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Allowing Foreign Investment in the Yangon Stock Exchange Is Good News for Myanmar

On July 12, 2019, the Securities and Exchange Commission of Myanmar issued Notification 1/2019, which announced that foreign individuals and foreign entities will be permitted to invest in up to 35% of the shares in Myanmar companies listed on the Yangon Stock Exchange (YSX). This limitation aligns with the classification of any company with greater than 35% foreign shareholding as a "foreign" company under the Myanmar Companies Law (2017)—a classification which introduces many complications, not least of which is a restriction against owning land under the Transfer of Immoveable Property (Restriction) Act (1987). For a listed company, designation as a foreign company could therefore be ruinous, and although the YSX's 35% foreign investment cap may seem a heavy fetter at first glance, in that context it is very reasonable.

In fact, the entire program of foreign investment, although not materialized in full at the time of writing, so far seems to be very progressive and reasonable. For example, trading on the YSX will be open to all foreigners, not restricted to Myanmar residents, and unlike the somewhat slow pace of reforms often seen in developing countries, foreign trading on the YSX is expected to begin in the near future—perhaps even sometime before the end of 2019 according to our sources. We understand that the YSX has even invested in the necessary software systems to allow for calculation of the 35% threshold, and had already implemented them ready for trading to begin. To the uninitiated, this may seem entirely at odds with the usual pace of reforms in developing countries. To regular Myanmar watchers, however, this kind of rapid and progressive change to the commercial landscape is becoming a regular feature.

This is, to some degree, because Myanmar's determination to foster rapid economic growth is rooted in a strong understanding of the precedents set elsewhere. Research has shown that stock exchange development is extremely important for economic development. According to a report by the World Federation of Exchanges and the United Nations Conference on Trade and Development entitled *The Role of Stock Exchanges in Fostering Economic Growth and Sustainable Development*, "[w]ell-functioning exchanges enable economic growth and development by facilitating the mobilisation of financial resources—by bringing together those who need capital to innovate and grow, with those who have resources to invest. They do this within an environment that is regulated, secure, transparent and equitable. Exchanges also seek to promote good corporate governance amongst their listed issuers, encouraging transparency, accountability and respect for the rights of shareholders and key stakeholders."

Furthermore, the theoretical and academic literature predominantly finds positive links between well-functioning exchanges and economic development. In a study looking at the performance of firms (used here in the economic sense to mean "business organizations"), Demigüç-Kunt and Vojislav (1996) found that firms in countries with "active" stock markets experience higher-than-predicted growth rates. Another study by Beck and Levine (2002), looking at data from 40 countries over four five-year periods, found not only that financial market development is important for economic growth but that both banks and stock markets independently and concurrently have a role to play. Caporale et al (2004) looked explicitly at the question of causality and concluded that well-developed stock markets can foster economic growth (see here).

Although some may be skeptical of the prospects for the YSX, in the medium to longer term we have more confidence. Our sources tell us that a number of foreign institutions have already expressed interest in investing in the YSX, with funds already allocated for investment in Myanmar. Furthermore, although there are only five companies currently listed on the YSX, we understand that there are at least two further companies already in the listing pipeline. With foreign investment coming to the YSX, interest by domestic companies in listing is only likely to increase. Those wishing to familiarize themselves with the procedure required for listing on the YSX might be interested in referring back to a previous article by this author written for *Frontier Myanmar* (see here).

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It would also be wrong to see the liberalization of investment in the YSX in isolation. Over the past several years, Myanmar has liberalized the telecommunications, banking, insurance, and wholesale/retail trading sectors, which collectively mark a huge stride forward for what was long regarded as an isolated and impenetrable economy, not to mention the reforms to the Myanmar Investment Law, the new Companies Law, and the new electronic company registration system in Myanmar. This pattern of economic liberalization shows no sign of slowing—for example, foreign banks are expected to be permitted to provide retail banking services in the very near future, and other highly regulated industries will likely follow suit. The liberalization of the YSX is just part of this pattern.

With this latest announcement, it would seem that this is now the "end of the beginning" of the YSX. We are moving forward into a new era.