



Dear readers,

Again a typhoon has caused severe damage in Myanmar. Differently to Nargis in 2008, the storm itself has ravaged at sea. But the aftermath has been devastating: Myanmar has seen the worst flooding in decades, affecting 1.6 m people, even if the number of casualties was limited to still too many 110 deaths. States and regions in the north having been declared emergency zones. Emergency relief activities have started quickly and this time the international community is on board – including German companies on the ground. But much more support will be needed for reconstruction and recovery projects and to counterbalance the damages especially in the agricultural sector. At the moment it is difficult to assess the economic impact of the disaster – but let us hope (and assist with it) that the country will manage to recover effectively and to navigate through a bit rocky pre-election times.

Best regards

Monika Staerk

Delegate of German Industry and Commerce in Myanmar

[monika.staerk@myanmar.ahk.de](mailto:monika.staerk@myanmar.ahk.de)

### Politics

The ousting of U Shwe Mann, Speaker of the lower house of parliament, from its position as chairman of the governing party USDP has made it to the headlines even in the west – and may have created awareness, that the political constellations ahead of the elections are far more complicated than one may be tempted to think. A good occasion for political analysis but no reason for alarm at this stage.

### Election campaigning

Information on the economic strategy of the NLD, ahead of the November elections, has been published by local newspaper Myanmar Times. Besides more general goals like improving administration efficiency, fighting corruption and expanding infrastructure, there are sector specific focus points. Liberalizing the financial sector is one of them – whether that would involve a further opening up for foreign branches is not clear. While agriculture is a specific focus with the aim to increase productivity, the party commits as well to fostering industrial and technological development and to promoting foreign direct investment.

### Economic Development

Credit rating in sight for Myanmar: **Citigroup** and **Standard Chartered** will advise and prepare Myanmar on its first sovereign credit rating. Experts assess, the process may be finalized in 2016 and Myanmar might end up with a B rating, four steps below investment grade. The move might help Myanmar to raise capital on the international markets and should ease investors' risk assessment. Whether and when Myanmar will issue a first sovereign bond remains to be seen.

### FDI

DICA has published FDI figures for the first quarter of the FY 2014/2015 and states they reached 2.4 bn USD. 46 projects have been approved during that period. The figure suggests applications have been slowing down as in May already DICA had set the volume of FDI approved in April only at 2.2 bn USD.

### SEZ and Industrial Zones

Following Japan's commitment to get involved into the development of the Dawei SEZ, beginning of August the management committee has signed a contract with developers **Italian-Thai** and **Rojana Industrial Park PCL** to develop the first phase of the project. The initial investment will be 1.7 bn USD – but according to local media, discussions with the IFC on financing are still in process. While Italian-Thai plans to generate profits from land sales as early as 2016, the Myanmar government is said to have given a timeline of eight years for completion of the first phase. At a later stage the SEZ is planned to cover 250 sqkm and to include a deep water port and a 450 MW gas fired power plant, but the first phase will have a size of 27 sqkm and will target light industries such as garment and food processing. Connectivity to Thailand will be ensured by a 138-km road to Kanchanaburi province. Italian-Thai has announced plans to develop a LNG terminal at the site with an annual capacity of 6 m t worth 500 m USD. The terminal is

Delegation of German Industry and Commerce in Myanmar

11th Floor, UMFCCI Tower, No. 29, Min Ye Kyaw Swar Street, Lanmadaw Township, Yangon

Tel / Fax + 95 (0) 1230 1823



meant to supply to Thai **PTT** and **Royal Dutch Shell**, which will support the development with technical expertise. No information on supplies to domestic customers has been given for the moment.

While the Dawei SEZ is under discussion for almost a decade now, your delegate firmly believes in potentials of industrial development in Mawlamyine, the capital of Mon State more to the north of the Andaman Sea coast (see January newsletter). End of July, the Mon Regional Government has informed about plans of American **Amherst Group LLC**, and local **Global Integrated Service Company** to develop a port (supposedly a deep water port) together with an industrial zone in Mawlamyine. While the project still needs to be submitted to the Myanmar Investment Commission, a look at the map highlights the potential to tap and the impact for a more diversified industrial landscape in Myanmar. And such a project should be far more sustainable than Thai plans for Casino developments on adjacent islands.

### Finance

Beginning of August, Malaysian **Maybank** and Japanese **Mizuho Bank** have opened their respective branch offices in Yangon. Mizuho Bank has signed an agreement with domestic **AYA Bank**. Australian **ANZ** will be the last of altogether nine foreign banks which had been awarded a license last year to launch its branch later that year. According to local newspaper Myanmar Business Today, **Mitsubishi Bank** is the first foreign bank to have made a local currency loan to a Japanese-Myanmar JV in the trading sector.

**Bank Negara Indonesia** will open a representative office in Yangon.

Internationalisation of the Myanmar banking sector – outbound: **KBZ Bank** has announced it intended to open representative offices in Singapore and Thailand as early as October, mainly to ease communication and co-ordination with foreign banks. Approvals of the Myanmar Central Bank and both MAS and Bank of Thailand are still pending.

The Financial Sector Development Project of the German **GIZ** together with **Standard Chartered Bank** have started a series of workshops for local banks on retail lending within the Myanmar Institute of Banking and Finance. Other related GIZ training activities are implemented with partners such as **Deutsche Bank**, **Commerzbank** and the Dutch Development Bank **FMO**.

### Infrastructure and urban development

According to local media, American **Hilton** makes another attempt to enter the Yangon market in partnership with local developer **Crown Advanced Construction**. Hilton already has opened hotels in Ngapali and Nay Pyi Taw and deals signed for hotels in Bagan, Inle Lake and Mandalay. The hotel will be part of Crown's Times City mixed-use development in central Kamaryut township. The project worth 324 m USD is said to include office and residential buildings as well as commercial spaces including a second-hand car sales centre.

### Power

Another hydro project in the pipeline – but you can expect it to be controversial.... Thai **EGAT** and Chinese **Three Gorges Corp** have announced plans for the 7,000 MW Mong Ton project on the upper Salween River in a 40:40:20 JV with the Myanmar government.

### IT and Telecommunication

The fourth mobile telecommunication license is up for bidding again in a JV with a local company. Whether this will be **Yadarnapon** (a company linked to Shwe Mann) as had been communicated before, remains to be seen.

Hope in sight for international standard IT connectivity? Thai **Benchachinda Holding** together with three foreign and one local partner plans to offer high speed broadband connectivity with more than 20 MBps to Myanmar through the JV **Myanmar Information Highway Ltd**. Installation of fibre optic cables is meant to start in Yangon.

### Agriculture

Myanmar's agricultural sector has been badly hit by the heavy monsoon rains and flooding end of July and beginning of August. In order to secure domestic supplies and in view of rising domestic prices, exports of

rice and onion have been temporarily suspended. Production of pulses and beans, one of the most important export products in Myanmar, is said to be heavily affected as well.

Future perspectives: Japanese JICA will fund and set up research labs for agricultural development. Japanese experts will teach and train on various agricultural techniques with the aim to expand Myanmar exports to Japan. A vegetable dehydration factory is planned which is meant to process Japanese products for re-export to Japan. Korea is developing projects in mushroom cultivation.

### Fisheries

Myanmar has been included into the EU list of authorized importers for aquaculture products with effect from 30 June 2015. An assessment of individual producers will still be required. Up to now, only wild catch had been cleared for imports.

### Rubber

A new laboratory in Hmawbi near Yangon might pave the way for more rubber exports. The lab is going to be accredited by the International Rubber Association. As in other sectors, a lack of testing and certification facilities and insufficient quality standards have hampered access to international markets in the past.

### Wood and processing

The Myanmar wood processing industry is gaining momentum following the export ban on raw timber in place since April 2014. Export earnings, which had collapsed last year, are about to recover thanks to increasing exports of furniture and other processed wood and have tripled during the first four months of the FY 2014/2015. Market access to the EU and especially Germany still is a problem because of lacking legality certifications.

### German Projects

The JV **COMSOFT – CARPE DIEM LTD** has been awarded by the Department of Civil Aviation with the implementation of a state-of-the-art Air Information Management (AIM) system including a comprehensive Database of all aeronautical data for further usage in applications and distribution to the Air Navigation Service Providers, Airlines, Pilots and other Service Providers worldwide by the means of digital data exchange. COMSOFT – CARPE DIEM LTD will provide the hardware, software, installation of the system in Yangon and training for the staff on the job. The implementation is planned to be finalized by end 2016.

### International Projects

Japanese **Suzuki** has started assembly of its Ertiga model at its plant in Yangon's South Dagon Industrial Zone. Initial capacity will be 100 units per month. Suzuki already has Carry microvans assembled in Myanmar and will launch a new assembly site in the Thilawa SEZ.

Japanese **Komatsu** through its Myanmar sister company **Komatsu Manufacturing Myanmar Ltd** has launched a manufacturing site in Mandalay to produce components for construction and mining equipment as well as power generators. A still small investment with just 14 employees but an encouraging venture in more value added industrial activities.

Japanese **Kirin Holding** has bought the 55% stake in market leader **Myanmar Breweries**, previously held by **Fraser & Neave** as JV partner of military owned **UMEHL**. Earlier this month, the Singapore International Arbitration Centre had set the price at 560 m USD, the amount claimed by F&N. In 2014 it had ruled that F&N had violated the JV contract when selling its stake to a Thai conglomerate.

Philippine **United Laboratories** has announced a 70:30 majority JV with local **Pioneer Palace** with an investment of 13 m USD. **United Beauty Palace Myanmar** plans to distribute and at a later stage develop and manufacture personal care and hygiene products tailored to the Myanmar market. A production site is meant to launch in 2017.

American **Earth Networks** and domestic IT solutions provider **Lucky Bird** have announced to jointly develop and implement a nationwide weather monitoring, forecasting, and severe weather alerting system.

**SCG Logistics** plans to establish a logistics provider business in Myanmar to support SCG's cement business in Myanmar, which will expand considerably once a new cement plant in Mon State will start operations.

### GTAI reports (in German language)

Myanmar setzt auf Sonderwirtschaftszonen

<http://www.gtai.de/GTAI/Navigation/DE/Trade/Maerkte/suche,t=myanmar-setzt-auf-sonderwirtschaftszonen,did=1280652.html?view=renderPdf>

Myanmars Automarkt gewinnt an Dynamik

<http://www.gtai.de/GTAI/Navigation/DE/Trade/Maerkte/suche,t=myanmars-automarkt-gewinnt-an-dynamik,did=1282548.html?view=renderPdf>

### Insights

#### New age of down filling arrives in Yangon

Myanmar has just seen the arrival of the country's first two fully automatic down filling machines. This means a huge advancement to the up to now standard manual down filling process with its' severe health risks through high dust pollution.

The down filling machines from China were imported by SFC, a German-Korean JV that just started operating in its newly built factory in the Mingaladon Industrial Zone. One JV partner is Walton HK Group, a Hong Kong based trading company under German management. The company is still in the set up phase but plans to employ 1,000 workers in the near future with a focus on the production of down jackets. From its other Asian production sites Walton is already supplying to a variety of big European buyers. Its Myanmar JV is also targeting the European market and for that purpose is working closely together with advisors from German companies to reach the required quality and productivity standards as soon as possible.



Next to high quality standards Walton also sees labor and social standards as key issues. The company plans to set up a training center in its new factory with trainings in the areas of sewing, Occupational Health and Safety and management and is working towards an SA8000 certification. Once again the main challenges on the ground are that most inputs need to be imported from abroad, mainly from China, high cost of land and the tight labor market. However, with its incentive-based three category salary system in which the lowest salary is 150 USD Walton for sure will be an attractive employer.

### Events

Euromoney still accepts applications for free tickets for the **The Myanmar Global Investment Forum** on 15 and 16 September in Nay Pyi Taw. If you want to register, please use the following link <https://www.euromoneyconferences.com/Apply/8166/The-Myanmar-Global-Investment-Forum.html?EventId=8166&PageID=206786>

and mention the promotion code "AHK". Please note that Euromoney reserves the right to decide eligibility for attendance.

