment has improved over the last 12 months. However, **58%** say it needs more improvement.

Only **9%** rate the current business environments as poor. The numbers show us that, despite the call for improvement, much progress is being made and a positive trend can be seen.

Another indicator for economic progress is that **50%** of the European companies here are already profitable, and another **46%** expect to be profitable within the the next two to five years.

57% feel that the coming regulatory and legislative changes will have a positive effect on their business for the coming year. Many respondents identified ever-increasing inflation as the main negative factor for their profitability.

1. FIRMOGRAPHICS

This chapter gives a representation of our respondents and in which sectors they are active in Myanmar. The form of legal representation and the location of their offices in Europe and Myanmar are also provided.

1.1. RESPONDENTS LOCATIONS

COUNTRIES THAT CONTRIBUTED TO THE SURVEY

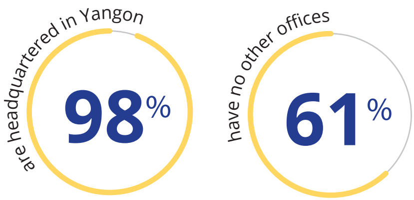
The respondents company headquarters are from the following countries (in alphabetical order):

Austria, Belgium, Burma, Cyprus, Denmark, France, Germany, Ireland, Italy, Netherlands, Spain, Sweden, Switzerland, Thailand, United-Kingdom and Vietnam.

All Asian headquartered companies are either operated by Europeans that are doing business in Asia without a European HQ or most of their trading is with European countries, products or services.

WHERE ARE THE COMPANIES HEADQUARTERED IN MYANMAR

OF OUR RESPONDENTS

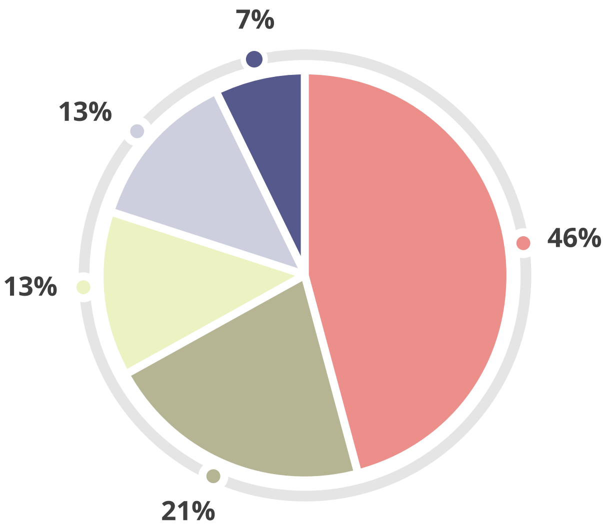


OTHER OFFICES IN MYANMAR

State/Region	Percentage
Mandalay Division	33.9%
Naypyidaw Union Territory	12.5%
Shan State	12.5%
Mon State	10.7%
Kachin State	8.9%
Ayeyarwady Division	5.4%
Bago Division	5.4%
Rakhine State	5.4%
Tanintháyi Division	5.4%
Kayah State	3.6%
Kayin State	3.6%
Magway Division	3.6%
Sagaing Division	1.8%
Yangon Division	0.0%
Chin State	0.0%

In total, 61% of the companies surveyed do not have any other offices besides their main office in Yangon. 34% have another office in Mandalay region, followed by 11-13% with offices in Naypyidaw Union Territory, Shan State and Mon State.

1.2. LEGAL REPRESENTATION

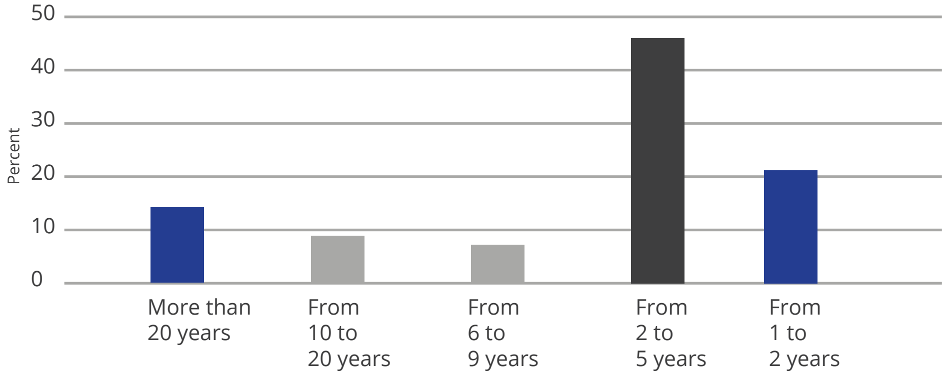


- Local subsidiary in form of a Limited Company
- Local branch of foreign company
- Joint venture between local and foreign business partners
- Local representative office of foreign company
- Joint venture with relevant Government departments and organizations

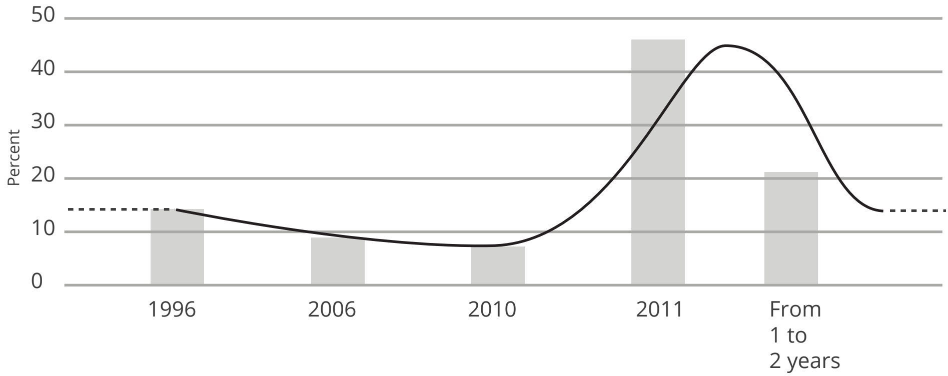
Almost half of the European companies in the survey chose to set up business in Myanmar as a local subsidiary, in the form of a Limited Company. The second most popular choice is installing a local branch of their company in Myanmar. Another 20% operate as a joint venture with either the government or a local partner, and 13% make use of a local representative (office). This last type of legal representation is not allowed to perform direct commercial or revenue-generating activities in Myanmar. Representative offices most commonly perform marketing or liaison activities on behalf of the head office.

1.3. EUROPEAN MARKET ENTRY OVER TIME

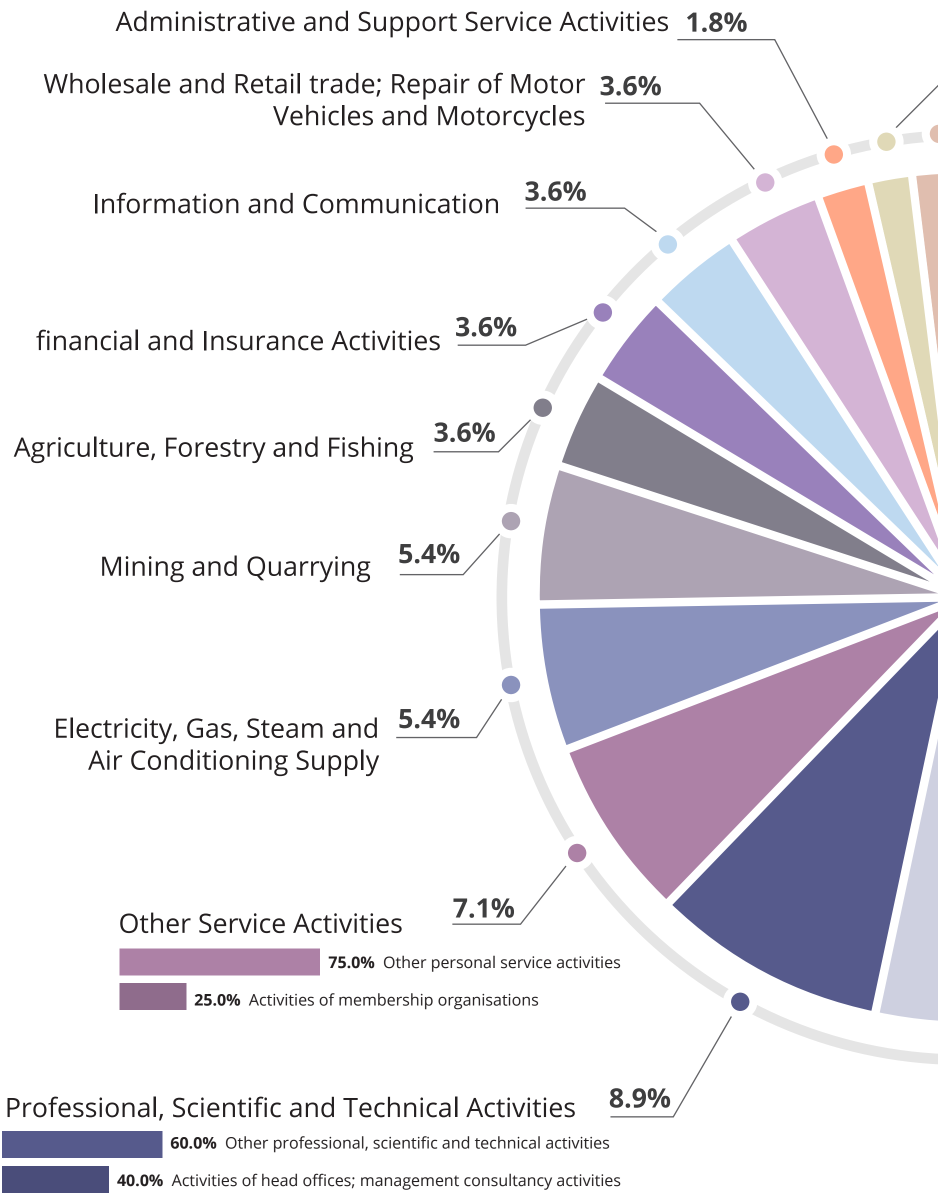
Among the respondents, we can see that some companies set up their business in Myanmar before 1996 and decided to stay in Myanmar through the difficult times of economic sanctions and the oppressive military regime. Some companies tried to enter the market between 1996 and 2011 but the amount of new companies dwindled over time in parallel with the worsening of the political scene. Our data shows that most of the currently active companies in Myanmar entered the market in 2011, as the country opened for investments again. European companies and investors are still entering the market since.

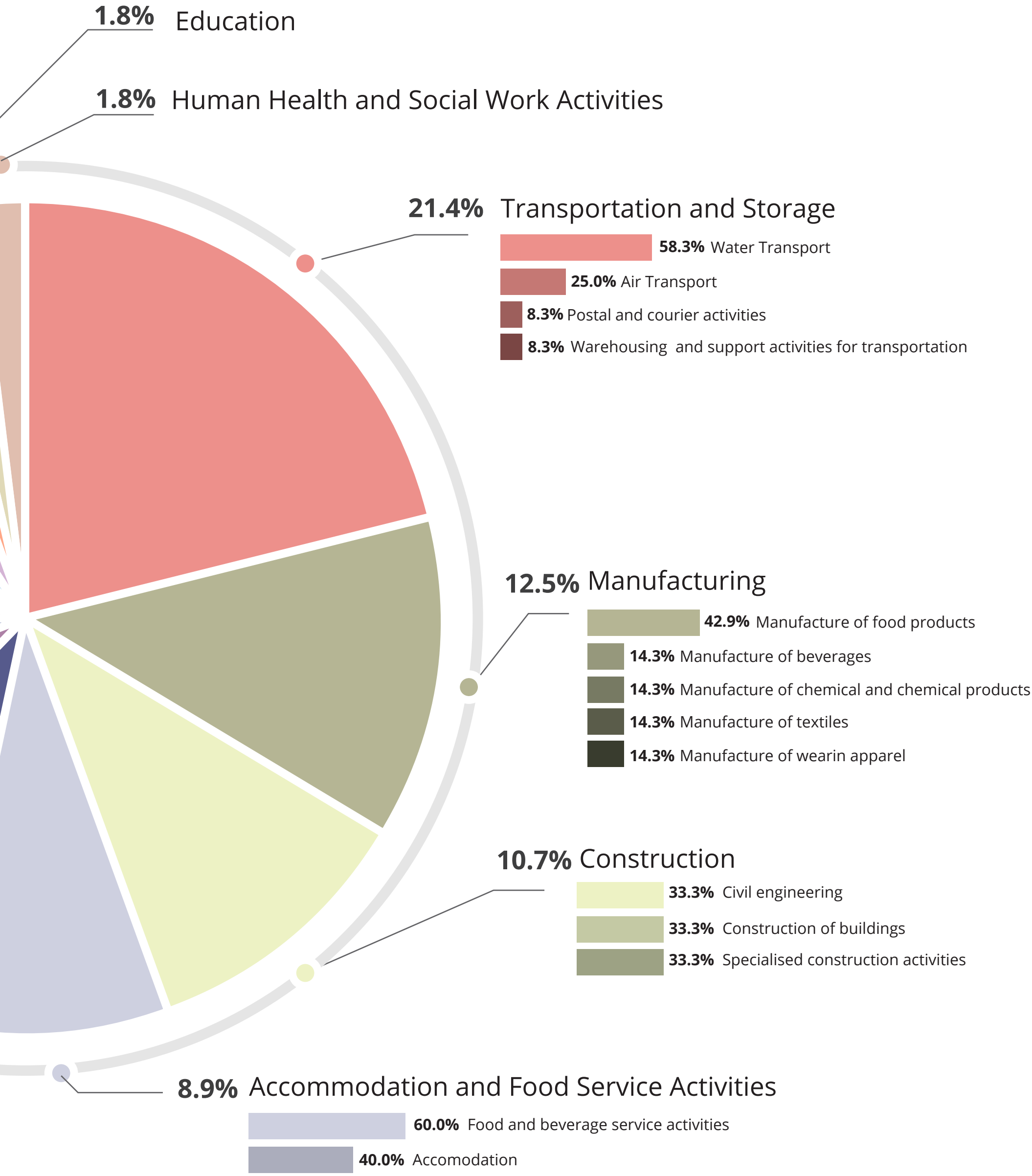


Data shown in a graph over time



1.4. PRIMARY BUSINESS ACTIVITIES





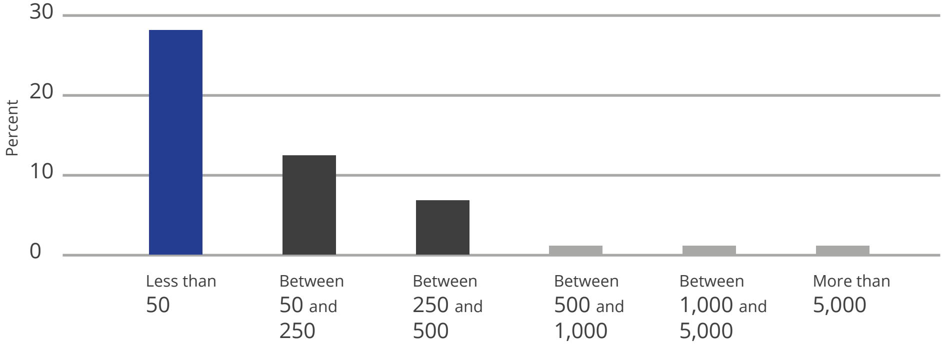
Transportation and Storage is the biggest represented sector among our survey respondents. Manufacturing is the second biggest sector, followed by Construction. Accommodation and Food Service Activities together with Professional, Scientific and Technical Activities are the joint-fourth biggest sectors.

2. CURRENT BUSINESS ENVIRONMENT

This chapter provides an overview of the change in revenue and personnel in the last year, next to showing their current numbers. It also shows their motivation for setting up their operations in Myanmar and how they rate the current business environment.

2.1. EMPLOYMENT

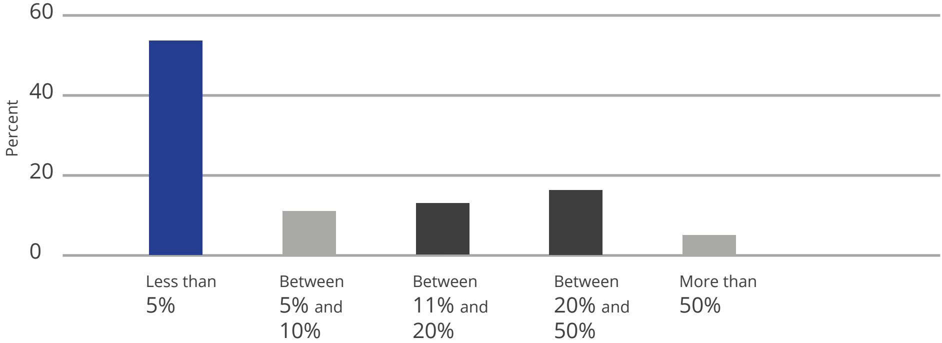
TOTAL EMPLOYMENT RATE OF EUROPEAN COMPANIES IN MYANMAR



82% of European companies active in Myanmar employ fewer than 250 people and have an annual turnover, within Myanmar, of 50 million euro or less.

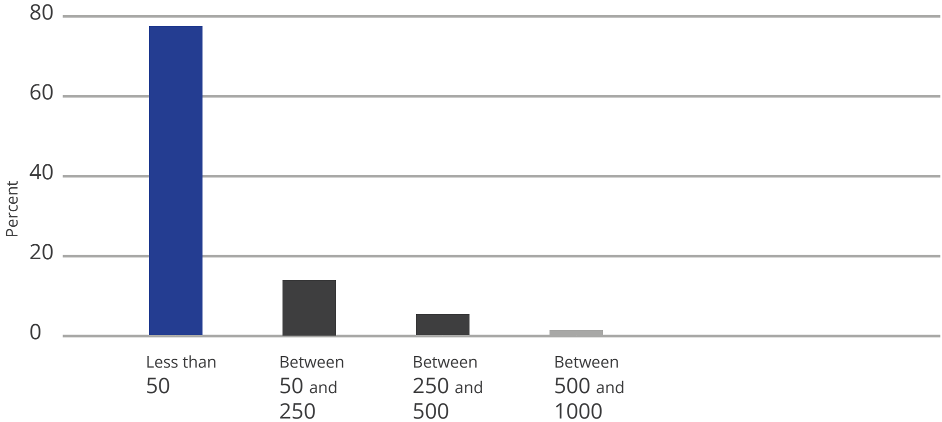
The companies that employ more than 250 people, right up to those employing more than 5,000 people, are creating an incredible amount of jobs for local personnel as their staff headcount is mostly made up of less than 5% foreign passport holders and expatriates. Most of those jobs are in the Manufacturing sector (beverages, food products and textiles). Other sectors such as Accommodation, Food Service Activities, Construction, Mining and Quarrying, Professional, Scientific and Technical Activities, Wholesale and Retail Trade plus the Repair of Motor Vehicles and Motorcycles, and Financial and Insurance Activities make up for the remainder of sectors employing large numbers of local personnel. Their reasons for setting up operations in Myanmar are to expand or establish a regional base of operations.

PERCENTAGE EXPATRIATE EMPLOYMENT OF TOTAL STAFF



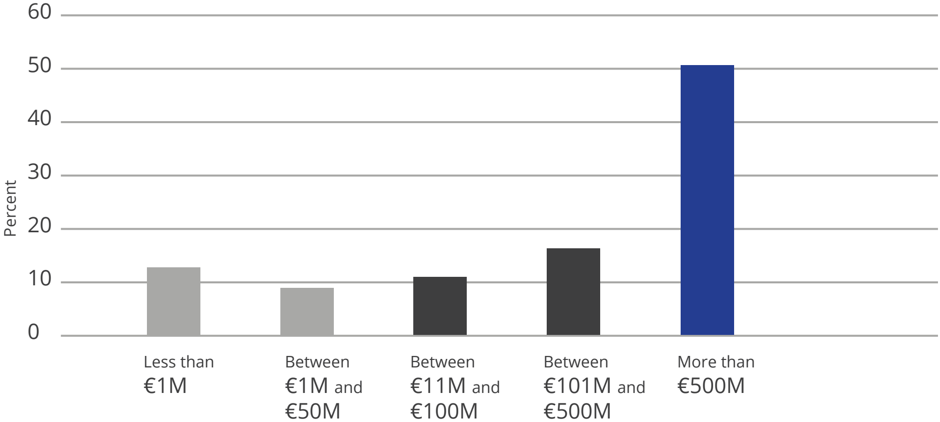
The average among European companies that employ foreign passport holders or expatriates is 12.5% of their staff. Most companies employ less than 5%. Large enterprises only employ 3% expatriates or foreign passport holders in Myanmar.

LOCAL PERSONNEL HIRED IN THE LAST 12 MONTHS

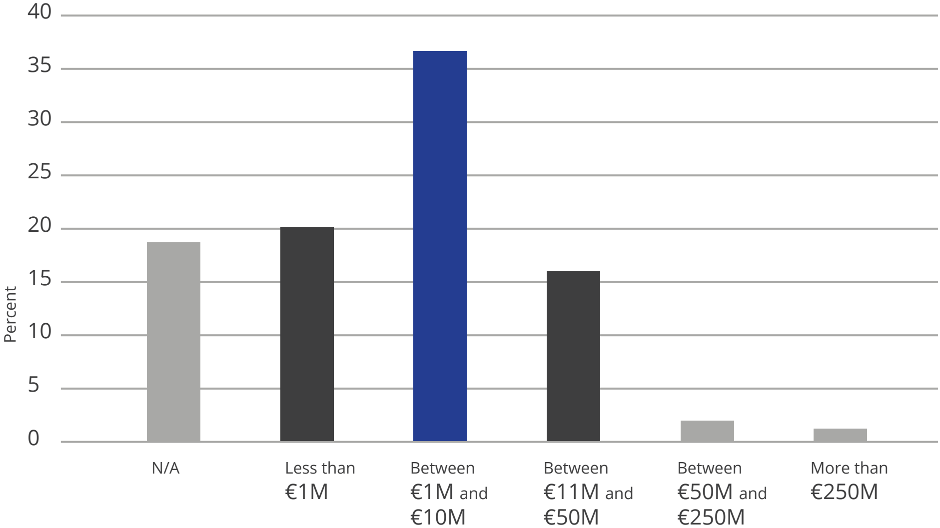


2.2. REVENUE

APPROXIMATE ANNUAL WORLDWIDE REVENUE



APPROXIMATE ANNUAL MYANMAR REVENUE

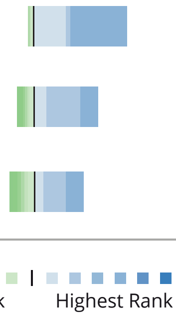


Revenue made in Myanmar is still a small percentage of the total worldwide revenue generated by the European companies active in Myanmar. It will be interesting to see if that percentage grows, and by how much. This information will be available in next year's business confidence survey.

2.3. MOTIVATION FOR MARKET ENTRY

TOP 3 REASONS FOR MARKET ENTRY AS STATED BY EUROPEAN COMPANIES IN MYANMAR

Overall Rank	Item	Rank Distribution	Score
1	Opportunities in Myanmar's domestic market		289
2	Expanding establishing regional base of operations		218
3	Economic reforms		192

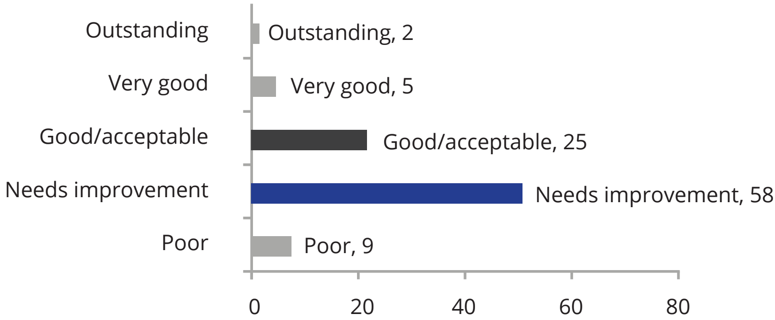


The opportunities offered by Myanmar's domestic market is the main reason for European companies to set up operations in Myanmar, one of the last frontier markets with the highest percentage of prospected GDP growth in the world[2], which also provides an unexplored market of over 53 million inhabitants.[3]

The second and third reasons are the expansion or establishment of a regional base of operations, and the ongoing economic reforms that will stimulate FDI and a promising future. Survey respondents also stated that the untapped potential within the energy sector, particularly "hydropower, oil reserves", together with a low electrification rate in comparison with neighbouring countries and the lack of strong local competition, provides foreign investors with an 'early mover' advantage.

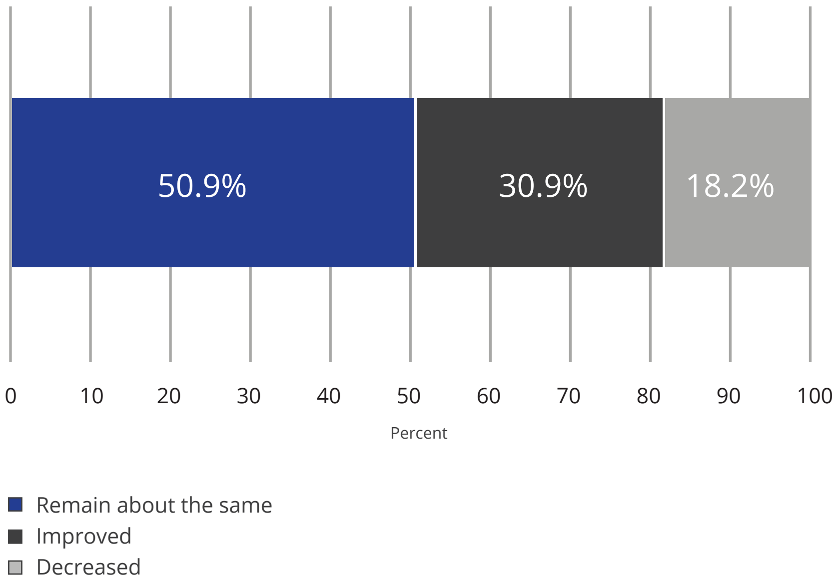
[2] IMF prospected growth of GDP per country (April 2016)
[3] Census by World Bank and DICA on population count (2014)

2.4. OVERALL BUSINESS ENVIRONMENT RATING



58% of the companies surveyed stated that the business environment needs improvement. Only a low 9% rate it as a poor place to do business, and 32% consider the environment to be good/acceptable to outstanding. Considering the planned reinvestments by European companies, they expect to see those improvements realised in the coming years.

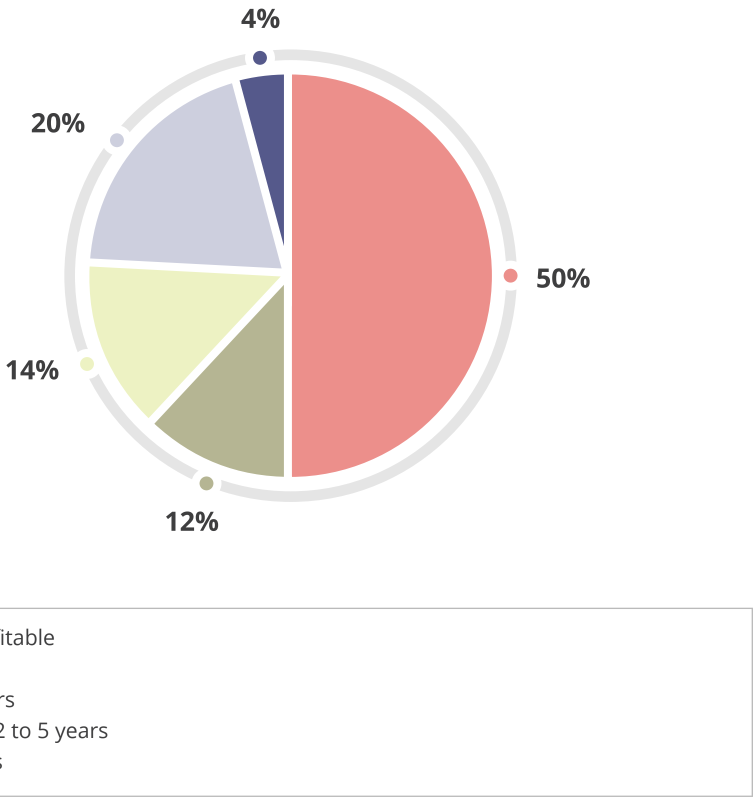
HOW DID THE BUSINESS ENVIRONMENT CHANGE OVER THE PAST 12 MONTHS?



3. BUSINESS OUTLOOK

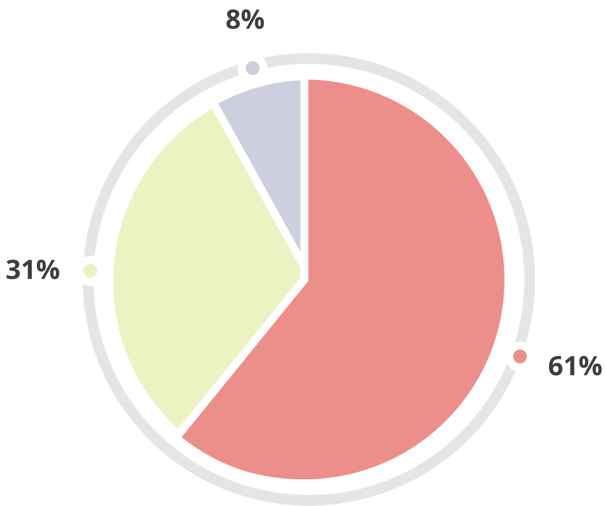
This chapter depicts the expectations of the respondents. It provides an insight of their profitability and operational change next to company goals and whether they will reinvest. The companies also shed light on how they feel about certain country developments.

3.1. PROFITABILITY



Half of the respondents are already profitable at this point. 26% expect to be profitable within the next two years, and another 20% believe their businesses will be profitable somewhere in the next five years. 4% are not expecting any returns in the coming five years and are working towards a more long-term investment plan.

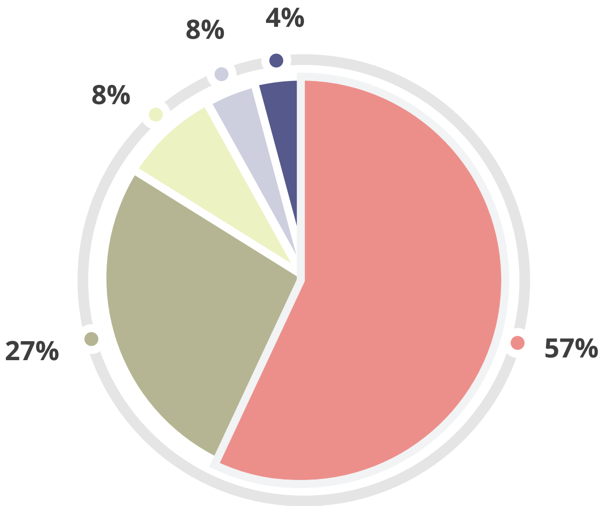
MORE THAN HALF ARE ALREADY PROFITABLE, BUT TO WHAT EXTENT?



- Profitable and meeting budget expectations
- Profitable but not meeting budget expectations
- Profitable and significantly exceeding budget expectations

61% of the profitable companies are meeting their budget expectations, and 8% are even significantly exceeding their budgeted profit expectations. 31% are profitable, but not yet meeting their budget expectations.

3.2. COMPANY GOALS



- Produce goods or services in Myanmar for the Myanmar market
- Other - Write In (Required)
- Produce goods or services in Myanmar for the EU market
- Export from Myanmar to countries not part of the EU
- Export from Myanmar to the EU

The clear majority of companies are producing goods or services in Myanmar for the Myanmar market. 4% are solely exporting from Myanmar to the EU and another 8% are producing goods and services in Myanmar for the EU market. 4% are exporting from Myanmar, but not to the EU. In total, 27% of respondents said that their goals were different than the ones we provided, because they were globally operating companies. Most of these companies are importing goods into the Myanmar market or taking care of product distribution. Some are here for logistical purposes only, and others are producing oil/gas for Myanmar and other countries when the domestic need is fulfilled.

3.3. EXPECTATION OF OPERATIONAL CHANGE

	Greatly Decrease	Decrease	Remains the same	Increase	Greatly Increase
Services provided	0.0%	0.0%	17.6%	74.5%	7.8%
Market share	0.0%	3.9%	33.3%	52.9%	9.8%
Competition from local firms	0.0%	2.0%	43.1%	47.1%	7.8%
Profits	0.0%	3.9%	23.5%	62.7%	9.8%
Over all Myanmar business activities	0.0%	3.9%	13.7%	76.5%	9.8%

This chart paints a positive picture of growth for the coming three years, and shows that the European business community is keen on expanding their services and overall business activities within Myanmar. The feeling about local competition is a mixed one, with some expecting to see an increase and others expecting it to remain the same over the next three years.

3.4. COUNTRY DEVELOPMENTS

	Siginificant negative effect	Somewhat negative effect
Economic nationalism in myanmar	5.9%	35.3%
Protectionist policies in Myanmar or other countries	9.8%	33.3
MMK apperciations	3.9%	15.7%
Tight Monetary policies	3.9%	37.3%
Increasing inflation	7.8%	45.1%
Increasing minimum wage standards	2.0%	25.5%
Other legislative or regulatory changes	5.9%	9.8%
Economic nationalism in other countries	0.0%	15.7%

Our survey respondents have told us that they feel that the legislative and regulatory changes will have a positive effect on the economy (from slight to significant). The appreciation of the Myanmar Kyat (MMK) is also viewed as a positive development.

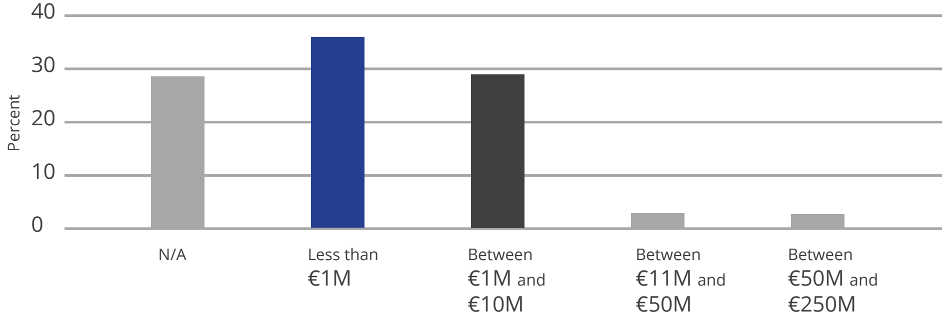
The increasing inflation and tight monetary policies are a slight concern to the European business environment, followed in importance by economic nationalism and protectionist policies in Myanmar or other countries.

The Respondents are divided in their opinion about what an increase of minimum wage standards will mean for their business activities. A quarter of the respondents view this as a negative development and an opposing quarter believes this to be positive.

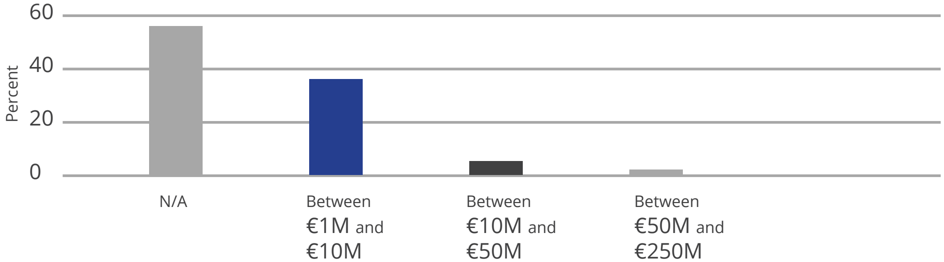
Remain about the same	somewhat positive effect	Signinficant positive effect	Uncertain	Not applicable
27.5%	9.8%	3.9%	15.7%	2.0%
27.5%	9.8%	5.9%	11.8%	2.0%
29.4%	27.5%	5.9%	11.8%	5.9%
25.5%	13.7%	7.8%	9.8%	2.0%
29.4%	5.9%	0.0%	9.8%	2.0%
37.3%	21.6	5.9%	3.9%	3.9%
13.7%	35.3%	21.6%	11.8%	2.0%
41.2%	7.8%	5.9%	15.7%	13.7%

3.5. REALISED & BUDGETED REINVESTMENTS

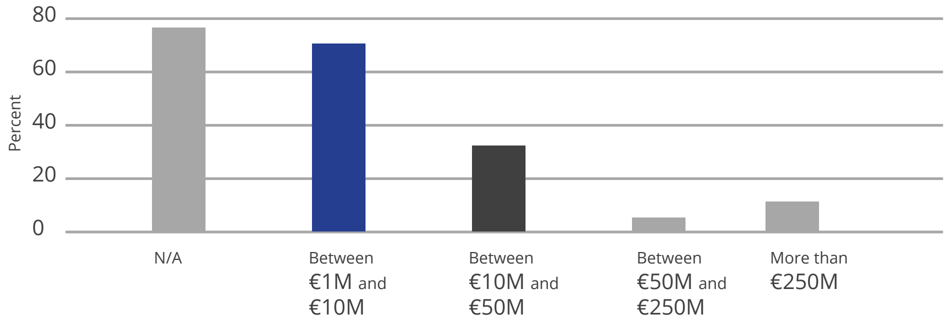
REALISED REINVESTMENT VOLUME IN MYANMAR LAST YEAR



BUDGETED REINVESTMENT VOLUME IN MYANMAR NEXT YEAR



BUDGETED REINVESTMENT VOLUME IN MYANMAR IN THE NEXT 3 YEARS



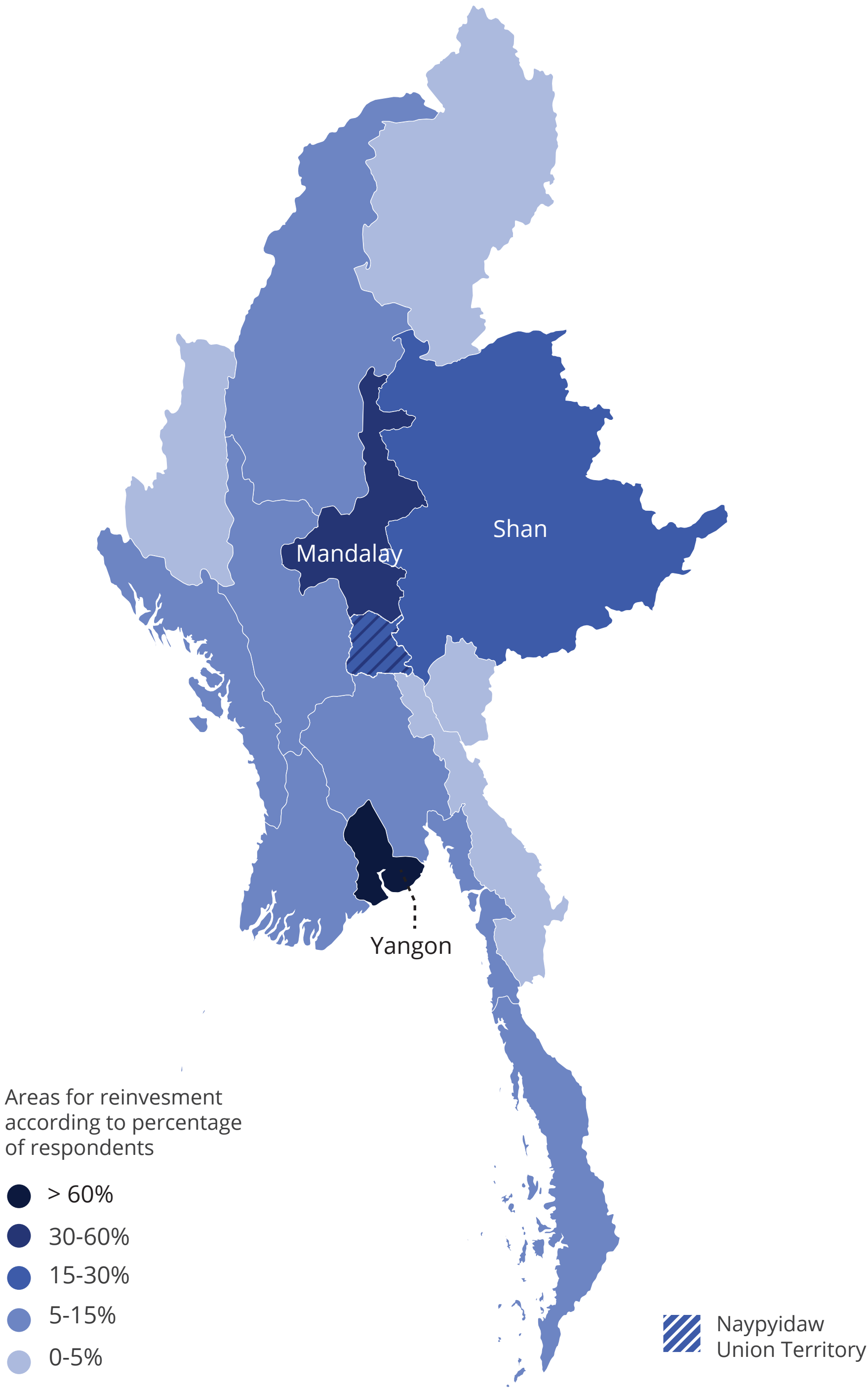
The respondents to this survey said they are planning to reinvest anywhere between 70 million euro and 540 million euro into Myanmar over the next year. For the next three years, they have budgeted a minimum of 660 million euro up to 1.39 billion euro in total.

3.6. REINVESTMENT DESTINATIONS

LIKELY GEOGRAPHICAL ZONES FOR FUTURE REINVESTMENTS

Value	Percent
Yangon Region	64.0%
Mandalay Region	52.0%
Shan State	18.0%
Naypidaw Union Territory	16.0%
Taninthayi Region	12.0%
Bago Region	12.0%
Magway Region	12.0%
Rakhine State	12.0%
Ayeyarwady Region	10.0%
Mon State	8.0%
Sagaing Region	6.0%
Kayah State	4.0%
Chin Staet	4.0%
Kayin State	4.0%
Kachin State	2.0%

Yangon and Mandalay can expect the most reinvestments over the coming years. Shan State and Nay Pyi Daw are also popular places of interest for European reinvestment.


Shan
Mandalay
Yangon
Areas for reinvesment according to percentage of respondents
> 60%
30-60%
15-30%
5-15%
0-5%
Naypyidaw Union Territory

3.7. COUNTRY CHALLENGES

TOP 5 CHALLENGES THAT HINDER OR LIMIT OPPORTUNITIES FOR GROWTH IN MYANMAR

Overall Rank	Challenge	Rank Distribution	Score
1	Regulatory issues		475
2	Legal uncertainty		445
3	Lack of qualified labour force		398
4	Financial infrastructure		275
5	Transportation infrastructure		265

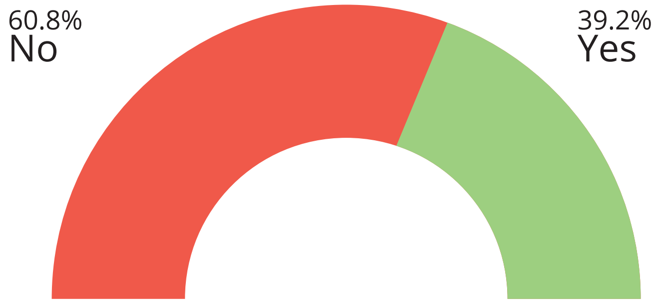
Lowest Rank | Highest Rank

Regulatory issues and legal uncertainty are the biggest challenges European companies face in Myanmar. There was only one vote separating the first and second challenge in this year's top 5. The lack of qualified personnel availability is in third place, with far more votes than the fourth and fifth placed challenges, financial and transportation infrastructure issues. Places 6, 7 and 8 consist, respectively, of foreign competition, energy infrastructure and local competition.

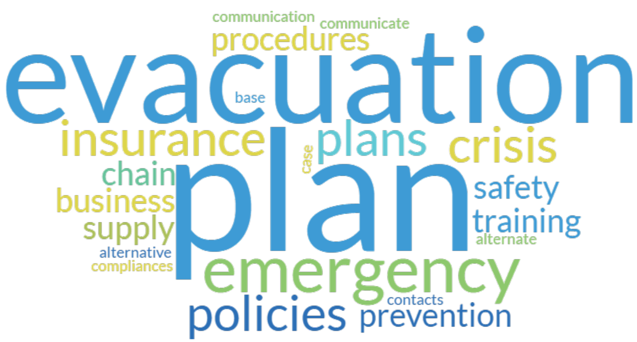
Another interesting find is that the possible challenge of 'Insufficient Intellectual Property Rights Protection' was rated very low and is not considered a high priority challenge according the European companies in this survey.

3.8. EMERGENCY PREPARATIONS

HAS YOUR COMPANY MADE SPECIFIC PREPARATIONS FOR EMERGENCY SITUATIONS, SUCH AS A POTENTIAL OUTBREAK OF INFLUENZA OR AN EARTHQUAKE OR OTHER NATURAL DISASTER?



There is a lot of room for improvement here, as we can see that 60.8% of European companies in Myanmar have no preparations in place in case of force majeure. The 39.2% that have prepared have done so through the following means:



CONCLUSION

EuroCham believes this survey to be an accurate representation of the wishes and needs of the European business community in Myanmar.

The results indicate that European companies are generally positive about the future for their businesses in Myanmar. Furthermore, the respondents believe that the country shows promise for the coming years, and they are planning on reinvesting.

However, the business environment of Myanmar for foreign direct investment is still in need of improvement. European companies can support these efforts by providing examples for standardisation in - among others - CSR, safety regulations and sustainability.

Because of the positive business prospects, EuroCham believes that businesses not yet active in Myanmar should be encouraged and inspired to contemplate possible investment in the last frontier market in South East Asia.

Likewise, the results are effectively a compliment for the newly-appointed government, and hopefully an encouragement to continue the difficult work of changing Myanmar into a welcoming market for foreign direct investment. EuroCham is determined to continue as a constructive partner to Myanmar's government, helping to achieve its economic objectives.

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