

Dear readers,

The heat is on – after the Thingyan break, temperatures beyond 40 degrees make it difficult to move and to work, but the new government will have no time to relax but has to go ahead and develop policy directions. First moves are giving indications: it comes as no surprise that peace building and fighting corruption are on top of the agenda. Plans to increase transparency in the financial sector and to improve tax enforcement are of utmost importance, but a further suspension of commercial taxes levied on mobile phone fees as it has been discussed might send a wrong message to the population: for Myanmar people there will not be such a thing as a free lunch, but hard work ahead. We will keep you posted on further developments – as in this newsletter, the section on policy developments may be a bit longer in the coming months. But if you are into hot food, do not miss the Insights section at the end of our newsletter!

Best regards

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Politics

Shortly after taking office on 1 April, the new government already has seen a reshuffle. A new position of a State Counsellor has been created for Daw Aung San Su Kyi, allowing her to co-ordinate and oversee activities of the executive and the parliament. At the same time, U Pe Zin Win, former Permanent Secretary at the Ministry of Energy, has been promoted to the position of Minister of Electrical Power and Energy (a position, Daw Aung San Su Kyi initially had held herself. She has as well given up the role as Minister of Education. In her role as Foreign Minister, the first foreign visitor she has met during the first week of April was Chinese Foreign Minister Wang Yi – a strong political sign. According to official statements, the controversial issue of the Myitsone Dam has not been discussed during the meeting.

In the meantime, key positions in the Yangon Regional Government have been decided upon. Chief Minister U Phyo Min Thein has nominated six ministers (10 under the previous regional government). Minister for Planning and Finance will be U Myint Thaug, a member of the former Economic Committee of the NLD and deputy head of DICA from 1995 to 2011. Minister for Agriculture, Livestock, Forestry and Energy is U Han Tun, a former MOGE official. Daw Nilar Kyaw will head the Ministry for Electricity, Industry and Transportation. Yangon will have a new mayor as well: U Maung Maung Soe, retired professor at the Yangon Institute of Economics and previously member of the NLD Economic Committee.

Fighting corruption is on top of the agenda of the new government. Strict criteria have been set for gifts government representatives may accept and family members are not allowed to be employed as supporting staff (a topic fit for exchange of experience with some German states...). The Chief Minister of Yangon has declared to assess projects with a close view on transparency. Enforcement will be challenging as all over the world, but we can hope to see Myanmar move up the ranks in Transparency ratings.

While the NLD works on the government agenda, the USDP under U Thein Sein's leadership focuses on internal party issues. A number of members have been expelled, among them former Speaker of Parliament Thura Shwe Mann, who co-operates with the NLD in a committee dedicated to revising legislation.

International

End of April the EU has extended its arms embargo for another year. Economic sanctions had been lifted in 2013.



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Economic policies and legal developments

That might be an important step to a transformation of the economic landscape towards a more transparent and more level playing field structure: **UMEHL**, one of the conglomerates held by the military, has applied for registration under the Myanmar Companies Act in view of transforming into a public company. The group is active in banking, breweries (with the market leader Myanmar Breweries in a JV with Japanese Kirin), logistics and Jade mining, amongst others. Up to now no similar plans have been disclosed for the second military owned conglomerate, **MEC**.

The Central Bank has announced it plans to enforce a law requiring documentation on overseas accounts of local residents, depending on the support of the new government. Local newspapers report that Myanmar money has made it to the offshore accounts leaked in the so called Panama Papers.

During his first days in office, the new Minister of Construction has announced to close down a significant number of toll road gates all over the country. No criteria have been disclosed such as assessment of initial investment and running and maintenance cost. It remains to be seen whether this will temper the mood of private investors in road construction. End of April, the Yangon Region Chief Minister announced to assess a reduction of toll fees for container transports at a bridge linking the most important industrial zone to the downtown ports with the aim to ease logistics cost for industrial production. The government plans to assess the underlying license agreement.

FDI and Industrial Zones

After a sluggish start due to political uncertainty ahead of the elections, the Financial Year 2015/2016 has seen a record FDI inflow: projects worth 9.5 bn USD have been approved, a number of them during the last days of March. This means an increase of 18.4% compared to the previous year – but it remains to be seen, how many of these projects will be implemented. One Chinese investment stands for almost 3 bn USD, making China the number 2 investor again with a 550% increase to 3.3 bn USD. Singapore tops the list of investor countries. Not so promising news: FDI in manufacturing have seen a decrease by 29% to 1.06 bn USD. Detailed statistics are available for download at http://myanmar.ahk.de/fileadmin/ahk_myanmar/news/fdi-stats_15-16.pdf

Among the FDI approved during the past financial year to be reviewed by the new government is Malaysian **IHH's** Parkway hospital project, planned with strong local partners in downtown Yangon on a former state owned plot.

Trade and trade policies

While the trade deficit has been increasing further during the past Financial Year, the new Minister of Commerce, U Than Myint, has announced ambitious plans to achieve an threefold increase of exports within the coming five years. It will be interesting to see more details of supportive policies develop.

Competitiveness of local manufacturers against imports from abroad is weak. In view of this fact and perhaps having in mind the soaring trade deficit, a bill to protect local producers is under discussion according to local media. Non tariff measures would be in line with WTO regulations. One can expect that the sectors affected will be limited at this stage, seen the relatively small scope of domestic manufacturing.

Mining

Australian **Eumerella Resources** via its JV company **Mawsaki Mining** plans to start exploration of tin and tungsten in Kayah State together with local minority partner **Myanmar Energy Resources Group**, subject on a license to be granted by the government.

Oil and gas

Among the FDI projects approved end of March has been the refinery project of Chinese state owned **Guangdong Zhenrong Energy Co** in Dawei – at the location of the SEZ which is likely to be under review by the new government. It remains to be seen whether the project will actually be implemented. Investment volume is close to 3 bn USD. The Chinese investor partners with local JV **Myanmar Economic Holdings, Myanmar Petrochemical Corp** and **Yangon Engineering Group**. Daily capacity is planned to be 100,000 barrel per day – far beyond the currently running refineries, but below international standards according to some experts.

Energy

Another PPA signed just days before the handover to the new government: Thai **United Power of Asia Plc** (UPA) plans to develop a 200 MW gas-fired power plant in Kanbawk to supply to the controversial Dawei SEZ (see above). The plant is meant to be operational by 2020, investment is expected to be some 285 m USD. According to Thai media, the feed in tariff under the 30 years PPA stands at 33 US Cent – about three times the average electricity price end users pay.

Thai **Global Power Synergy Co (GPSC)** is conducting feasibility studies for a coal fired and two gas fired power plants in Myanmar with a combined capacity of 3,000 MW. No information on locations have been disclosed so far.

Under a MOU signed with the previous government, Chinese **Hushi Wuagaung Electric Engineering** is rehabilitating the currently only coal fired power plant in Tigyit in Southern Shan State under a BOT license. The plant, which has been launched in 2001 and obviously been shut down for years is expected to be operational in May with a capacity of 120 MW. The rehabilitation is said to have included an upgrading of environmental standards.

Heavy Industries

One of the prominent foreign investors, Thai **Millcon Steel**, is complaining about delays in the launch of its operations. According to local media, these are due to still missing licenses to be granted by the Myanmar government. A sobering story, seen that the investment has been made in the Thilawa SEZ, claiming to allow for streamlined approval processes. Millcon plans to produce 850,000 t of steel annually, once the plant is operational.

At the same time the Ministry of Industry has announced the forthcoming launch of state owned **No. 2 Steel Mill** near Taunggyi in Shan State. The plant will process domestic iron ore to so called pig iron, an intermediate product, with Russian technology. Annual output is meant to reach 200,000 t. Reserves of iron ore in the region are said to stand at 70 m t.

Finance

Taiwanese **CTBC Bank** has opened a representative office in Yangon end of March. The bank has stated it aims for a banking license in a third round of licenses, which has not been scheduled yet.



Infrastructure, urban development and construction

The **IFC** will provide a 200 m USD loan for expansion of the state owned **Myanmar Industrial Port** in Yangon to increase handling capacity to 500,000 TEU per year.

The **ADB** and the **Japan Fund for Poverty Reduction** have announced a 10 m USD grant for projects in Chin State to be completed until 2019. Rehabilitation of infrastructure (streets, water and power) following last summer's flooding will be in the focus.

Agriculture, seafood and processing

With Japanese help, a laboratory for chemical residue testing of agricultural products is planned to be developed in Hlegu north of Yangon. The project is driven by the Myanmar Rice Federation and the Ministry of Commerce. A foreign JV partner is expected to share construction cost and purchasing of testing equipment.

Exporters of freshwater prawns are bullish and expect exports to reach 20 m USD during the current FY after 12 m USD in 2015/2016.

And exports of pomelo will be given a boost by a two years program of the Myanmar Fruit Flower and Vegetables Producers and Exporters Association to improve quality and standards.

Garment

March has seen more approvals for foreign invested garment production: Chinese invested **Seo Ho International**, **Yuan Hong Garment**, **Best A Garment**, and **Landson (Myanmar)** have received approval for projects in Yangon, **Huabo Times Textile and Clothing** for a factory in Pathein.

Wood processing

Among the investments approved end of March by the MIC are a number of wood processing projects. Local **KMI** and foreign invested **New Bamaw Timber Products** have got approval for wood processing plants in Yangon.

Construction material

More domestic investment for cement plants to cater the growing demand for infrastructure and construction: **Shwe Taung** and **June Cement** have got approval for cement plants in Meiktila near Mandalay and Mawlamyine respectively.

German Projects

German insurance company **Allianz** present in Myanmar: **Allianz Global Corporate & Specialty SE (AGCS)** has set up a representative office in Myanmar under the management control of AGCS Singapore Branch. The representative office does not have an underwriting license and will focus on serving AGCS's existing International Insurance Solution (IIS) clients and explore business development opportunities. AGCS supports international clients with fronting services via Myanma International Insurance.

International Projects

Thai **TOA Paint** paint will launch another production in the Thilawa SEZ, the company announced. The factory is meant to be operational in mid 2017.

More soft drinks: the local foreign JV **Asia Pacific Beverage Myanmar Company** has got MIC approval for an investment in North Okkalapa TS in Yangon.

Japanese **Yakult Honsha Co Ltd.** has announced a 11 m USD investment into a production in the Thilawa SEZ. The company plans to launch production of its yoghurt products in 2017.

Another PET bottle plant is in the pipeline to serve the growing soft drinks industry: Australian **Q Pak** and a not disclosed local JV partner have received approval for a PET bottles and caps plant in Yangon's North Okkalapa Township.

Insights

Some like it hot – and for sure, Myanmar people love spicy food. But seen the ample production of chilies in the country, there is still room for exports. Standards are an issue as everywhere in agriculture and the lack thereof badly hampers export potentials. But smart young entrepreneurs are taking the initiative, making investments, taking risks and developing new markets. One of them is Pyaw Phyo Aye, Director of **Snacks Mandalay**. Phyo is working on a new venture in organic dried chilies. He has an excellent background, having completed studies of food technology in Thailand. To enhance his supplies to a Thai customer, he currently builds a new parabolic dome for drying, according to the design of his Thai customer. The plant will be operational in July and by then, Phyo will have



Pyaw Phyo Aye, a model entrepreneur



And the model of the drying facility he is setting up.

to international markets. Let us hope that Phyo is not just a role model for farmers but as well for entrepreneurship in Myanmar!

started plantation of his own chilies. As for many buyers, his co-operation with local farmers has given him a tough time when it comes to ensure stable quality and high food standards. This is why he has invested into his own land and plans to harvest 40 t per year on his 8 acres. His goal is to diversify his markets and to supply to Japan and Western markets as well – any interested buyers, let us know! Phyo wants to pave the way for similar projects based on local entrepreneurial spirit and knowledge. And he wants to provide a learning field for local farmers to learn about agricultural production standards qualifying for exports

Events

Business Mission 9 – 15 October: Explore Business Opportunities in Myanmar’s construction and Infrastructure sector!

Sponsored by the Federal Ministry of Economic Affairs and Energy – organized by the Delegation of German Industry and Commerce in Myanmar, with its partners VDMA, VBI and Puchala IME. Fore updates on the program please check [here](#) and contact us for more details!

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