

Delegation of German Industry and Commerce in Myanmar

Dear readers,

The recently launched National Export Strategy will be an important tool to support local private sector development. Developing the value chain is a key aspect, but the sectors that have been identified do not seem to be too surprising. German buyers might bring in new ideas for diversification and unexpected demand. A striking example: local shampoo, which has to be prepared at home out of two herbal ingredients. Locally the product does not enjoy high reputation any more in a market where whoever can afford is attracted by prestigious and more convenient western consumer brands. But the German company which has recently started test imports (see below under German projects) – and some insider users – finds it very convincing: purely organic, combining shampoo and conditioner and delivering excellent results for hair care. This will be a niche product for a small group of European consumers, but besides it may have tremendous marketing effects: bringing the notion of “Beauty Made in Myanmar” to Europe. And it may generate jobs with small start-ups and family businesses, working on collection and confectioning according to European standards. With low capital requirements, access to finance should not be an issue for business development – but the Myanmar government needs to lower hurdles for access to business and export licenses and a network of agents needs to develop to serve as wholesale partners of smallholder companies.

Best regards

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Policy Moves

With the aim to increase professionalism, capacities and independence of the bureaucracy, Permanent Secretaries are currently selected and trained to take over relevant posts in 30 national ministries. They will be installed as seniors to Director Generals, currently the highest-ranking civil servants.

The government plans to further improve tax collection and to increase the tax to GDP ratio to (still meagre) 10% in 2015 from 8% in 2014.

Economic Development

The IMF has adjusted its growth assessment for the 2014/2015 Financial Year to 7.8%, a decline compared to 8.3% the previous year, citing slower growth in the agricultural sector as a reason. At the same time, ADB in its most recent Economic Outlook expects growth in the new FY 2015/2016 to reach 8.3%. Inflation is expected to rise to 8.4%, driven by growing government spending and increasing wages.

Economic Policy

Following discussions on a new Companies' Act (see February newsletter), consultations on the new Investment Law have started, which is meant to merge currently separate laws for domestic and foreign investors. The law may be enacted as early as beginning of 2016, according to DICA – that is before a new government takes office after the November elections. Both new laws in combination might significantly change the legal framework for foreign businesses in the country. Whether they will actually lead to a broad based opening up of trade and distribution to foreign companies remains to be seen (and you can guess, that lobbying is taking place in that direction).

Taxes

Good news for foreign companies and expats: since 1 April new tax legislation is in place, setting the non-resident income tax rate for income of companies operating from outside Myanmar and for salaries of expats staying less than 183 days in the country at 25% instead of previously 35%. The capital gains tax has been set at 10% instead of previously 40%.

FDI

According to DICA, FDI in the 2014/2015 FY have reached a record 8.1 bn USD with the energy (35%), telecommunications and manufacturing (25% each) sectors driving growth. Singapore tops the list of investor countries with 8.5 bn USD, followed by the UK (850 m – a considerable share probably from the Virgin Islands), Hongkong (619 bn USD) and China (516 m USD). Newcomers from Europe and Asia are on the list of 27 investor countries. Companies from Norway, Sweden and Switzerland as well as Samoa and Sri Lanka have made investments with a volume of 82 m USD. And most surprisingly Samoa heads this list with three projects worth 30 m USD.

Foreign Trade and Trade Policies

Myanmar's trade deficit has grown to 4.9 bn USD in the FY 2014/2015 with imports rising to 16.34 bn USD (inputs for infrastructure development contributing strongly) and exports stagnating at 11.45 bn USD. To countersteer that trend, end of March Myanmar has launched its new National Export Strategy with the support of the ITC and German GIZ. Besides diversification of export sectors, the NES wants to address structural challenges like access to finance and market information, logistics and quality management. Cost during the five years implementation period is expected to be 900 m USD.

MGMA has given a positive outlook on garment exports in 2015/2016, expecting volume to rise to up to 2 bn USD from this year's 1.7 bn USD (twice the value than two years ago). But policy will matter: labor disputes need to be solved and a minimum wage needs to be set – discussions are still going on. And on a more general level, in view of sustainability Myanmar would be well advised to avoid the dependency on garment exports of its big competitor Bangladesh.

Thus it is good news that new industries plan to access foreign markets: Myanmar may soon see first exports of consumer goods to the US. Local **Capital Star Diamond Group** has announced it planned to export a local coffee product under the new brand of Ideal Tastes. American FDA has already given approval.

A reverse development has taken place in German-Myanmar bilateral trade according to official 2014 German trade statistics. German export have increased only slightly by 3.5% yoy to 130 m EUR while imports from Myanmar have grown significantly by 79% to reach 99.9 m EUR. They are driven by imports of garment which are the main item and have almost doubled compared to 2013.

Big relief for expats – but perhaps a further driver of trade deficits? Liberalization of the until now restrictive import policies for alcoholic beverages has started with a system for import licenses for wine to be granted to local companies. The move gives legal certainty to retailers who until now had to rely on illegal or at least grey zone imports via hotels and restaurants.

For a test period in 2015, import of used (and not necessarily refurbished) machinery and equipment will be allowed in low cost and SME sectors.

Finance

Following the granting of licenses to nine foreign banks last September, the first three of them will open their branches in April: **Sumitomo Mitsui Banking**, **Bank of Tokyo Mitsubishi** and **OCBC**.

American **Visa** has opened office in Yangon to further develop its credit card co-operation with currently eight local banks (some of them under a special exemption from the US OFAC sanctions regime) in new segments like online booking and e-commerce. It partners with the leading local retail brand CityMart for payment systems in some of its high end outlets in Yangon. The company announced exceptionally speedy growth of its business since 2012 up to 160 m USD – but mostly thanks to foreign tourists. Domestic provider **Myanmar Payment Union** plans to launch an online payment system together with Singaporean **2C2P** – while local media report that its credit card payment system is still facing difficulties.

Oil and Gas

French **Total**, Australian **Woodside Petroleum** and **Transcontinental Group**, Canadian **Foresight Group**, British **BG**, Italian **Eni** together with Indian **Reliance**, Dutch **Shell** together with **Mitsui Oil Exploration** and

American **Chevron** have signed Production Sharing Contracts on oil and gas offshore blocks following last year's tenders.

First step towards downstream development: Chinese **Guangdong Zhenrong Energy** is assessing a refinery project with an investment volume of 2.9 bn USD and an annual capacity to process 5 m t of crude oil, with approval by the Myanmar government still pending. The project is planned to be located at the Dawei SEZ (despite the development there still being pending) and not in the Chinese driven Kyaukphyu SEZ in western Rhakine State. JV partners are military owned **MEC** and local **Htoo Group**. The existing state owned Thanlyin Refinery will see rehabilitation once a JV agreement has been finalized – Singaporean **Puma Energy** is the partner of choice for MOGE.

Government comeback in fuel distribution? The sector had been privatized end of the last decade, but now state owned **Myanmar Petroleum Products Enterprise** plans to set up a JV with an international partner, obviously in view of improving local supply and to drive competition.

Mining

Coal mining is expanding quickly. According to government agencies, proven deposits stand at 540 m t, most of them lignite and located in Sagaing, Magway, Taninthayi, Ayeyawady regions and Shan State. Production is expected to increase significantly from today's 700,000 t per year – but quality levels are low. Coal plays an important role in the current energy master plans with 10 projects under examination – but most of them are controversial for ecological reasons, among them Thai **Ratchaburi Electricity Generating Holding's** 2,640 MW coal-fired power plant in Myeik.

Agriculture

Chinese **CAMC Engineering** with the **Myanmar Millers Association** plans to set up an international standard rice mill in the Irrawaddy Delta with a volume of 5 to 7 m USD through their JV **Myanmar Rice Mill Company**. Daily capacity is planned to reach 200 t. Further projects are under consideration.

Power

Japanese **Sumitomo Corp** has been awarded the contract for two 25 MW thermal power plants to supply the Thilawa SEZ near Thanlyin. The project volume is 41.2 m USD, funded through Japanese soft loans. **Mitsubishi Hitachi Power Systems Ltd.** and **Taihei Dengyo Kaisha Ltd.** will supply generators, turbines and further equipment. The power plants are meant to start operation between March and July 2016.

Toshiba re-enters the Myanmar market for hydropower plants. Its Chinese subsidiary **Toshiba Hydro power [Hangzhou]** has been chosen to supply four 77 MW turbines and generator units for the 308-MW Upper Yeywa hydropower project. **Zhejiang Orient Engineering Company** has been granted the construction contract.

VPower's interim gas fired power plant near Kyaukphyu has started operation. The BOT project is meant to supply the planned SEZ. Generators have been supplied by **MTU** according to media information.

Corporatization of the **Yangon Electricity Supply Board (YESB)** is moving ahead. On April 1, the YESB has been transformed into state owned **Yangon Electricity Supply Corporation (YESC)**, financially independent from the Ministry of Electric Power with a complete privatization in the planning within the next three to four years. Transmission and distribution of power on a township level will be handed over to private sector contractors. At the same time, the **Mandalay Electricity Supply Board** has been renamed to **Mandalay Electric Corporation**.

Infrastructure, City development and construction

International Real Estate Agency **Colliers** assesses the average cost for office rental in Yangon has reached 69 USD per sqm. Industry experts expect the real estate market to slow, but no tangible cost reductions seem to be in sight at short notice.

Telecommunication and IT

Hope in sight with regards to internet connectivity: Singaporean **Campana Group** has announced plans to

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build a second sea cable until end of 2016. Already in the near future, a **Telenor** fibre link to Thailand should be ready to supply the market.

Mobile telecommunication has developed strongly during the past year with a 87% growth yoy up to 10.7 m users by September 2014 and a penetration rate of 19.9% according to international analyst Ovum. The company projects annual growth rates of 21% until 2019, pushing the number of users to 38.5 m.

Garment

Japanese **Wacoal Holdings** plans to start production of bras for the Thai and Japanese markets in the Thilawa SEZ by autumn 2016. Investment volume is 4 m USD and annual production meant to reach 2 m pieces.

German projects

Registration of the **German Myanmar Business Chamber (GMBC)** has been approved by the local authorities and the GMBC is up and running to offer an effective platform for practical exchange among companies from both countries and promotion of German business in Myanmar. The Founding Executive Committee Members are **Jens Knoke (Henkel)**, **Andre de Jong (Robert Bosch)**, **Philipp Hoffmann (JJPun)** and **Christoph Steinwehe (Loi Hein)**. The GMBC will work in close co-operation with the **Delegation of German Industry and Commerce in Myanmar**.

New export prospects for Myanmar in unexpected territory: **Süddeutsche Haarveredlung Fischbach + Miller** has started imports of hair from Myanmar, which is used for second hair and extensions. The company hopes to expand its sourcing in Myanmar with support given to its suppliers to upgrade quality. Even more exotic, the company has received its first sample of organic Myanmar shampoo ingredients for preparation at home.

International projects

Japanese media report about **Suzuki's** plans for setting up a production plant for assembly in the Thilawa SEZ, which have not been made official yet. Production is meant to start end of 2017 and targeted annual production volume is 10,000 units of smaller cars for the local market, among them the Ertiga. Suzuki already has resumed production of mini-trucks in a JV facility with an annual output of 1,800 units.

Thai steelmaker **Millcon Plc** has announced an investment in the Thilawa SEZ starting operations beginning of 2016 to produce steel for construction and prefabricated concrete materials. JV partners are **General Engineering Plc** and local private sector companies. Millcon's 45% investment is 7 m USD. The company said, current steel demand in Myanmar stood at 2 m t per year only, but was doubling each year.

Swiss **SIKA**, producer of construction chemicals, has opened a subsidiary in Myanmar. It has been supplying the market from neighbouring countries since 1991.

The recently set up 51:49% JV of **Myanma Shipyards** and Vietnamese **Dong A Shipbuilding Joint Stock Company** has signed contracts for construction of clinic boats, fish trawlers and 30 container vessels, general cargoes and tankers according to the Ministry of Transport.

Japanese **Mitsubishi** will enter a 30:70 % JV with local **Capital Diamond Star Group Ltd**. The company, named **Lluvia Ltd**, announced it plans to invest over 200 m USD in "businesses across the food value chain" during the next three years.

Thai **Osotspa Co**, a manufacturer of pharmaceutical and consumer products, and the local soft drinks producer **Loi Hein**, have concluded two JV agreements in Myanmar and Thailand for marketing and distribution. The aim is to deepen the current cooperation under a license agreement for Osotspa beverages, including the M150 and Shark Energy drinks.

GTAI reports (in German language)

Recht kompakt Myanmar

<http://www.gtai.de/GTAI/Navigation/DE/Trade/Recht-Zoll/wirtschafts-und-steuerrecht,did=1199178.html?view=renderPdf>

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Myanmar will Stromerzeugung mehr als verfünffachen

<http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1210562.html?view=renderPdf>

Exhibitions (updates to the February newsletter in bold)

International Medical, Hospital and Pharmaceutical Exhibition, 14 -16 May 2015,

<http://www.myanmar.medipharmexpo.com/eng/>

Build Tech Yangon, 27 – 29 May 2015, www.btyangon.com/en

Food and Hotel Myanmar 2015, 3 – 5 June 2015, www.foodandhotelmyanmar.com

With a German pavilion organized by Hamburg Messe and Congress GmbH – for details please contact vincent.spitzmann@hamburg-messe.de

Myanmar International Textile and Garment Industry Exhibition, 26 – 29 June 2015,

www.myanmar-expo.com/MTG

Auto Expo Myanmar 2015, 22 – 25 July 2015, <http://auto.emmafair.com>

Myanmar International Electrical, Electronics and Electric Power Equipment, 22 – 25 July 2015,

<http://mt.emmafair.com>

Myanmar International Machine Tool and Automation Exhibition, 22- 25 July 2015,

<http://mt.emmafair.com>

Myanmar International Plastics, Rubber, Packaging, Printing and Foodtech Industry Fair, 14 – 17 Aug 2015,

www.myanmar-expo.com/Myanmarplas

Myanmar International Agriculture Techniques and Equipment Exhibition, 14-17 Aug 2015,

www.myanmar-expo.com/Myanmaragrotech

Propak Myanmar 2015 and Plastics & Rubber Myanmar 2015, 17 - 19 Sept 2015,

www.propakmyanmar.com

Myanauto 2015, MyanTRE 2015, Myan Heavy Duty Vehicle Parts and Accessories Exhibition, 8 – 10 Oct

Manufacturing Myanmar 2015, 14 – 16 Oct 2015, www.manufacturingmyanmar.com

Oil & Gas Myanmar 2015, 14 – 16 Oct 2015, www.ogmyanmar.com

Building & Construction Myanmar 2015, 29 – 31 Oct 2015, www.buildingmyanmar.com

Electric, Power & Renewable Energy Myanmar 2015, 29 – 31 Oct 2015, www.electricmyanmar.com

Communicast Myanmar 2015, 17 – 19 Nov 2015, www.communicastmyanmar.com

MyanFood, MyanHotel, Myan Foodtech International 2015, 26 – 28 Nov 2015, www.myanhotel.com

Mining Myanmar 2015, 26 – 28 Nov 2015, www.miningmyanmar.com

With a German pavilion organized by Hannover Fairs International. For details please contact Tobias.Zwingmann@messe.de

MyanBuild, MyanEnergy, MyanWater 2015, 3 – 5 Dec 2015

Agri Livestock Myanmar, 10 -12 Dec 2015

Myanmar International Building Material, Hardware and Tool Exhibition, 11 – 14 Dec 2015,

www.myanmarexpo.com/buildhardware

Myanmar International Lighting Exhibition, 11- 14 Dec 2015, www.myanmarexpo.com/Myanmarlighting

International Wood Processing Machines, Cutting Tools & Hand Tools Fair, 11 – 14 Dec 2015,

www.myanmarexpo.com/MyanmarWood