WORLD

THE SCRAMBLE FOR BURMA

Investors size up opportunities in the newly open nation, even as it struggles to implement political and economic reform

BY HANNAH BEECH/RANGOON

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Changing fashions on the streets of Rangoon could portend a new era of consumerism

Photographs by Sim Chi Yin

WILLIAM SELIG HAD SCOPED out investment opportunities in Mongolia. There was a uranium mine in Kyrgyzstan that also held promise. But on a trip to Thailand in 2011, a friend sold the New York native on the isolated, impoverished country next door: Burma, also known as Myanmar. "He said that it's going to be bigger than anything you've ever seen before," Selig recalls. By January 2012, he had moved to Rangoon, the country's largest city, to start a firm that shepherds foreign investment. "I expected to spend two years just setting up shop," he says, "but we're already doing business."

Daily power cuts, cratered roads and Burma's ranking as one of the world's least transparent economies haven't diminished Selig's enthusiasm. "Any emerging market is exciting, but the scale of Myanmar is just massive," he says, reeling off its treasures, which include the world's largest caches of jade, rubies and teak, plentiful gas reserves and a population of some 60 million, desperate to reclaim Burma's former glory as a wealthy trading hub.

In the middle of the past century, airlines flying from West to East would routinely stop in Rangoon, a polyglot city that defined globalization long before the word gained vogue. Today, foreign executives are again touching down, eager to explore an untapped market shuttered for nearly 50 years by self-imposed seclusion and socialist-style mismanagement. In recent years, cowboy capitalists have sought the next frontier market in Mongolia, Romania, Honduras and Mozambique, among others. Now it's Burma's turn.

The once reclusive military regime began in 2011 to launch reforms that have opened up this resource-rich land. In April 2012, parliamentary by-elections ushered in opposition legislators, including veteran democracy campaigner Aung San Suu Kyi, who had spent most of two decades under house arrest. Western governments have responded by suspending or lifting sanctions imposed on the regime for its appalling human-rights record. (Asian nations like China, Singapore and Thailand have long invested in the country.) "I first came as a visitor four years ago," says Briton Andrew Rickards, who in November 2011 took over as CEO of Yoma Strategic Holdings, a local conglomerate founded by Hong Kong–Burmese businessman Serge Pun. "I made up my mind in a day or two that in my lifetime there wasn't going to be another country that was so far behind that could catch up so fast given a few crucial changes at the top."

Google's Eric Schmidt visited in March, and George Soros, who has poured millions of dollars into pro-democracy initiatives in Burma, is part of a joint bid for a lucrative telecoms license. CEO Howard Schultz predicts that Starbucks will be caffeinating the country within a couple of years. KFC may move in sooner, while Heineken, Carlsberg, PepsiCo and Coca-Cola are already committed. Automaker Ford also announced its return last month. The latest foreign-investment figures show a fivefold jump in the 2011 to '12 fiscal year, mostly in the garment industry. This year, the increase should be far higher. On May 20, Burma's President Thein Sein, once banned by the U.S. because of his membership in the junta, was welcomed in Washington by U.S. President Barack Obama, who spoke of "the prospect of increasing trade and investment in Myanmar."

It's hard to sufficiently underline just how quickly Burma is transforming. Little more than two years ago, the country cowered under a xenophobic junta that spent nearly half a century bankrupting what was once the world's largest exporter of rice. For decades, private business had been a perilous enterprise—although, in the latter years, a clique of top brass and their cronies fed on Asian investment that came with no human-rights strings attached. Western sanctions further detached Burma from the modern world, despite its strategic positioning between India and China. Back then, Burma boasted no billboards for Samsung gadgets or L'Oreal mascara. Government restrictions meant that mobile SIM cards could cost $4,000. (Mobile-phone penetration is below 10%, compared with 85% worldwide.) Some ordinary cars sold for upwards of $100,000 in a country where the average person lives on $3 a day. And Burma was a place of fear. "When I used to come back to visit, I would clean out my computer because if I was caught with anything considered prodemocracy, I could be arrested," says Min Zar Ni Lin, an economic researcher and one of hundreds of white collar exiles who have returned in recent months.

Today, in Rangoon, also called Yangon, citizens openly trade political gossip and censorship no longer straitjackets newspapers. Gleaming Toyota Land Cruisers are replacing wheezing sedans of 1980s vintage. Everything seems under construction. Jackhammers provide the percussive backdrop in neighborhoods once more attuned to the footfall of Buddhist monks collecting alms. An arcane system of multiple currency-exchange rates has been abolished and banking reform initiated.

Smell the coffee *Modern cafés are proliferating in Rangoon as a long-isolated population catches up with the world*

"I never imagined I'd live here," says Ivan Pun, Serge Pun's son, who, like so many scions of the country's elite, grew up overseas. But after a stint studying at Oxford, apprenticing in New York City and hanging out in Beijing, Pun took another look at the country that made his father rich. Now the 28-year-old works in corporate development for Yoma, which focuses on real estate, tourism and banking. The company is deluged daily with requests to partner foreigners in everything from importing secondhand cranes to setting up motels. "It's all changed so fast," he says, sipping an iced latte. "It's like these things that normally take years or decades happened in a few months."

No So Fast, Investor

BUT IF BURMA BOASTS UNCOMMON POTENTIAL, it also faces substantial challenges. The good news for companies is that the country craves almost anything from cars and bubble gum to air conditioners. The bad news is that it lacks nearly everything needed to run a business: stable electricity, ample paved roads, logistics, middle managers, an operational tax system, normal bank loans and laws governing industries attractive to foreign investors, like mining. Limited real estate means that office prices in crumbling parts of Rangoon rival those of Manhattan. After months in which former regime cronies tried to protect their coddled enterprises, a foreign-investment law was finally enacted late last year. But will it be implemented, particularly on the local level? Military-linked conglomerates, with anodyne names like the Union of Myanmar Economic Holdings, still enjoy disproportionate power and access to choice concessions. "Yes, I'm frustrated," says Winston Set Aung, Deputy Minister for National Planning and Economic Development. "But I would say I'm optimistically frustrated. We cannot expect too much, too fast."

In this sense, Burma doesn't differ from other frontier markets struggling to overhaul problem economies. What distinguishes it is the fact that it has embarked on political and economic reforms simultaneously. "I have a lot more faith in this country long term than in a China or Vietnam, which went for the economic fix but is now having to deal with tremendously complicated political issues," says Yoma's Rickards.

But despite Thein Sein's much lauded political reforms, Burma is hardly a functioning democracy. The 2008 constitution ensures that top leadership positions and a chunk of parliament are reserved for those with military backgrounds. Political prisoners still languish in jail. Local chieftains act with impunity, grabbing land from struggling farmers. Rule of law remains theoretical and the security forces do not scruple when it comes to attacking peaceful protesters. For Americans wanting to do business, a U.S. Treasury Department blacklist of certain local individuals and companies serves as a reminder of the tight bond between the Burmese military and its economic enablers.

Burma has also hosted some of the world's longest-running ethnic insurgencies, precisely in the borderlands that possess so many natural resources. Although cease-fires have been signed, battles flare in the country's northern and largely Christian Kachin state and, to a lesser extent, Shan state. The army's record of rape and forced labor in these frontier regions still looms. Sectarian violence also blazed last year in western Arakan (or Rakhine) state, between the Buddhist majority and the stateless Muslim Rohingyas, who bore the brunt of the hundreds of fatalities. Further anti-Muslim bloodshed occurred this year in central Burma, where dozens were killed and tens of thousands displaced. The communal strife has dented the tourism sector, which last year welcomed 1 million-plus holidaymakers, lured by Burma's golden pagodas, ancient ruins and unspoiled beaches.

For all the excitement surrounding Burma, many big players are still wary. Why commit to a country where there's little legal recourse to protecting assets? "If I'm a private-equity guy from Europe," says Selig, "it makes more sense to buy a power plant in Cyprus, where there's rule of law, rather than risking it in Myanmar." Other potential investors are waiting for the 2015 elections. If the polls are free and fair—by no means a certainty—the victor will likely be Suu Kyi's National League for Democracy. But the Nobel Peace Prize laureate is barred from serving as President unless the constitution is amended.

The military's proxy Union Solidarity and Development Party, which prevailed in flawed 2010 polls, will be loath to give up control, and lurking behind the scenes are conservative military elements presumably displeased by the diminishment of their power. An army coup in 1962 displaced a weak civilian government beset by ethnic violence. "We need ethnic stability if we want lasting economic development," says Win Min, another returnee, who works at the Myanmar Development Resource Institute, a quasi-governmental research group.

None of these concerns, though, have dissuaded Alisher Ali, an Uzbek-born investment manager who, after his second trip to Rangoon last June, moved his wife and four children to Burma. Last year, he set up one of the first Burma-specific investment funds for which he says he raised $25 million. His investors hail from Russia, Kazakhstan and Mongolia. Having grown up in the Soviet Union, Ali knows how painful the transition from a totalitarian system can be. "I see the risks in investing here," he says. "But what has impressed me most is how quickly Myanmar has opened up and how quickly people have shed their fear. In the long term, that's what matters." ■

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