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## REMEMBERING THE FUTURE Vol. 4, Issue 1-2, September-October 2012

### **Myanmar (Burma): The Bridge between India and China, and the Route to the New Asia**

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#### **Introduction**

We initially contemplated writing about Myanmar (former Burma) more than a year ago, when the first signs of political liberalization appeared. When the US lifted the sanctions, it started becoming clearer that Myanmar will experience significant growth and investment opportunities in the foreseeable future. In a nutshell, Myanmar has the potential of becoming the crossroad of Asia. Its geopolitical landscape changes and with that change assets will be awakened, capital and wealth will be created, and spheres of influence will be impacted. The US - strategically thinking - is spearheading those changes, knowing well that an ally in that crucial part of the world will become the bridge not just between India and China, but most importantly the bridge to pipelines, ports, highways, new markets, and new means of transportation.

The unfolding story of Myanmar keeps reminding us how the explorer Zhang Qian had informed the imperial court of China around 100 BC of another route to the Indian world that would have saved them from the troubles of the treacherous and dangerous northern territory of Xiongnu. A country like Myanmar with size and population comparable to France, represents the missing link in the puzzle of what will

be the New Asia. This missing link may turn out to be the key to the New Silk Road (of which we wrote in our commentaries in 2010). Holding that key and be part of its unfolding story is crucial given the rising power and

importance of China and India. The Asia that is rising is for the first time post-colonial and post-war (when we count the Sino-Japanese war, the Korean War, the Indo-Pakistan wars, the Indochina wars, and the conflicts in Vietnam, Cambodia, Laos, let alone the Burmese civil war). Myanmar is where the world's biggest democracy meets the world's biggest communist state. The investment case of Myanmar may be more promising than the one of Mongolia (see our March-April newsletter).

#### **The Geopolitical Landscape**

First, let's us locate Myanmar. The graph below, will give us a clear picture of its strategic position.

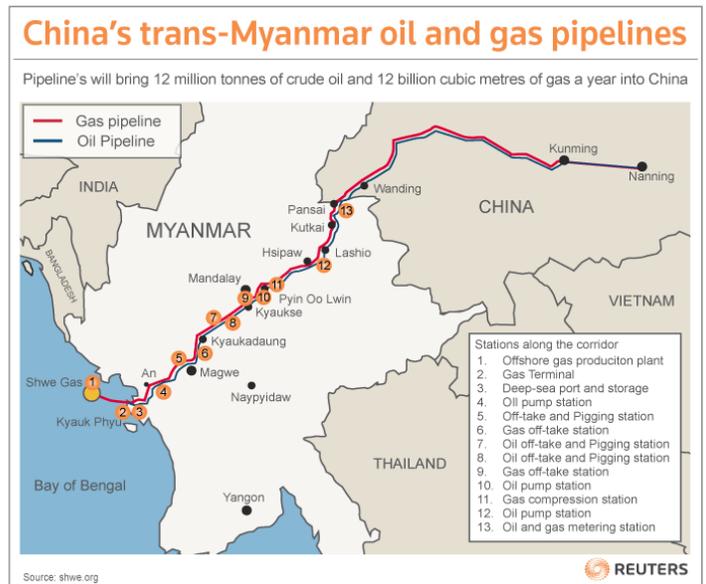
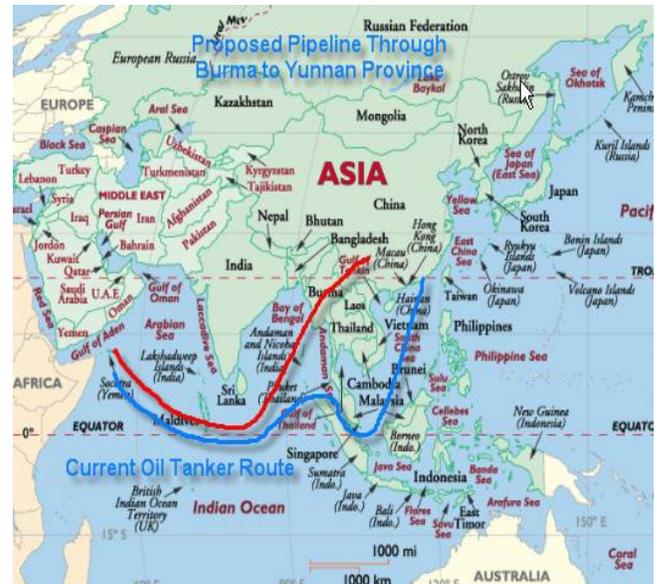
#### **Graph 1: The Geographic Location**



Myanmar went through a “free” election in November 2010. A legislature was assembled in January 2011, and its long-imprisoned opposition leader San Suu Kyi was partially freed from her imprisonment, and also won a legislative seat in the parliament recently. However, the human rights situation has not improved significantly. The New Asian that is rising involves all of Myanmar’s neighbors. Its access to the Indian Ocean is the key for the evolving transportation routes. Its disciplined and low-cost workforce can assist her in an export-led growth, so familiar to the Asian economies. The normalization of relations that the US is initiating has the potential of changing the geopolitics and geoeconomics in the greater region. Myanmar has the potential to dominate the Bay of Bengal. No doubt it has suffered a lot through wars, ineffective governments, corruption, dictatorships, and lack of infrastructure. However, its vast resources – which the Chinese have been exploring – range from oil to precious stones (rubies and jade), and from coal and copper to zinc and timber.

China’s vast majority of oil imports pass through the Strait of Malacca. By developing Myanmar’s infrastructure, they can bring home the oil from Africa and the Middle East, and stop their dependence on the Strait of Malacca. The pictures below show these alternatives for China.

Graph 2: The Energy and Pipelines Routes



At the same time, India too has its eyes on Myanmar, given that its northeast region – which has been suffering from

underdevelopment – would be nourished with the opening of Myanmar. It is not a secret that India and China antagonize over Asian influence. Given the relative weakness that they both exhibit in the last few months (some analysts talk even for hard landings in the two nations), it is to their advantage to try overcoming their difficulties through an extrovert effort via developing Myanmar. India which is surrounded by failed states (Pakistan, Afghanistan, Bangladesh) will find routes and dynamism through its Myanmar adventure, while China will secure more energy sources. Hence, it is US's geostrategic interest to have a presence in the region, especially with the new US defense dogma in Asia. Of course, if the US neglects to institutionally guard this emerging nation, then instability will prevail due to ethnic and tribal differences.

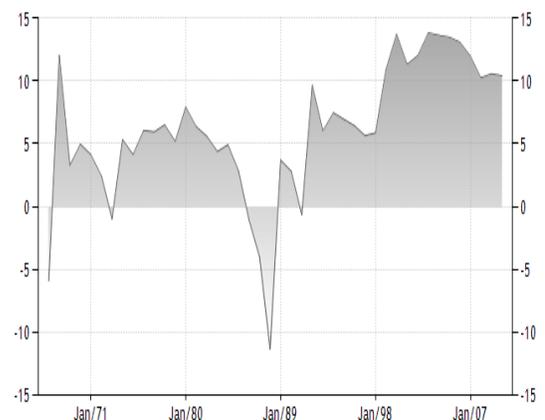
### **An Economic Overview of Myanmar**

Before we discuss some basic economic indicators for Myanmar, let's briefly review its energy potential. One of its main offshore oil & gas operations is the Shwe fields, which is estimated to supply more than 250,000 barrels of oil per day. Along with just that exploration two major pipelines and a railroad are being constructed. The picture above is indicative of the energy fever in Myanmar which creates jobs, advances incomes and business opportunities, while it will bring to the state billions of dollars through the energy exports. The energy routes have the potential of changing an agrarian society and build a mixed economy while creating a middle class locally.

Myanmar's economy is almost 50% agricultural and industrial output amounts to only about 15%. This asymmetry is one of the basic reasons that sanctions could not work. The failure of sanctions has advanced nationalism and authoritarianism, while it has devastated those working in factories. It is the hope that the abolition of sanctions may reverse those trends. The re-orientation of US foreign policy lately may bring significant long-term benefits for both parties. Assuming that the US policies will advance reconciliation and the civil society project, then the US may have hit a goldmine (from different perspectives) in changing its Myanmar policy.

The graph below (all graphs below taken from the Trading Economics data source) shows that the growth picture is Myanmar has stabilized over the course of the last few years.

**Graph 3: GDP Growth Rate**



A stable growth rate of this magnitude can advance jobs and incomes and become a source of political change in the medium term, reversing the ineffective sanctions policy, while attracting investments and

changing the balance of the country's makeup i.e. giving a boost to exports.

Speaking of exports, we can clearly see below that they are growing at an exponential rate. Of course, such growth feeds the growth prospects of the country and this feedback loop can become a magnet of foreign direct investments (FDIs).

Graph 4: Export Index



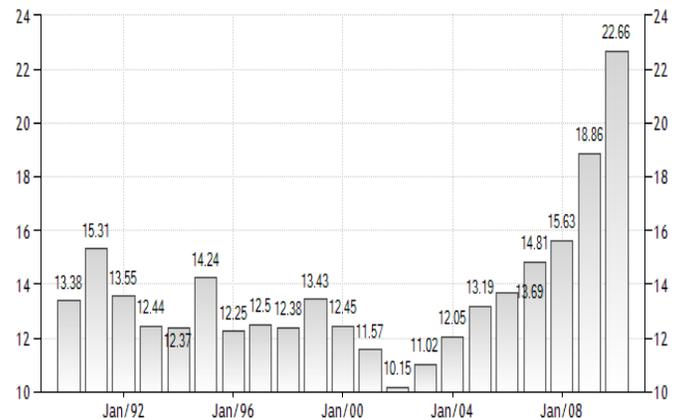
As the following graph demonstrates, the infusion of FDIs into the country has also been experiencing an exponential growth rate, especially in the last couple of years. Of course, the Chinese, Korean, and Indian investments for the energy routes constitute a major part of such an increase.

Graph 5: FDIs into Myanmar



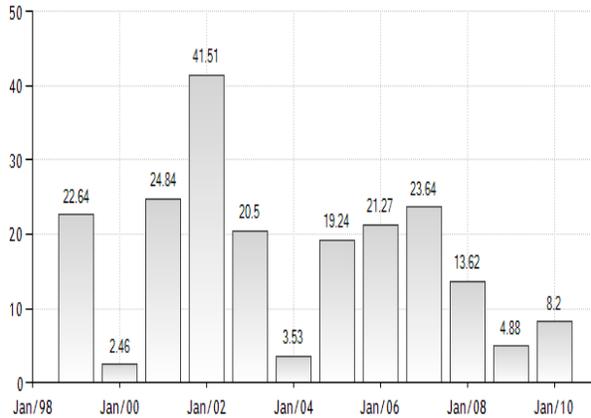
The important thing is that the FDIs become the seeds for capital formation. Let's not forget that there is no capitalism without capital formation that awakens dormant assets and advances business opportunities. Hence, it is no surprise to see the following graph.

Graph 6: Fixed Rate Capital Formation as a % of GDP



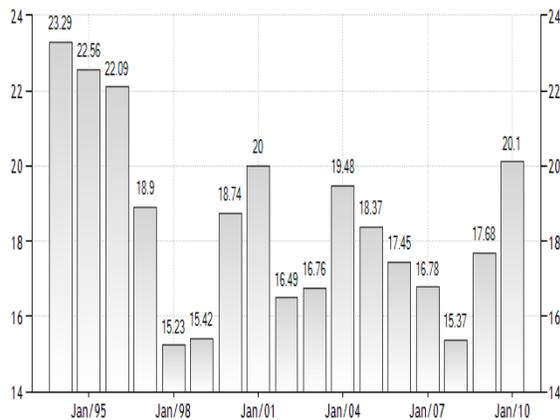
It is interesting to note that the fixed capital formation in Myanmar follows a Chinese trajectory. Such a rate has the potential of unleashing Myanmar as the next breakout nation in the frontier of investments and returns. However, capital formation cannot be sustained in an environment where inflation is not under control. As the following figure shows, while the inflation has been reduced significantly, it is still within a dangerous zone.

Graph 7: Inflation Rate



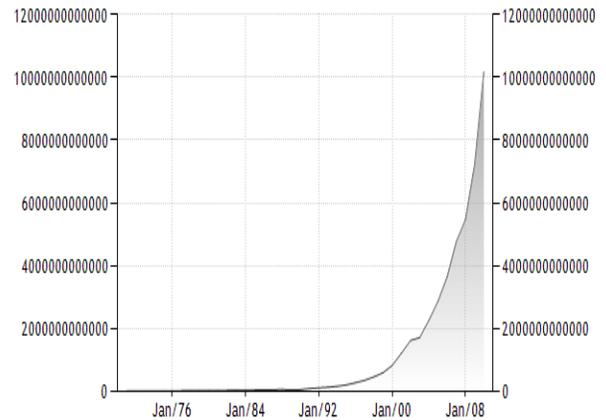
Such inflation could be restrained via conflict resolution (conflict being a major source of inflation), costs' controls, adequate supplies of basic goods, and reduced claims on the central government.

**Graph 8: Claims on Central Government**



According to the graph above, the increased demands on the central government potentially could infuse inflationary pressures and thus destabilize the economic environment, especially if credit growth gets out of control.

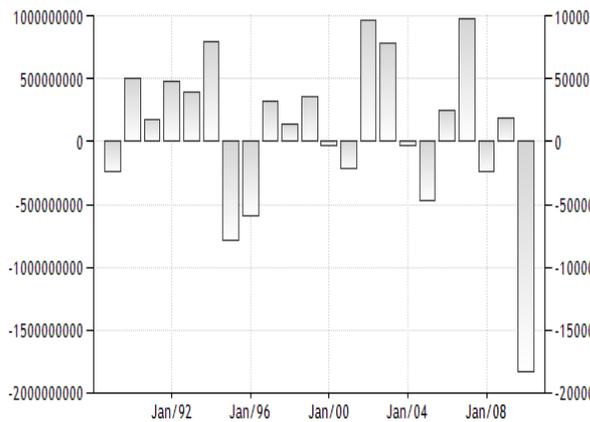
**Graph 9: Net Domestic Credit**



We certainly cannot deny the fact that the credit growth as shown above, has positively contributed to Myanmar's economic potential. However, uncontrolled credit growth that is destined for consumption and not capital formation has backfired historically in several developing countries. The hope is that such credit growth will be used for productive and not consumption purposes.

Furthermore, it is important for a country like Myanmar at this stage of its growth to reduce its debt and start on a course of surpluses that can be used down the road for further development.

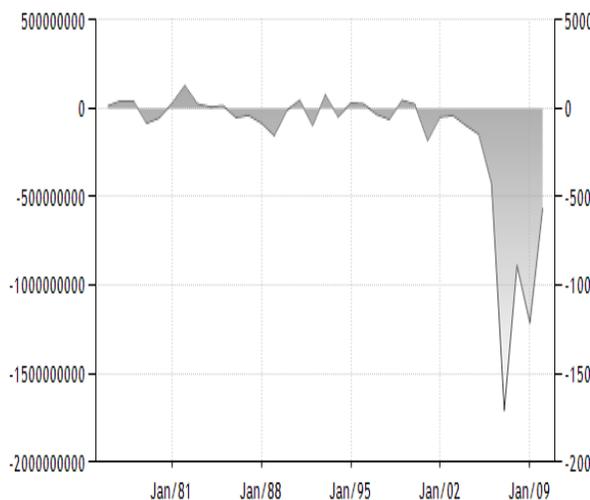
**Graph 10: Total Change in External Debt Position**



The graph above and the announcement earlier this year reveal that it has an external debt (primarily to Japan and Italy) of about \$15 billion. We believe that this could be repaid within just a few years, which will be another major milestone for Myanmar since the savings from the debt repayment can be used for building its social (schools, hospitals) infrastructure.

The graph below shows that Myanmar is on the right track regarding this effort.

**Graph 11: Changes in Reserves**



The observed improvement in net reserves demonstrates that Myanmar despite being one of the poorest countries in SE Asia, can build a better future for its citizens and the potential investors in the country by following prudent policies, advancing the rule of law, and creating a climate where a middle class can prosper.

**Conclusion**

Assuming that the militant Buddhist state run by a junta continues its movement towards a state that respects contracts and the rule of law - by transferring authority and power to elected officials - while reducing its internal conflicts and dependence on China, then we could say that Myanmar indeed could become a magnet of capital formation which will result in growth, a vibrant middle class, and a breakout nation that will form the dynamics of the new rising Asia. We anticipate that soon opportunities will arise for investments in Myanmar like they already do for Mongolia.

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