Dear readers,

A challenging year for Myanmar comes to an end. It started with high hopes and expectations after the 2015 elections and some disappointment most probably was unavoidable. This is true of course with regards to economic strategies and growth dynamics, but with a more realistic perspective on what could be achieved after such a fundamental change in government and seen the manifold challenges on the ground, the country may be on track. After all, peace building has been on top of the new government's agenda. And the backlash there may be most worrying. The end of the year has seen an escalation of fighting in the North, and a new outbreak of conflict in Rakhine State, this time involving the military. The latter tragic incidents have made it to the headlines of Western news. But whoever is willing to at least try and understand the complicated backgrounds, historic root causes and potential drain on the future of Myanmar, may make use of the forthcoming holidays and read the following articles and reports by Bertil Lintner and International Crisis Group (attention, text length is beyond Twitter standards).
One sad thing is for sure: there are far too many people in Myanmar, struggling with existential threats, for whom even the concept of happiness, topical in this period of seasons' greetings, is void of any sense. Let us hope, 2017 will bring relief and smart policy decisions.
On a more positive note, we can expect the new year to see the first German investment in manufacturing, long awaited for…

Best regards
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Politics
During a visit to Singapore end of November, State Counselor Aung San Suu Kyi and the Singaporean Prime Minister agreed on launching negotiations for a bilateral investment agreement and an update to the existing Double Taxation Agreement.

Economic Policy and economic development
As the spread between the official Central Bank USD exchange rate and the market rate has increased further, reaching worrying degrees, the Central Bank has announced measures, a reform of the reference rate setting process at first stage. From 1 January onwards, the reference rate will be set based on interbank transactions, instead of the daily Central Bank auctions. Furthermore the Central Bank plans to liberalize the rate, allowing banks to trade beyond the 0.8 band currently in place – but not enforceable in practice. To improve USD supply in the country, a lack thereof being one of the drivers of the MMK depreciation, the Central Bank plans to mobilize state owned banks with ample inventory of USD in the daily auctions. Furthermore, regulation is meant to make sure, that export earnings are documented within the domestic financial system, while currently only 60% of earnings are repatriated.

The status of a Least Developed Country has been a burden for Myanmar's pride during the past decades. The UNDP just recently announced, that Myanmar might climb up the ranks until 2025. Let us hope that until then, manufacturing industries and processors of agricultural goods, will have made good use of GSP+ privileges and will have made sufficient gains in productivity to be able to compete in global markets without such zero tariff support!

Sanctions – the tin connection
While most of the US sanctions have been lifted (with additional revocations in December), some listings remain – among them the United Wa State Army, an ethnic militia, listed under the drug trade related Kingpin Act. It turns out this implies significant challenges for global supply chains of tin. According to a report by Reuters, tin produced from the UWSA owned Man Maw mine via intricate Chinese supply chains

may have ended up in Apple and Huawei mobile phones, Lenovo computers, GE appliances, Starbuck ovens – and Tiffany jewelry, filling the USWA coffers for arms' purchases. As a result, companies using tin at any stage of processing and in reach of American sanctions will have to scrutinize their supply chain.

FDI and investment policies

While by-laws are still in the making, more details spread about the implementation rules of the new investment law. Most of the investment projects will not be subject to MIC approval any more but will just need endorsement – a negative list still is to be finalized. While MIC will be in charge of endorsements for projects with a volume beyond 5 m USD, regional governments will be responsible for projects below that threshold. DICA has announced it will try and ensure via precise guidelines that this move towards decentralization will not imply new delays for investors. Another hurdle can be expected to be removed at least partially: the prerequisite of approval of relevant line ministries. According to the DICA DG U Aung Naing Oo, this may even bring long awaited liberalization for foreign projects in trade and distribution, which currently are de facto blocked by not receiving green light of the Ministry of Commerce without any codified legal basis. Details have not been communicated yet – but such a move might be a game changer for foreign projects. Still, the Ministry of Commerce pointed out, that a liberalization would have to take place step by step. One can just guess that there may be some tug-of-war going on behind the scenes.

SEZ

More details are discussed publicly regarding the ambitious plan of the Yangon region government for a second SEZ near Yangon, with an adjacent deep water port at Letkokkon, and another international airport. The SEZ project is part of a masterplan for Southern Yangon Region drafted by KOICA. But implementation is written in the stars – as a first step the project needs to be integrated in a consolidated Yangon 2040 master plan, combining the 2013 JICA draft with inputs from Korea, France and the UK.

Foreign stay permits, work permits and visa

A framework of stay permit and work permit policies is evolving, to watch out for by foreigners working in the country. A new labor law expected to be enacted shortly, will require foreign employees to register with the Ministry of Labor, Immigration and Population for a work permit, to be renewed every four years. Fees have not been disclosed yet. The registration will be prerequisite to obtain an employment visa, together with documentation or PIT payments. A new foreigner law sets new rules for registration of foreigners. Visa regulation has been changed as well, with effect from 1 December. Fees have been raised for multiple entry visa (200 USD for three months' validity, 400 USD for six months and 600 USD for one year) but the requirement to leave the country every seventy days will be abolished – bad news for air carriers, currently making good business with so called visa runs. But visa holders planning to use this option should watch out for new strings attached in the FRC process – we suggest to seek legal advice in these matters.

Infrastructure

Finished the days of the picturesque but overcrowded and inefficient domestic terminal at Yangon airport, a challenge for foreign travelers trying to figure out when and where their flights would depart and how they could get hold of their luggage upon arrival – the new Domestic Terminal has launched operations on 9 December, in time for the Christmas season. Early visitors say, a lot of local color prevails in the modern building.

Telecommunications

Indian **Airtel Bharti** has activated a terrestrial fiber optic link connecting to Myanmar. This will add capacity to the existing three public international links: the SEA-ME-WE 3 subsea cable and two terrestrial links to Thailand and China. Another private sector connection, the Myanmar-Malaysia-Thailand-

International Connection (MYTHIC) invested by Singaporean **Campana Group** is expected to be online in the first half of 2017. Norwegian Telenor has established three connections to serve its mobile telecommunications network.

Urban development and construction
In Yangon, the new northern Mindhama Central Business District gains shape. The developer, **V-Pile**, announced that the 5 star hotel adjacent to the new Convention Center will be operated by Thai **Dusit Group**. A high end hospital project seems to be included as well into the CBD. No information on timelines has been disclosed so far. The overall CBD project volume was set at 345 m USD in 2015. Dusit International announced plans for further expansion in Bagan, Mandalay, and Inle Lake (not really inventive choices with quite some competition on the ground).

The first big real estate project by an international developer will go online soon: The Golden City mixed use project with residential, hotel and shopping space in Yankin, a 230 m USD project by Singaporean **Uni Global Power**, implemented with local partners.

While some real estate projects in Yangon may end up in dire straits, investors seem to move up country. Hong Kong based **H & Co Real Estate Holdings** and local **Mya Bay Development Company** plan a mixed use development in Ayeyawady Region called Platinum Pathein, between Pathein and Chaung Tha with a volume of 200 m USD. The project will include a 3 star hotel (a reasonable move in a country where luxury hotels abound), shopping facilities and individual housing in a first phase.

Finance
American **Visa** has disclosed interesting information on Myanmar's still prevailing cash culture: according to a 2016 study, 99.5% percent of all transactions still are in cash – and I presume this reflects our daily experience. Local Visa customers can use their credit cards only when traveling abroad or for online purchases – with dynamic growth rates. The same is true for domestic use of foreign credit cards.

Logistics
Japanese carrier **ANA** has announced a JV with a not disclosed local partner for a new Myanmar based airline planning to offer international flights from 2018 onwards. The investment into the 49% minority stake stands at 150,000 USD. ANA already operates direct flights to and from Japan. A previously planned JV with domestic Asian Wings Airlines had been cancelled in 2014.

Retail
De facto modern retail monopolist **CityMart Holdings** has announced further expansion plans in Japanese media, planning for a 100% increase in outlets within the coming four years. The company is said to currently hold 60% of the market – and to all appearances one would expect this figure to be even higher.

Agriculture
Corn is gaining momentum according to a report by USDA, with domestic demand by animal feed production being one of the drivers. Currently this sector stand for 35% of local corn production. China currently is the only relevant export market and as for other agri commodities, phyto-sanitary requirements put pressure on the suppliers.

Automotive
While the **Nissan** assembly plant in Hlaing Thayar, announced back in February (see Feb newsletter), is sexpected to be operational by February 2017, local industry experts say that American **Ford** as well plans to set up an assembly plant and sell cars by mid of 2017. While there is no further information about the set up and possible JV partners (Ford itself does not have a registered entity as of now, it seems) the move

might be plausible, seen the barriers for car imports being raised these past weeks. From January 2017 onwards new car import regulations will allow imports only for cars built since 2015 and with a left-hand drive. A move obviously aiming at reducing traffic congestion in Yangon and increasing road safety – but evoking protests of car importers who claim, less affluent people will not be able to afford a car any more.

Garment and Leather
More CMP production: Chinese invested **Kingsrich Myanmar** has received approval for a factory in Shwe Pyithar Industrial Zone.

Mining
An Australian investment is in the pipeline: **Top End Minerals** has acquired an option for a 60% stake valued at 43 m USD in **Cornerstone Resources (Myanmar) Ltd**'s zinc mine at Longh Keng and the refinery in Lashio, both in Shan State, Cornerstone itself being an Australian Chinese Joint Venture. According to company statements, the refinery is already operating since early 2015, at a current annual capacity of 10,000 t with plans for further increase. High grade zinc comes from the Longh Keng mine and potentially from other sites nearby. The project ties in with Myanmar's colonial glory – according to local media, in the early 1900s the mine had been one of the biggest worldwide before decades of decay.

Construction material
Steel seems to be king in Myanmar these days: following R&K Trading (see November newsletter) **Millcon Thiha GEL**, a 45:45:10 JV by Thai investors **Millcon** and **General Engineering (GEL)** with the local partner **Thiha Group**, has started operations in their 16 m USD factory in the Thilawa SEZ for processing of imported steel into steel pipes and steel structures. Annual capacity is expected to reach 40,000 t in 2017. Most recent registrations in the SEZ include two more investors into steel manufacturing: Singaporean **NS BlueScope Lysaght** and Thai **SCI Metaltech**.

And the SEZ will see another investment in paints manufacturing: Thai **TOA Coating** has signed an agreement as well.

Packaging
More suppliers to the soft drinks industry: following American **Ball** with its plant in the Thilawa SEZ already operational and the forthcoming local Japanese JV **Yangon Can Manufacturing** about to set up operations in the SEZ, another local foreign JV, **Crown Beverage Cans Myanmar**, has received a MIC permit for production in the Mingalardon Industrial Zone.

Tourism
Local media report that ambitious targets of 5.5 m tourist arrivals are not be likely to be met in 2016 as until September, the number of arrivals had been below last year's figures. At the same time, hotel development continues unabated, with local **Eden Group** announcing more projects in co-operation with **Hilton Group** with a volume of 130 m USD. The projects will again be located in the well-known tourism hot spots Bagan and Inle and are meant to launch in 2018. Furthermore, Eden plans to take over the Mandalay Sedona Hotel and run it under the Hilton brand as well.

German Projects
BASF is planning its first manufacturing plant in Myanmar in 2017. Subject to MIC approval, the plant in Yangon will produce tailor-made construction chemical solutions for the local building market.

International Projects
Japanese invested **Taiyo Nippon Sanso Myanmar Ltd**. has received approval for a 11.3 m USD investment in the Thilawa SEZ to produce industrial gases (oxygen, nitrogen, argon) to supply to industrial processes in the zone. The plant is expected to be operational early 2018. At the same time, the company will benefit from the more liberal trade regime in the SEZ to do import and wholesale distribution for products from Singapore.

Swiss **Buehler AG** has received approval for import and assembly of agricultural equipment, mostly for rice milling plants, in the SEZ. The facility will provide wholesale distribution and maintenance services. The investment volume stands at 5.2 m USD.

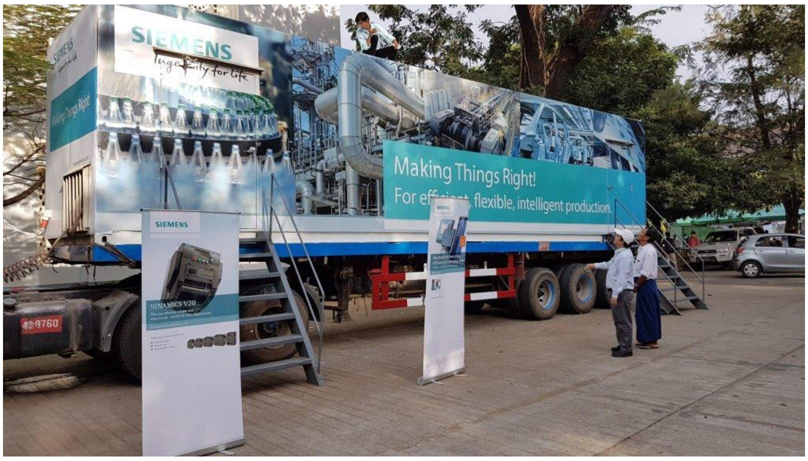
Coca Cola, which is already working on local production in their **Coca Cola Pinya** JV, has signed an investment agreement in the Thilawa SEZ, this time under **The Coca Cola Company**. One may guess that the company wants to make use of the opportunities in trade and distribution offered by the SEZ law.

Mongolia based and American owned **Asia Pacific Investment Partners** has announced it plans expansion into Myanmar, starting with a real estate agency business under registration according to the company. The services would include market research as well – both fields are quite well covered by foreign and local experts, I would assume.

Subject to approval by the Myanmar parliament, Poland will provide a 50 m EUR soft loan to fund upgrading of equipment for the Myanmar Fire Services Department – a welcome move seen increasing numbers of blazes in Yangon and the impending earth quake risk.

GTAI information (in German language)
[Myanmars Energiesektor zeigt neue Ansaetze]

Insights



Making things right sounds like a good claim for Myanmar - and this is true not just for the manufacturing sector! Siemens thus is moving to more proactively support industrial developments in the country. Shortly before Christmas, 16th to 18th of December, Siemens has dispatched its dedicated truck to Yangon where it showcased best in class industrial applications. The truck provides an opportunity for students as well as political dignitaries to experience these technologies first hand, and a platform for them to gain technical knowledge and see the benefits of modern technologies in action. The truck will be on a route across Myanmar for one year to reach each part of the country. Christian Beckers, Head of Business Development Process Industry & Drives Siemens Myanmar & Cambodia, delivered keynotes on topics such as energy efficiency in manufacturing - an issue of relevance and urgency in Myanmar.

Christian Beckers strongly believes that Myanmar's manufacturing sector has a promising future once the right infrastructure investments will have been made.

Exhibitions in Myanmar

Check an up to date list at http://myanmar.ahk.de/exhibitions/