HIGH GROWTH MARKETS

Insight and perspective on today's global economic hot spots January 2014

Bridging the gap

Private investors have a central role to play that can help Latin America liftoff

Aconcagua bi-oceanic corridor
Strengthening commercial ties between oceans

Private equity in Africa
Picking tomorrow's winners

Asia's new powerhouse
The ASEAN Economic Community

cutting through complexity

Despite economic pressures, opportunity and optimism are on the rise

By looking beyond the BRIC countries and expanding geographic focus, many are uncovering that underdeveloped markets are poised for growth. It is evident that opportunities within high growth markets are trending up and will continue to be an important long-term investment strategy for international businesses.

KPMG recognizes the optimism and is taking a leading role in entering those markets. By building a local market knowledge base, from Myanmar to Mongolia, we have firsthand knowledge of how to enter into a rapidly growing market, as well as how to expand regional operations, all while providing the greatest return on investment.

In this issue

After almost 2 years of declining growth rates, Latin America's recovery is being hampered by its poor infrastructure. Our feature on page 10 shows how other developing regions spend a significantly greater proportion of GDP on infrastructure — a gap that can only be closed by the infusion of private capital. To press home this point further, page 16 highlights ambitious plans to tunnel through the Andes to better connect Argentina and Brazil with Chile and Asia. Every cent of this US$6 billion mega-project is expected to come from the pockets of private investors.

Africa hosts six of the world's top 10 fastest-growing economies, and with multiples of around eight times the initial investment, private equity firms have plenty to be excited about. On page 18 we examine the challenges of doing business across a highly diverse continent. A spotlight profile on Nigeria provides further confirmation that Africa is no longer just about resources, portraying a country with a rising demand for consumer goods and services.

Europe's recent financial troubles should not detract from the immense achievements of the EU over the past half-century. Southeast Asia's ASEAN Economic Community (AEC) — outlined on page 22 — hopes to emulate this success by creating a new free-trade zone comprising of 10 countries and over 600 million people.

In a thought-provoking *Opinion* piece on page 26, Hal S. Scott, the Nomura Professor and Director of the Program on International Financial Systems at Harvard Law School, argues that shadow banking can be a major force for economic good in both mature and emerging markets, so long as it is properly regulated.

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GLOBAL BRIEFS

Observations, trends and indicators

Fast food, fast cars, fashion, fuel, financing and other trends happening across the world's emerging markets.

UAE/BRAZIL FINANCE

Abu Dhabi bank financing Brazilian projects

Having been recently authorized to operate in Brazil, the National Bank of Abu Dhabi (NBAD) is set to fund import and export initiatives for clients in financial services, agribusiness, oil, energy and foods. With a strong capital base, the bank's geographical focus is on the corridor between Africa, the Middle East and Asia. Initial clients are likely to come from Brazil, Peru and Chile, but Colombia and Mexico are also in its sights. Brazil's sizeable agricultural sector and surplus production gives it particularly great potential for exporting food, and NBAD is likely to be heavily involved in such efforts.

INDIA INDUSTRY

Betting the ranch?

Automaker Mahindra may have to innovate to stave off fierce competition.

A combination of homegrown technology and modest debt has seen Mahindra dominate the country's thriving SUV market and become the world's largest tractor firm by volume, in the process generating high returns.

Yet its domestic achievements could leave the automotive giant vulnerable to competition. The company's SUV unit contributes about 55 percent of operating profits and cashflow, and other global carmakers are keen to get a larger slice of this lucrative segment. Foreign players have also set their sights on the Indian tractor market, although Mahindra's extensive rural distribution network is hard to replicate.

There are no signs of complacency, with new SUV models in the pipeline and a growing presence in pickup trucks and two-wheelers marketed through its Korean SsangYong brand. But with annual R&D spend of under 2 percent of its total value, Mahindra may have to up its stakes and consider developing larger tractors for the US, exporting more SUVs, or even entering new areas such as logistics. Although Chairman and MD Annand Mahindra says, "it is not in our culture" to bet the ranch, the group is considering a new research center in Britain, while the acquisition of a Western car firm cannot be ruled out to access better technology.

BRAZIL CARS

Filling the luxury gap

As the ranks of Brazil's aspirational middle classes continue to swell, expenditure on luxury goods is outpacing overall retail sales. A recent economic slowdown has not dampened the optimism of Daimler, which has announced plans for a new US$230 million factory to produce its Mercedes-Benz C-Class and GLA models. Located about 160 km north-west of São Paulo, the plant will employ 1,000 workers and manufacture 20,000 vehicles per year, with the first cars due to roll off the production lines in 2016. Brazilian customers are seemingly undeterred by high prices caused by import tariffs and other costs, with Porsche, Rolls Royce and Jaguar also enjoying large jumps in sales volumes.

CHINA HEALTHCARE

A **healthy** outlook

China hopes that a thriving healthcare sector can tackle the challenge of ageing and also boost economic growth.

As the only country in the world with over 100 million citizens over 65, China faces a race against time to provide healthcare to this fast-expanding segment, which by 2050 will comprise one in every four members of the population. The government's response has been to dub healthcare a priority sector and earmark over US$200 million additional funding, to improve services and support industries such as pharmaceuticals, medical devices, healthcare management services and medical insurance. A further US$250 million has been allocated to traditional Chinese medicine (TCM), with a focus on R&D.

To encourage more private sector involvement, there is to be a loosening of restrictions on investments and a reduction in red tape for the establishment of private healthcare facilities. Private health insurance — which accounted for just 3 percent of total healthcare expenditure in 2011 — is also being brought into the mainstream, with local governments assigning specialist firms to manage public insurance schemes.

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SOUTHERN AFRICA GROCERY

Branching out

Facing strong domestic competition, South African retailers are seeking growth opportunities in other parts of the continent.

In a crowded market, where food sales have been on a downward trend since 2011, South African retailers are looking outward to other African countries. Massmart is closing underperforming stores at home and opening 80-90 outlets in other African markets, while Shoprite has plans to launch 175 shops across the continent in a similar time frame.

Angola's strong economic growth, rising personal disposable income, young, brand-friendly population and relatively underdeveloped retail sector is proving a particular attraction, with Spar the latest group to establish branches in this country, via a joint venture with an unnamed partner. The Durban-based retailer is likely to supply most of the produce, along with logistical support.

It will not all be smooth sailing, as Angola suffers from poor transport and power, and constricting bureaucracy. Progress could be hampered further by opposition from the traditional informal groups of markets and street vendors. In response, Shoprite has set up its own warehouses and logistical centers, and Spar has pledged to develop a supply-chain network, as the flight north into Africa continues apace.

BRICs RETAIL

Walmart leaps forward in China

On first glance, Walmart's plans to open 110 new stores in China appear to fly in the face of conventional wisdom, with other retailers reining in their operations, fearing a slowdown in demand. At the same time, foreign firms are being more heavily scrutinized by Chinese regulators and consumers over quality, pricing and product safety, with Walmart itself suffering fines in recent years.

Yet any concerns over the pace of economic development in China may be overstated. The next 5 years are expected to bring annual retail volume growth of 8–9 percent — and even higher levels in the third and fourth tier cities that Walmart is singling out for specific attention. Walmart has also shown on several occasions that it is not afraid to stand up to regulators in China, India, Mexico and the US.

The world's largest retailer has high expectations for e-commerce, with a controlling stake in Chinese online grocery provider Yihaodian. Having been present in China since 1996, and with around 400 stores in about 140 Chinese cities, Walmart is placing the People's Republic at the heart of its emerging market strategy.

COLOMBIA RETAIL

A passion for fashion

Aeropostale is the latest US clothing brand to enter the Colombian market, with plans to open 15 shops by 2018. The RH Macy & Co-owned casualwear label targets 14- to 25-year-olds with affordable prices of around US$18 per garment. Colombians spent over half a billion US dollars on clothing in August 2013, and Aeropostale hopes to take a share of this promising market, following its successful entry into Panama.

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MYANMAR ENERGY

Energizing Myanmar's economy

New offshore exploration licenses offer exciting opportunities for global oil and gas firms — and could put Myanmar squarely on the world energy map.

After years of political and economic isolation, Myanmar's reformist government is hoping to bring the country's chronically underdeveloped energy industry into the 21st century, and in the process generate sizeable amounts of fuel and revenue. In what is expected to be a closely fought auction, a host of major global oil and gas companies — such as ExxonMobil, Statoil, ConocoPhillips and Royal Dutch Shell — have recently bid for a series of offshore drilling licenses.

The extent of reserves locked into the seabed around Myanmar is unclear, but with major markets such as China and Thailand close by, the prospects are attractive. Infrastructure is another draw, with existing pipelines to China and Thailand in close proximity, and plans for a further connection to India.

Myanmar's government has eased fears of onerous restrictions by enabling 19 of the 30 blocks to operate without the need for local partners. Tax incentives have also been promised, to entice foreign investors, although opposition leader Aung San Suu Kyi has warned of the potential risks of entering into large investments in Myanmar because of an understaffed judiciary.

If successful, the initiative could enhance the country's stature as a natural resources player, generate vital revenue and reassure major corporations everywhere that Myanmar is well and truly open for business.

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INDIA FOOD

Fast-food nation

Despite rapid growth in the fast-food sector, margins are under threat due to rising costs.

India's young and increasingly wealthy population has developed a real taste for fast food, with the sector set to double to around US$1.1 billion by 2016. Foreign brands have grabbed 63 percent market share, with Domino's Pizza well in front with 20 percent, followed by Subway, McDonald's, Kentucky Fried Chicken (KFC) and Pizza Hut. Domino's claims that India is its fastest-growing market and its second-largest country operation outside of the US. Much of the expansion will come from new stores in smaller cities, which offer lower rentals, limited competition and higher growth potential.

While sales shoot up, margins are going in the opposite direction due to rising real estate costs and high inflation. In a bid to improve efficiency, companies such as Yum! Brands — which owns KFC, Pizza Hut and Taco Bell — are sharing key resources such as warehouse and distribution capabilities. McDonald's already has a robust supply chain, with backward integration up to the farm level, and Indian players like Jumbo King have moved to centralized kitchens.

Four-fifths of India's fast-food market consists of "unorganized" street vendors and independents, so there should be plenty of room for growth. However, as new players such as Burger King mull over an entry, and local firms Faaso's, Jumbo King and Kaati Zone also seek a greater slice of the pie, competition could be about to get more spicy.

INDONESIA ENVIRONMENT

Green machines

New tax breaks for eco-friendly cars are stimulating investment in Indonesia's automotive industry.

The 21st Indonesia International Motor Show in September 2013 showcased a number of low-cost, small engine vehicles from the likes of Toyota/Daihatsu, Nissan, Honda and Suzuki. These and other manufacturers hope to qualify for the country's green car program, which offers reductions of between 25 percent and 100 percent on luxury goods taxes for locally produced cars that meet fuel efficiency targets.

This interest is hardly surprising, given a current penetration of just 34 autos per 1,000 of Indonesia's 250 million population. 2012 vehicle sales hit an all-time high of 1.12 million, with Indonesia set to overtake Thailand as Southeast Asia's biggest car market by 2019, and Volkswagen and General Motors both expected to invest significantly in new plants.

Government policy is not just environmentally focused. Producers of low-cost, green cars also benefit from lower import duties on components, to encourage investment in local production, putting the automotive industry in a strong position to take advantage of the opening up of trade in the ASEAN zone.

Even though the rate of increase in demand has slowed somewhat in 2013, sales of smaller cars with engines below 1,500cc are still rising rapidly, giving hope that Indonesia will not have to follow China in restricting urban car ownership to counteract damaging pollution levels.

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INVESTMENT SPOTLIGHT

NIGERIA

The **'giant of Africa'** is diversifying its economy and fighting the evils of corruption

Africa's most populous country and second-largest economy is desperately trying to shed the image of corruption that has so tainted its reputation in recent years. While unemployment and poverty remain a big challenge, such concerns muddy the picture of a nation with immense potential. International Monetary Fund figures show impressive increases in GDP, up by an estimated 6.2 percent in 2013 and a further 7.4 percent rise forecast for 2014. Oil is driving much of the growth, as high prices have pushed export earnings up to US$93 billion in 2012 and US$42 billion in the first half of 2013.[1] However, this sector is not without its problems, namely a damaging trade in stolen oil that has fuelled violence and corruption in the Niger delta, home of Nigeria's oil industry.

The government has acknowledged the country's over-reliance on oil, and wants to broaden the economic base to reduce vulnerability to volatile petroleum prices, and stimulate labor-intensive segments such as manufacturing and construction. Other notable industries are coal, tin, columbite, rubber, wood, hides and skins, textiles, cement, agribusiness (especially cocoa beans), chemicals, printing and steel.

Poor infrastructure continues to hinder progress, with power outages and inadequate rail and road networks. In a bid to improve reliability, the government has opened up tenders for power transmission and distribution, which should raise over half a billion US dollars.[2]

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1 *Economic Update: Strong 2014 Growth Forecast For Nigeria,* Oxford Business Group, 5 November 2013.

2 *Nigeria Gets US$559 Million From Bidders For Power Utilities*, Bloomberg, 21 March 2013.

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Agriculture — which accounts for 40 percent of GDP — is also highly underdeveloped, with most famers working small plots on a subsistence basis. Despite large tracts of rich, arable land, Nigeria is still forced to import over US$11 billion of food every year. Anxious to remedy this situation, agricultural production was ramped up by about 8 million metric tons in 2012, with plans to spend about US$10 billion over the next few years, to create around 3.5 million new jobs in agriculture and food-related industries.[3]

Nigeria's central bank says the fastest growing segments are wholesale and retail trade, and telecommunications, where privatization has accelerated the insatiable appetite for mobile communication, with well over a 100 million mobile subscriptions. An internet penetration level of less than 30 percent leaves ample room for further growth. Meanwhile, reforms to the country's financial services sector have inspired a rise in savings and pensions, although most citizens do not yet have bank accounts.

Average household consumption is expected to increase from US$950 in 2012 to US$2,260 by 2017, and Nigeria is expected to become the largest economy in Africa by 2015, overtaking South Africa. Indeed, an ongoing reappraisal of the size of its GDP may even see this date brought forward.

Its young working-age population and substantial natural resources make Nigeria an excellent target for finance in the form of private equity, venture capital or microfinance. Even the blight of corruption may be overstated. The Economic and Financial Crimes Commission (EFCC) is an anti-corruption agency making excellent strides in enhancing good governance and financial accountability, while helping reduce fraud, waste and corruption. These factors combined suggest that the 'giant of Africa' may soon be living up to its name.

41st

Largest economy in the world (GDP) and second-largest economy in Africa.

Population:

174.51 Million

Ranks 8th (July 2013 estimates)

Urban Population:

49.6%

approximately (2011)

Demographics: 43.8% (0–14 years); 53.2% (15–64 years); 3% (65 years and above)

36 states and a Federal Capital Territory, Abuja

Major Cities: Lagos 10.2 million; Kano 3.3 million; Ibadan 2.7 million; Abuja 1.8 million; Kaduna 1.5 million (2009)

Federal Capital: Abuja 1.8 million

Type of Government: Federal Republic

Local Currency: Naira (NGN)

Official Language: English

Twelfth-largest producer of crude oil in the world and eighth-largest exporter. Tenth-largest reserves of petroleum worldwide contributing to more than 85 percent of the total government's revenue.

Nigeria, Africa's most populous country, is composed of more than 250 ethnic groups.

Nigeria is among the top five cocoa bean producing countries in the world.

After Egypt, Nigeria is the largest newspaper market in the world.

[3] *Amid Oil Woes, Nigeria Turns To Agriculture: Dangote To Invest In Huge Food Processing Plant,* International Business Times, 25 September 2013.

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GROWTH MARKETS

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Infrastructure in Latin America: Bridging the gap

Private investors have a central role to play in funding the infrastructure to sustain Latin America's economic growth. But governments should first create the right environment for doing business.

Gazing out across the fertile plains of Brazil's Matto Grosso region, shimmering wheat and soy fields stretch as far as the eye can see. Yet, despite this abundance of agricultural riches, along with competitive wages and enviable productivity rates, the export potential for crops is severely compromised by a poor transport infrastructure. Incredibly, freight costs in this western-central part of Brazil are a full 50 percent higher than in North America.

The outstanding growth rates of South America's fastest-growing nations — Brazil, Chile, Colombia and Peru — have been achieved in spite of, rather than because of the continent's infrastructure. According to World Bank figures, Latin America's share of global exports rose from 4.4 percent to 6.9 percent between 1986 and 2010, all the more impressive given the simultaneous emergence of China, India and other East Asian countries.

Yet a long-term lack of investment threatens to undermine this development, with the region's infrastructure spend actually declining as a percentage of GDP, from 4 percent in the mid-1980s to around 3 percent today: a third of China's and half that of India, according to development bank, CAF. On a scale of 1 (worst) to 7 (best), the World Economic Forum's latest Global Competitiveness Report rates the quality of infrastructure in the region at 3.6, compared to 5.4 in emerging parts of Asia.

In a continent that relies heavily on the export of food and commodities — and also has some of the world's largest oil and gas reserves — patchy rail networks, crumbling roads and outdated ports are a major disadvantage. Consequently, trade tends to concentrate around areas with the best connections, exaggerating the in-country wealth divide. Southeast Brazil generates around 60 percent of the country's exports, and the coastal areas around Lima are responsible for approximately 80 percent of Peru's exports. It's a similar story for Colombia, where the region surrounding Bogota gets the lion's share of foreign trade. Outside of these wealthier areas, many live in remote towns and villages, mired in poverty.

A pressing need for capital

If it is to compete with other emerging markets, Latin America has to double its spending on infrastructure to 6 percent of GDP. With the bulk of current spending coming out of the public purse, cash-strapped governments must reach out to the private sector to fund the estimated US$100 billion a year funding gap. Inter-American Development Bank (IADB) economists estimate private investment will need to increase from about 1 percent of GDP to 3 percent.[1]

> Freight costs in the main agricultural region of Brazil are a full 50 percent higher than in North America.

[1] *INTERVIEW-IADB Says Latin America Must Boost Infrastructure Spending,* Reuters, 7 March 2013.

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To compete with other emerging markets, Latin America has to double its infrastructure spend to 6 percent of GDP — leaving a US$100 billion a year funding gap.

CAF figures show that Latin America invested US$440 billion dollars in infrastructure between 2008-11, with approximately half going on transport projects such as highways, roads, bridges, ports and airports, especially in Brazil, Colombia and Peru. A further 25 percent went on energy projects, with telecommunications receiving 20 percent, and water and sewage 7 percent.

Some of the ventures are spectacularly ambitious, such as the widening of the Panama Canal. Yet in a region where 30 million people do not even have access to electricity, there is a desperate need for more basic services, hence the importance of projects like the Falcón Matamoros Aqueduct, which will provide drinkable water in northern Mexico.

Several South American governments are forging ahead with public-private partnerships (PPPs), although, to date, very little of the investment has gone toward infrastructure. Nevertheless, the latest Latin Business Chronicle *Latin American Infrastructure Guide* lists around US$32 billion in 20 major infrastructure bids for projects in railroads, ports, airports, roads and hydroelectric power plants.

Creating an attractive package

Private investors mulling over opportunities in Latin America may be wary of the mixed track record on infrastructure spend in the region, with a reputation for delays, overspend, poor governance and excessive bureaucracy. They may also be concerned over citizens' attitudes towards PPPs, as evidenced in protests against environmental damage and price increases.

Political and corporate appetites will also have a big influence. High-profile, cross-border initiatives such as the Pan-American Highway have made little impact, partly because South American manufacturers and commodity producers lack enthusiasm over the potential for cross-border supply chains. The Pacific Alliance, an economic integration pact established in June 2012 by Chile, Colombia, Peru and Mexico, may provide some much-needed impetus.

Another ambitious multinational development plan to link South America's economies has also stalled in the face of insufficient political support and environmental opposition. The Initiative for the Integration of the Regional Infrastructure of South America aims to connect countries through integrated highway networks, waterways, hydroelectric dams and telecommunications links, but has made little progress to date.

There are currently 20 major infrastructure bids across the continent worth around US$32 billion.

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The Infrastructure 100 is a report jointly produced by KPMG and news website Infrastructure Journal, showcasing the world's top infrastructure projects. Latin America registered several cutting-edge innovations in energy production, such as hydroelectric facilities planned in Brazil, Ecuador and Chile and a new wind farm in Chile. Although the continent has 18 entries in the top 100, the assorted national governments have plenty of work on their hands to create an investor-friendly environment.

Turning on the finance taps

In the 1990s, Latin America was something of a pioneer in attracting private investment into infrastructure, but it has been unable to sustain early successes. Between 2001 and 2011 the region received just 29 percent of the total invested in developing markets, compared with 52 percent in the previous decade.[2]

Money is once again flowing into the region, albeit from a low base. China is partnering with the Inter-American Development Bank (IADB) to provide US$2 billion for a new regional investment fund, adding to a US$1 billion investment in the region in 2012, at least part of which is expected to flow to infrastructure projects. The IADB is one of the biggest development financiers in Latin America, with about US$6 billion of capital ploughed into infrastructure projects; half of its total lending.

Brazil's biggest investment bank, Banco BTG Pactual SA, is creating a US$1.75 billion fund to tap infrastructure development in Latin America's biggest economy, with an eye on railways, roads, airports and ports. Pension funds are some of the main investors in this fund, and with around US$1 trillion in pension funds across the continent, this rich source of assets could become a major force in infrastructure financing.[3]

In addition, another half dozen or so funds are emerging around Latin America, each worth in the region of US$1 billion. Even Paraguay, one of South America's poorest nations, is considering a new law to allow more infrastructure PPPs.

Spanish engineering and construction companies are taking advantage of cultural and language commonalities to seek opportunities in South America, either for traditional projects or concessions in areas such as power generation. Chile has been the main destination, followed by Brazil, although competition from local firms remains tough.

Some infrastructure funds from Canada are pursuing opportunities in Chile, Peru, Colombia and Brazil, while others from Europe and Asia are moving into the region. Several major Chinese engineering and construction companies have won infrastructure projects across South America, while Korean investors and Japanese trading houses — such as Mitsui, Mitsubishi, Marubeni, Sumitomo and Itochu — are also investing in the transportation and water sectors, focusing on projects that allow them to supply equipment and operational technologies.

With as much as US$1 trillion worth of deals up for grabs over the next decade, and the increasing ranks of the middle classes acting as the engine room for economic growth, Latin America is, for many, an opportunity that is simply too good to ignore. Governments can make life easier for investors through firm commitments, well-constructed plans, and a rigorous, standardized procurement and contract management process. With such safeguards in place, infrastructure funds and engineering and construction companies should have the confidence to take on larger projects that bring benefits to all members of society.

Between 2001 and 2011 Latin America received just 29 percent of the total invested in developing markets, compared with 52 percent in the previous decade.

[2] *INTERVIEW-IADB Says Latin America Must Boost Infrastructure Spending,* Reuters, 7 March 2013.
[3] *BTG Pactual Plans New Fund To Invest In Brazil Infrastructure,* Bloomberg, 8 Feb 2012.

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Latin American infrastructure at a glance: a snapshot of some of the major initiatives taking place across the continent.

Brazil

The large-scale, public-funded infrastructure programs of the 1960s and 1970s were scaled back in the following two decades, but, as the end of the century approached, a new government launched a huge privatization push encompassing steel, power distribution, mining, freight rail, aircraft and telecommunications. More recently, Brazil has encouraged private capital for building roads, hospitals and prisons, primarily at a federal level.

2013 has seen a number of rounds of bidding for tenders to operate, build and maintain 9 road networks, 12 rail networks, 150 ports and 2 international and 270 regional airports, worth around US$120 billion in total. Add to these further PPPs for water, sewage, hospitals and educational facilities, and the total price could be as much as US$500 billion up to 2019.

Among the more ambitious projects is the continent's first ever high-speed rail connection linking the economic hubs of Rio de Janeiro and São Paulo, and a ring road to help ease São Paulo's chronic congestion.

The country's national development bank BNDES has traditionally financed all infrastructure projects, but has struggled to attract overseas money. In response, the federal government has introduced a wider range of financial instruments, such as tax-free infrastructure bonds. However, infrastructure projects require considerable debt, and long-term financing in the Brazilian currency (the reals) can be expensive. Most funds target nominal returns of around 20 percent, but a recent license to operate three airports looks set to yield only 8 percent.

Progress can also be plagued by interminable waits for environmental and other licenses, with delays of years not uncommon. In the worst cases, projects have to be halted mid-stream, leaving contractors with huge expenses.

Chile

Of the larger economies in the region, Chile stands out thanks to faster-than-average growth, and infrastructure spend as a proportion of GDP of around 5 percent. An estimated US$14 billion worth of projects are in various stages of progress, including a central railway along the Aconcagua corridor, extensions to the subway in the capital Santiago, and a number of airport upgrades. Despite these achievements, the Chilean chamber of construction has estimated the country will have a US$100 billion infrastructure deficit by 2020.[4]

The global financial community has praised Chile as a safe haven and pioneer in Latin American infrastructure, although investors have also called for an independent authority to plan public works and coordinate projects, following the delay or cancellation of some energy projects due to environmental protests.[5]

Peru

Compared to its larger neighbor Brazil, Peru has a more developed set of mechanisms for private finance, although a number of deals involving local Peruvian governments have had to be renegotiated due to flawed contractual terms. Much of the planned investment will go towards projects involving road, rail and ports, with one notable example being a recent tender for construction of a US$5 billion metro line for the capital Lima.

Mexico

A recent convert to PPPs, Mexico is a significant market for private investors, having approved a law in late 2012 establishing clear guidelines for procurement procedures, proposals, contracts and dispute resolution. This new legislation should give external financiers greater confidence in Mexico, which has substantial projects planned in transportation, communications and power.

Colombia

Latin America's third-largest economy has a long history of private sector participation in infrastructure and public services, being the first to embrace PPPs as far back as 1993. Other parts of the country's infrastructure have since opened up, and today, a third of the entire road network is under PPP contracts, while local authorities have introduced private finance into power, waste management, urban mass transport, and water and sanitation.

Over the next decade, the government is planning a series of road-building programs worth over US$40 billion, with the initial rounds of bidding generating considerable interest from international investors. Colombia has followed the example of Mexico with its own new law on PPPs, tightening up payment processes and giving lenders greater assurance. This comes on the back of news that one notable project was suffering spiraling costs and planning irregularities.[6]

Panama

Currently under construction, the US$5 billion widening of the Panama Canal aims to double capacity and allow larger ships to pass through. This should be a major boost to businesses hungry for lower transport costs to ship commodities such as iron ore, coal, soya and natural gas to Asia. Since Panama took control of the Canal in 1999, about 5 percent of world trade has been passing through its locks, earning around US$1.6 billion in pre-tax profits and accounting for up to 10 percent of the country's economic output.[7]

Argentina

In comparison with other Latin American nations, Argentina has a good infrastructure system, although many areas need significant improvement. Most of the country's major ports are located on the Atlantic coast, with little freight transported along the inland waterways. The majority of utilities were deregulated in the 1990s. Argentina is believed to have the third-largest reserves of shale hydrocarbons, but foreign investors are sizing up the political and economic environment before committing significant funds, with concerns over a recession and possible resource nationalism. In June 2013, the government announced the nationalization of two of the most important freight railways in all of Argentina, which were previously privately run via concessions.[8] However, China has an agreement to invest US$10 billion in Argentina's railways, signaling potential for private capital to fund transport projects.

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[4] *Chile Announces USD14bn In Infrastructure Investment Opportunities,* CAPA Centre for Aviation, 12 July 2012.
[5] *Investors Say Politics Is Hurting Chile Infrastructure Spending,* ITS International, 22 October 2013.
[6] *Public-Private Partnerships In Colombia: Scaling-up Results,* The World Bank, 31 October 2012.
[7] *Panama Canal: Out Of The Narrows,* Financial Times, 25 August 2013.
[8] *Argentina Infrastructure Report,* Business Monitor Store, 5 November 2013.

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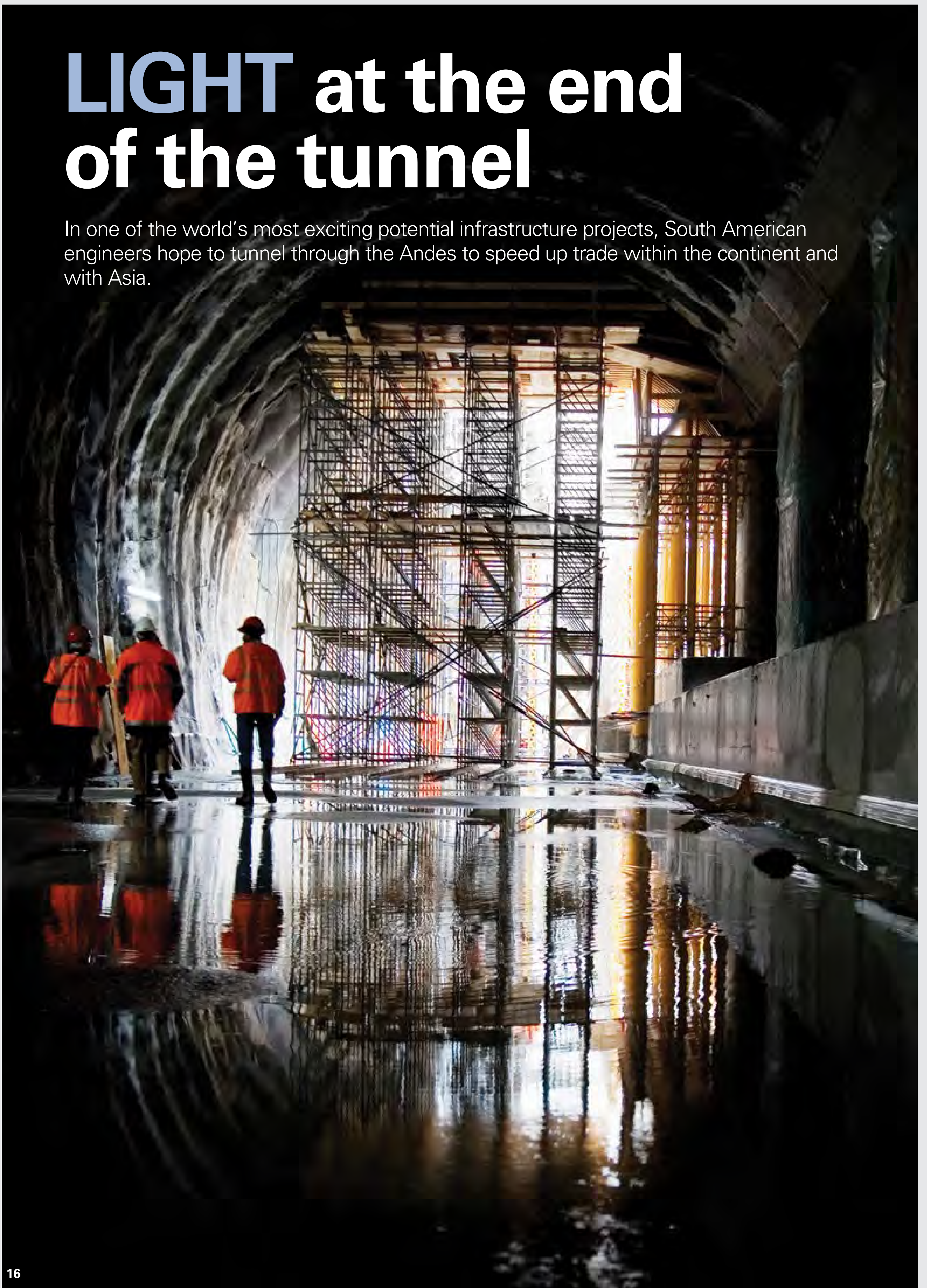

LIGHT at the end of the tunnel

In one of the world's most exciting potential infrastructure projects, South American engineers hope to tunnel through the Andes to speed up trade within the continent and with Asia.

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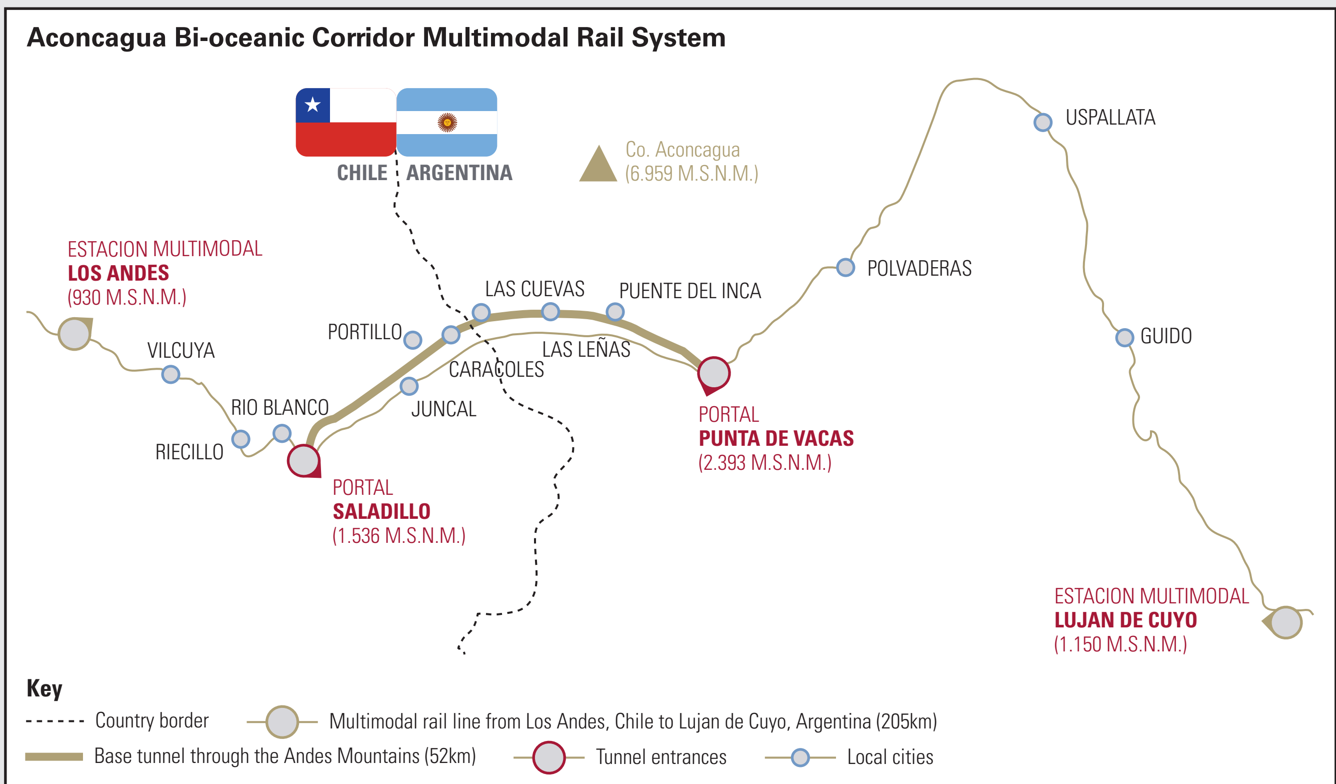

The imperious Mount Aconcagua casts a huge shadow over the borders of Chile and Argentina. At 6,981 meters above sea level, it is the highest peak in the Americas, testing the capabilities of even the most experienced mountaineers. It also presents a formidable trade barrier, as part of a towering Andes mountain range that effectively cuts off the Pacific from the Atlantic.

Existing land routes over the mountains are slow and difficult and often unpassable in the snowy winter months. Consequently, much of Argentina's trade with Chile and China, as well as between Asia and Brazil, goes by sea around the tip of South America, adding at least a week to the trip.

All that may be about to change, thanks to the proposed Aconcagua Bi-oceanic Corridor linking Argentina and Chile. This US$6 billion mega-project aims to connect train and trucking hubs on both sides with a 205 kilometers railway, including a breathtakingly ambitious 52 kilometers rail tunnel under the mountains. When completed, it would be the third-longest transport tunnel in the world with an impact comparable to the Panama Canal, making billions of dollars' worth of Chinese, Chilean, Argentine and Brazilian products cheaper and more competitive.

Other Mercosur nations would also benefit, with the trade corridor ultimately connecting with Montevideo port in Uruguay, southern Brazil and Paraguay.

The force behind this scheme is a private consortium led by Argentinean conglomerate Corporacion America (which has interests in airports and infrastructure), and also comprising Chilean transport company Empresas Navieras, Japan's Mitsubishi Corporation, Italian underground engineering company Geodata and Argentinean contractor Contreras Hermanos SA.

The first phase — estimated at around US$3.5 billion — involves a single tunnel that could transport 24-33 million tonnes of freight per year, with the option to add a second tunnel, costing a further US$2.5 billion, taking annual capacity up to 77 million tonnes. As many as four mechanical excavators will be used to carve through the mountains. Each train will be about 750 meters long and operate like a ferry, carrying containers of merchandise and trucks with their drivers, along with goods wagons from trains, which would simply switch locomotives to make the crossing. To reduce the environmental impact, the trains will be electric powered.

Unusually, the project should cost the respective Argentine and Chilean taxpayers nothing, as the consortium will shoulder the entire bill and recoup their investment through usage fees. With users expected to reduce their freight costs by up to two-thirds, the consortium anticipates little opposition to tolls.

Given the importance of the venture, both national governments will have the final say on whether to proceed, and in the meantime have created a bilateral commission to invite bids. The existing consortium is clearly in pole position, but has not been assured of winning the tender, and interest from global engineering and construction companies and infrastructure funds is already high.

A venture of this scale is not without risks, particularly in the early stages, when initial blasting and drilling could reveal unforeseen geological challenges. Investors have to hold their nerve through any potential setbacks, although the bilateral commission has hinted that it may provide contingent guarantees to optimize the financial structure, as is usually done in road concessions in Chile and Peru.

At the time of writing, the new Chilean government had been recently elected. However, all signs indicate positive momentum with the anticipation of getting the green light in early 2014, which means work could begin later in the year with the first trains passing through the tunnel by 2026, opening up a new era of trade for South America.

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A private passion

As African nations march towards more formal, regulated economies, private equity is determined to play more than just a walk-on part. But there is still much to learn about doing business in this diverse region.

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The days when Africa was seen as primarily a resource base are long gone, as a huge, sprawling continent of 54 countries and over a billion people now offers a vibrant range of markets. Annual GDP in the sub-Saharan region has increased by more than 5 percent since 2002, and six of the world's top 10 fastest-growing economies are in Africa, a result of greater political and regulatory stability, easing of trade barriers, young populations and an expanding middle class.

This fact has not gone unnoticed among the private equity (PE) community, with major players such as KKR, Carlyle and Blackstone opening offices and setting up dedicated funds. Banking and financial services are the most popular sectors for investment, followed by agribusiness, industry and manufacturing.

Most African countries have poor or non-existent sovereign credit ratings, limiting their access to international loan markets. Savings are generally meager, domestic capital markets are narrow, and financial instruments such as project bonds are generally unavailable. Together, these factors present a huge opportunity for investors from more established markets seeking a better return.

Compared to other emerging regions, PE activity in Africa is considerably lower in terms of funding levels (typically below US$25 million), deal sizes and exits. By 2012, only around 5 percent of all PE emerging market investment went to sub-Saharan Africa — although this is over twice the level in 2010. But with valuations at relatively affordable levels, PE interest continues to rise, encouraged by deal multiples of around eight times the initial investment — roughly the same as in India and Brazil.

A modest but important share of the African PE market comes in the form of 'impact' investments that aim to generate measurable social and environmental impact as well as a financial return. A 2013 survey by JP Morgan and the Global Impact Investing Network identified over US$500 million in such funds in sub-Saharan Africa, mainly directed towards microfinance, housing, food and agriculture, and clean energy and technologies.

With its favorable business climate, well-developed capital markets and strong legal and regulatory environment, South Africa leads the way with around 50 percent of the continent's entire funds under management. Nevertheless, this proportion is falling quickly as other economies become more established, with the Democratic Republic of the Congo and Nigeria the next most popular destinations for finance. With its strong ties to Mediterranean trade, North Africa is almost viewed as a region apart, and much of the excitement is centered on sub-Saharan Africa.

Establishing the ground rules

PE deals in North America and Europe typically involve loading substantial debt onto (often-mature) businesses, to magnify owners' returns. In Africa, on the other hand, revenue growth and efficiency gains are fueling the gains of investors.

Less than half of the continent's countries have stock markets, and only a few of these are liquid (such as Egypt, Morocco and South Africa), which is a big restraint on development. Consequently the majority of exits in recent years have involved direct sales to other strategic investors. Secondary exits remain rare due to a scarcity of mature assets, with many PE firms choosing to stick with their investment throughout the life cycle.

Nevertheless, initial public offerings (IPOs) are becoming a more common way to realize investments. In 2012, for example, Actis, a British PE fund, reduced its stake in Umeme, an electricity-generation company bought from the Ugandan government in 2005, through the first ever dual listing in Uganda and Kenya.

> Private equity interest in Africa continues to rise, encouraged by deal multiples of around eight times the initial investment.

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With relatively few large companies to go for, a common strategy is to buy modest-sized national enterprises and then transform these into regional outfits. In a matter of years, PE houses AfriCap and Helios International helped turn Equity Bank of Kenya from a small microfinance lender into a major commercial bank.

When considering a potential target, the degree of due diligence is likely to be higher than the norm for more mature markets, due to a dearth of credible data. Investors should also be aware of the shallow pools of local talent, and be prepared to parachute in their own resources, possibly for significant lengths of time.

Local relationships with regulators and government are vital, to manage bureaucracy and avoid surprises. It is helpful to know, for instance, that in many Western and Central African countries, minority shareholders will find it difficult to recover decision rights if the Chief Executive Officer (CEO) performs badly.

As PPPs proliferate, governments are setting up regulatory agencies to govern procurement, contracting and ongoing management. These processes are largely untested, so on-the-ground knowledge and contacts are important, to ensure that contracts are honored and that appropriate arbitration exists for any disputes.

In a diverse continent with 54 countries, tax systems inevitably vary considerably, but one constant theme is the emergence of heavy taxes on exit profits. Where no taxation treaty exists between investor and investee countries, there is a genuine risk of double and/or excessive taxation.

Much has been written about corruption in Africa, yet this threat is arguably over-hyped and obscures the true opportunities for PE. The risks may be higher in sectors with greater state involvement — such as infrastructure and natural resources — but this leaves a host of private markets where established multinationals have been active for decades. The presence of the likes of Shell, Exxon Mobil, Unilever, Nestlé, Cadbury and Diageo should be enough to persuade any doubters that this is a continent in which it is possible to do business.

Showing commitment

Africa is not a single country, and each of its nations is in different stages of maturity, with its own distinctive culture, legal and regulatory environment. Any market entry strategy must reflect this diversity, and investors need to do their homework on local issues such as infrastructure, market size, growth rates, legal system, investment incentives, foreign exchange, and dividend and profit repatriation policies.

Infrastructure, in particular, should be regarded as a business cost, although some smart operators have turned poor transport and power capacity into a form of competitive

> A common strategy is to buy modest-sized national enterprises and then transform these into regional outfits.

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advantage, by setting up their own dedicated supply and value chains that new entrants find hard to replicate.

Further growth of Africa's PE market requires suitable economies of scale, with a gradual move away from small deals and funds. Governments can hasten such a transition by providing development finance and enabling regulation.

Above all, success depends upon a sustainable, long-term view that takes the interests of national and local economies and communities seriously, in order to make a genuine contribution to a country's development. By taking such an active role, PE investors can become an integral part of the growing African success story.

Africa is not a single country, and each nation is at a different stage of maturity, with its own distinctive culture, legal and regulatory environment.

In 2012, emerging markets investment firm Schulze Global Investment launched the first PE fund dedicated solely to Ethiopia, aiming to invest US$100 million in sectors including agriculture, manufacturing, education, health, real estate, energy and tourism.

Worth nearly US$150 million, GroFin Africa Fund is a consortium that includes the African Development Fund, the World Bank, Deutsche Bank and Shell Foundation. The fund plans to invest directly in small and medium enterprises in Kenya, Tanzania, Uganda, Rwanda, Ghana, Nigeria and South Africa.

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The next Asian powerhouse

The emergence of a new free-trade zone in Southeast Asia is exciting both local and international businesses, and is set to put the region firmly on the world map.

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Fifty years after the Treaty of Rome marked the formation of the European Economic Community (now known as the European Union, or EU), another historic union took place on the other side of the globe.

By signing up to the ASEAN Economic Community (AEC) in 2007, the 10 member states began a process that should culminate in a single, Southeast Asian market of over 600 million people. The blueprint calls for the free movement of goods, services, investment, skilled labor and capital across the Association of Southeast Asian Nations (ASEAN), comprised of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

With average GDP growth over the past 15 years of around 6 percent,[1] and a rising middle class demanding higher value products and services, this extended economic zone offers excellent opportunities for businesses within and outside the region. By 2015, consumer spending within ASEAN is forecast to reach an eye-popping US$1.5 trillion — compared to US$1.2 trillion in India.[2]

The formal initiation of the AEC is scheduled for December 2015, although this date is just the start of a long journey towards a fully integrated economic community. Those with long memories will recall the slow — and continuing — evolution of the EU from equally modest beginnings.

A charter for growth

Whereas the EU is embodied in a set of laws that often supersede domestic legislation, the AEC is a political union, and is heavily dependent upon each member state respecting the spirit of the agreement.

Customs tariffs have been a major deterrent to trade, so one of the key requirements is to reduce duties to zero in the zone by 2018. This is actually a continuation of a free-trade agreement stretching back to 1992, and most of the rates in member countries have already achieved the zero target. Some members have successfully lobbied for temporary concessions to protect sensitive industries; for example, Cambodia currently levies high customs rates for imports of poultry, fish and vegetables.

Existing limits on foreign ownership of businesses, land and property are being slowly pushed back, giving investors from other states a greater chance to establish roots. The ASEAN Comprehensive Investment Agreement (ACIA), which came into effect in 2012, gives any ASEAN investor the same rights as local investors across the zone.

The AEC charter is relatively silent when it comes to tax, with no attempt to harmonize systems, leaving each state a free hand to set its own corporate tax rates. Rates in general have come down over the past 15 years — even more so since the blueprint was signed in 2007 — and most ASEAN nations are pretty close to the regional average of 23 percent. The exceptions are the Philippines, at 30 percent, and Singapore, which charges just 17 percent. This downward trend has a parallel within the EU where, for example, Belgium, the Netherlands, Luxembourg, Ireland and the UK all offer various forms of incentives and certain Eastern European Member States offer tax incentives for designated industrial zones, in an effort to entice inward investment.

By 2015, consumer spending within ASEAN is forecast to reach an eye-popping US$1.5 trillion.

Intellectual property (IP) in brands, manufacturing techniques, IT and designs are a big source of value to any corporation, and the new charter does offer a degree of protection, although this is nowhere near as defined and regulated as it is in EU laws. Singapore has successfully positioned itself as one of Asia's key IP hubs, with highly developed laws and regulations, as well as incentives for IP and research

[1] *ASEAN Economic Community (AEC), A Potential Game Changer For ASEAN*, Deutsche Bank Research, 14 June 2013.
[2] *ASEAN Economic Community Will Offer A Young And Dynamic Consumer Market*, Euromonitor International, 30 October 2013.

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> The good news for non-ASEAN businesses is that they too can benefit from the relaxation of restrictions, so long as they set up a hub within the zone.

and development activities. This reassures investors and gives Singapore a distinct advantage over other countries in the region.

The good news for non-ASEAN businesses is that they too can benefit from the relaxation of restrictions, so long as they set up a hub within the ASEAN zone. Once such an entity is established, it should be considered an ASEAN company that will receive the same benefits from the ASEAN charter when it invests in or trades with another ASEAN country. If this company will have set up a production base inside the ASEAN region, the exports to other ASEAN markets will be exempt from customs duties. Any company that feels it is subject to discriminatory treatment by one ASEAN country has the right to appeal in the form of arbitration. However, this dispute resolution mechanism is fairly complex and does not guarantee all necessary safe harbours such as EU law for companies.

The long and winding road to union

A project as extensive and sensitive as the AEC was never going to be completed overnight. Progress has been labored, partly due to the vastly differing histories and varying degrees of economic maturity of the members. The wealth of Singapore stands in stark contrast to the relative poverty of Laos, while Vietnam emerges from decades of communist rule, and Myanmar seeks to cast off its sanction-riddled, military-ruled past.

Singapore in particular is already a very liberal, deregulated economy; the same cannot be said for Myanmar, Vietnam, Laos and Indonesia, all of which are only a few short steps along the road to free trade.

The specter of protectionism also looms large, with many governments fearful of opening up fragile, fledgling domestic

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industries to competition. Despite strong, public words of commitment to open borders, countries such as Indonesia, Vietnam, Cambodia and Malaysia continue to give their homegrown businesses preferential treatment. Singapore's strong financial services institutions are viewed as a particular threat.

The example of India should stand as a warning of the perils of being over-protective. Its slower growth is arguably a direct result of restrictions on foreign investment. Countries like the Philippines have enjoyed a rise in call center business at the expense of India.

Some member states also have other priorities that can distract them from the task of unification. Vietnam has a growing need to improve public services and its legal system, Myanmar could use assistance in developing its infrastructure, and Thailand is often distracted by political challenges.

Any fears are balanced by a growing recognition that, individually, each state is powerless against the might of China, Japan, India, the US, the EU and other trading blocs. Working together is regarded as the most obvious long-term solution to such competition, hence the gradual forward momentum towards 2015 and beyond.

Sizing (and seizing) the opportunity

ASEAN offers a larger total consumer population than individual BRICs such as Brazil or Russia, and also has some of the world's lowest labor costs. As borders open up, ASEAN businesses have the potential to expand within the zone and grow into multinationals that can compete with the world's best.

Global companies that already have a presence in ASEAN now have the flexibility to consolidate their manufacturing and supply chains within the region, to increase economies of scale, and gain maximum advantage from low wages and tax incentives.

Quality of infrastructure will also determine investment decisions. Countries such as Thailand and Malaysia have relatively well-developed logistics networks and transportation hubs, which are ideal for non-labor intensive manufacturing such as heavy machinery, where transport costs are a bigger factor. Further infrastructure improvements are underway, including the ASEAN Highway Network and high-speed railways between Malaysia and Singapore, and help is at hand from the ASEAN Infrastructure Fund, set up in conjunction with the Asian Development Bank.

Those enterprises that have made little or no inroads into the area now have a new target market that is arguably less competitive and easier to enter than China. Many of these may be mid-cap companies from India, Australia, New Zealand, Brazil and North Asia. Some are already putting tentative feelers out to Myanmar, Vietnam and Cambodia as their first point-of-entry.

Manufacturing is likely to be a popular choice for investment, due to the aforementioned low labor costs, as well as favorable trade terms between ASEAN and other parts of the world. Another growth area is financial services, to satisfy the increasing need for bank and savings accounts, life insurance policies, pensions and share portfolios. With no dominant financial players in the region, pan-ASEAN giants will surely emerge.

> As barriers reduce and tax regimes converge, factors such as infrastructure, labor costs and productivity will become more relevant to investment decisions.

Energy and natural resources may be a tougher nut to crack, as the AEC blueprint does little to liberalize these industries, which may remain national for some time to come. The same could be said for agriculture.

Progress towards free movement of people, goods and capital will continue to be uneven, and some may feel that for every two steps forward, the AEC is taking one step back. Skeptics should cast their minds back to the development of the EU, which has had a similarly bumpy ride. However, the principles and commitment are in place for an integrated regional economy that can compete on equal terms with the rest of the world.

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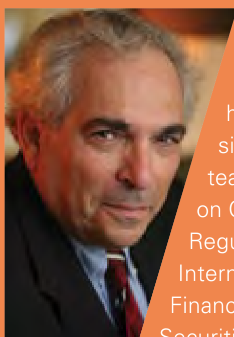
Keeping the capital tap flowing: shadow banking in China and the US

Despite considerable opposition, shadow banking has a vital role to play in the economies of both emerging and mature markets, providing essential capital. Mainstream banks alone cannot support growth, so the challenge is to reduce the risks of unregulated lending without cutting off the flow of funds, argues Hal S. Scott, the Nomura Professor and Director of the Program on International Financial Systems at Harvard Law School.

By and large, shadow banking is an unhelpful term because it means very different things to different people, and to different countries like China and the US. While the term implies something bad that we need to stop, shadow banking can often be good and a phenomenon, within limits and properly regulated, we need to encourage.

Hal S. Scott

Hal S. Scott is the Nomura Professor and Director of the Program on International Financial Systems



(PIFS) at Harvard Law School, where he has taught since 1975. He teaches courses on Capital Markets Regulation, International Finance, and Securities Regulation. He has a B.A. from Princeton University (Woodrow Wilson School, 1965), an M.A. from Stanford University in Political Science (1967), and a J.D. from the University of Chicago Law School (1972). In 1974–75, before joining Harvard, he clerked for Justice Byron White.

A vehicle for growth in China

In China, shadow banking refers to a variety of financial institutions and activities that in some way involve lending by non-banks. Shadow banking institutions run the gamut from informal financial institutions (curb market) to formal non-bank financial institutions (such as leasing companies) to wealth management products offered by banks. Indeed, in China, all bond market transactions are considered shadow banking because they involve lending outside of banks. By value, most forms of shadow banking in China are performed by bank affiliates, e.g. wealth management products, a considerable proportion of which are principal guaranteed. Some estimate that shadow banking accounts for about 6 trillion Renminbi (RMB) in lending, or about one quarter of the total.

In China, the concern with shadow banking is not potential threats to systemic stability. China stands behind its big banks and the financial system as a whole. The two issues they do raise are investor protection and interest rate liberalization. With respect to investor protection, some investors might wrongly assume they could not lose money on products offered by banking organizations — but it is unclear whether state-owned financial institutions would act in these circumstances to preserve their reputations or would enforce contractual losses on investors.

On the other hand, permission of shadow banking products are a step toward interest liberalization since it permits transactions between banks and their customers at unregulated rates, albeit at more risk. Thus leasing and trust companies provide financing options for credit-constrained SMEs, while also offering investors a better return than bank deposits.

Certainly China wants to more quickly develop its capital markets to offer direct financing to companies through the markets rather than intermediate banks. Again, a positive function of shadow banking as it is defined in China.

Stabilizing lending in the US

Shadow banking in the US (which does not regard capital markets as part of shadow banking) comprises a significant portion of the financial system; according to some estimates, possibly accounting for slightly more financing than by bank loans. The primary concern in the US is that shadow banking may pose systemic risk. This is quite different than the investor protection and interest rate liberalization issues in China.

In the US, the overwhelming focus on shadow banking has been the money market funds (MMFs), which today comprise US$3.6 trillion in assets (compared to US$9.6 trillion in bank deposits) and which experienced a severe run during the 2008 financial crisis (US$300 billion in withdrawals) in the three days following the Lehman bankruptcy. This run was only stemmed by a combination of Fed lending and investor guarantees provided by the Treasury.

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The major reform of MMFs that is likely to come out of current SEC proposals is to require a floating net asset value (NAV) for funds most prone to runs, non-government funds with institutional investors. The idea is that a fixed NAV provides incentives for early exit in a crisis, as sophisticated investors will withdraw at US$1.00 when their funds are actually worth less, say US$0.998, due to falling asset prices. By requiring a floating NAV, this early withdrawal incentive will no longer exist. But many see this as a false palliative, as nervous investors will still withdraw at US$0.998 if they think the price will go further south to, say, US$0.968.

Further, institutional investors do not want floating NAV funds due to a variety of considerations, including increased tax and accounting burdens, and the difficulty of managing liquidity at the end of the day. They will look for fixed-NAV alternatives. According to the SEC's 2012 report, offshore stable NAV funds already manage US$288 billion in US dollar denominated accounts. These unregulated funds will not be subject to US regulation of the safety and liquidity of their assets. So, the US could be worse off, with large amounts of US demand liabilities in potentially less regulated and riskier funds.

The US would be better off to deal with the contagion risk of MMFs through better use of the two techniques that worked in the crisis: Fed lending and government guarantees. But both are unfortunately severely limited by the Dodd-Frank legislation.

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BACKSTORIES

Global bites

TRAVEL ADVISORY

Yangon, Myanmar

With a unique blend of colonial and Asian influences, 'the garden city of the East' offers a cultural kaleidoscope for visitors.

Known as Rangoon until 1989, Yangon remains the true business, cultural and intellectual center of modern Myanmar (Burma), despite being replaced as the capital by Naypyidaw in 2006. With a population of over 5 million people, it is easily the largest city, representing around one-fifth of the entire national economy.

Possibly the most exotic of all Southeast Asian cities, Yangon's colonial past is evident everywhere in the form of decaying 19th-century British architecture, mixed with a cocktail of Burmese, Chinese and Indian influences, and a few modern skyscrapers thrown in. Add to this the stunning lakes, shady parks and verdant tropical trees, and it is easy to see why it has been dubbed 'the garden city of the East.'

Home to Myanmar's largest and busiest port, Yangon is a hub for manufacturing and construction, although commerce has been hampered by years of sanctions, a severely underdeveloped banking industry and communication infrastructure, and frequent power shortages.

A thawing in the country's political climate has attracted a growing stream of business people and tourists, causing traffic congestion and putting a strain on the city's modest hotel capacity.

CLIMATE

A CLASSIC 'MONSOONAL' CLIMATE means a long, warm and humid rainy season lasting from June to October, marked by dramatic tropical storms and occasional flooding that can make roads impassible. With temperatures in the hottest parts of the year reaching 40˚ or more, visitors tend to favor the drier winter months. Travelers need not bother packing warm clothing, as even in the coldest parts of the year it rarely falls below 20˚.

MONEY

THE KYAT is Myanmar's national currency, with a current exchange rate of around 1,000 to 1 US dollar (US$). ATMs are commonplace, but are not always reliable, so it is wise to keep a good stock of dollars handy. Apart from a few, expensive hotels that take credit cards — albeit with a hefty surcharge — cash is king, with most places accepting either dollars or kyat.

GETTING AROUND

THE EASIEST WAY to travel is by taxi, but be warned! Many are old, dirty and run down, often lacking air conditioning or functioning seat belts. A journey from the airport to the center costs around 10,000 kyat (US$10) and takes 30–40 minutes. In the main tourist areas, it is possible to walk almost anywhere.

BUSINESS ETIQUETTE

PATIENCE IS A VIRTUE in Myanmar, as it takes time to build those all-important connections that pave the way to deals and relationships. Any attempts to fast-track your way to success can cause frustration and even offense. Burmese people rarely express open agreement or disagreement, so be wary of misreading signals. Casual dress — including jeans — is acceptable, although formal attire is recommended when meeting public officials.

DINING

THE EXPLOSION of new restaurants in recent years makes dining in Yangon a multicultural experience. Like most of Asia, rice is the core of any Burmese meal, served with a mouthwatering variety of dishes such as *ismohinga*, containing rice noodles in coriander fish gravy.

For a taste of old world luxury, try the **Mandalay Restaurant at The Governor's Residence** (35 Taw Win Road; +951229860), offering an enticing mix of Burmese and European cuisine. Fans of Chinese food should head for the **Royal Garden Restaurant** (Nat Mauk Road; +951546923) by the beautiful Kandawgyi Lake, where locals and foreigners feast on roasted duck and Royal Pork ribs in Imperial Sauce. **Le Planteur Restaurant and Bar** (22 Kaba Aye Pagoda Road; +951541997) is one of the best restaurants in town, situated in the spectacular grounds of the former Australian Embassy, specializing in fine French dining with an Asian touch.

NIGHTLIFE

IN A CITY not renowned for its after-dark options, most clubs and pubs are in five-star hotels, such as the **Music Club** (Park Royal Hotel, 33 Alan Pya Phaya Road; +951250388) or **Paddy O'Malley's** (Sedona, No. 1 Kaba Aye Pagoda Road; +956563388944). And of course, there is always karaoke, to be found in entertainment plazas, along with traditional dance performances and even the occasional fashion show.

TIME OFF

ONE SIGHT YOU CANNOT MISS is the magnificent Shwedagon Pagoda; the most important religious site in the whole of Myanmar. For a hint of Yangon's colonial past, the Mahabandoola Garden offers a great view of the City Hall and buildings harking back to the British Empire. If shopping is your thing, a number of jewelry stores sell precious gems such as rubies, sapphires and jade.

MOBILE

INTERNET ACCESS is limited and many sites are blocked, so any research should ideally be conducted before visiting Yangon. Free Wi-Fi service is generally available in restaurants, cafés and bars, but the quality of the connection varies.

FURTHER INFO

THE MAIN TOURIST OFFICE is located centrally at Sule Pagoda Road; +951252859.

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KPMG IN EMERGING MARKETS

KPMG recently announced it is opening a member firm in Libya

With growing momentum of regional and local business in Libya, KPMG International recently decided to upgrade its presence in Libya to one with a full-service member firm operating in the country. The region presents a significant economic opportunity for investors, many of whom are already taking advantage of the young, educated workforce.

Additional details on the emerging opportunities in Libya will be highlighted in our next issue.