

Dear readers,

The current Financial Year is drawing to a close and most would agree that for Myanmar it has been a challenging year with some hesitation and delays with regards to both policy making and corporate activities. But there may be more verve during its final weeks – with glimmers of hope for a liberalization of trade, subject to clarification in investment rules, to be finalized by end of March. And from a German-Myanmar perspective, the last days of February have brought a bit of a bang with Metro’s announcement to invest in a distribution center. Olaf Koch, Metro’s CEO, said in a press statement, the company would bring in its “expertise in areas such as food safety and supply chain management” and thus would “strongly contribute to the development and upgrade of the local supply and distribution infrastructure”. Supporting farming and processing is something badly needed in Myanmar, this is for sure. Thus the project sounds like a clear-cut win- win scenario and hopefully will enhance the German footprint in Myanmar, literally in the field, which projects in agri-processing already have started to build.

Best regards

Monika Staerk

Delegate of German Industry and Commerce in Myanmar

monika.staerk@myanmar.ahk.de

Politics

The assassination of a legal advisor to the NLD government had sent shockwaves in Yangon end of January – the more as such murders are the exception in this country. Assassins present on the spot had been arrested early afterwards and mid and end February, two supposed master-minds have been seized – a former military officer. It remains to be seen, whether the background and motives of the assassination will be revealed during the ongoing investigations.

Economic Policy and economic development

World Bank continues to be optimistic on Myanmar. In its recent Myanmar Economic Monitor, it estimates GDP growth for 2016/2017 at 6.5%, slightly higher than government projections, but down from the 8% rate projected in 2016. The outlook for the coming three years is more rosy, with average growth of 7.1%. The growing account deficit on the other hand is something to worry about, World Bank says.

Tax collection continues to be insufficient, according to the IMF who in a recent report suggested, Myanmar needed to double its tax revenue collections from currently 7.5 to 15% of GDP. While Myanmar already makes considerable efforts to improve tax enforcement, at the same time it works on a more balanced and sound tax system: Withholding tax has caused headaches for companies based outside of Myanmar active in the country with supplies or projects. In January, a new notification has been published by the Ministry of Finance which may bring less cumbersome rules and exemptions for withholding tax. There is an indication that withholding tax will not be due any more for income generated through services performed by foreign entities abroad and for products supplied from abroad. If withholding tax in fact would apply only to income generated in the country, this would be a significant improvement – but experts are still seeking reconfirmation of tax authorities.

FDI and investment policies

Investment rules for the new investment law, in effect since 1 January, are still under discussion and can be expected to be finalized sometime in March. The most recent draft gives some understanding on the changes to be expected. As announced earlier, new categories for granting of investment incentives will be based on promoted industries (covering almost any industrial manufacturing with the exception of tobacco and alcoholic beverages and excluding mining projects) and granted according to three regional zoning categories depending on the level of development for 7, 5 and 3 years respectively. The criteria for



Luther.

Precision, perfect timing and an eye for what matters.

Legal and Tax Advice | www.luther-lawfirm.com
Corporate Services | www.luther-services.com

projects of strategic relevance, requiring a MIC approval, seem to have been defined as well: any investment beyond 100 m USD would be subject to this process. The same is true for projects considered having environmental impact and a few other cases. If considered not strategic, projects can qualify for the much leaner endorsement process to be screened by DICA, or by regional governments for projects with an investment less than 5 m USD. Draft lists of restrictions for foreign companies have been published as well including a liberalization of trade: retail activities with more than 100 sqm sales area would be permitted in JVs with local entities. More importantly though, under the endorsement process, not requiring approval of line ministries, there would be no grounds to reject foreign projects in trade and distribution, as these are not mentioned on the list of restricted or prohibited sectors. It remains to be seen, whether such indications of a liberalization will make it into final investment rules, to be expected by end of March.

SEZ

Early 2017 sees quite some discussion about SEZ projects. Both Dawei and Kyaukphyu seem to be stuck and the government is considering to review contracts with early investors there. It seems there is a bias towards the more recent SEZ project south on Yangon (see our 2016 newsletters) – let us wait and see whether implementation will be more straightforward there.

At the same time, unimpressed by stalled projects elsewhere, the Thilawa SEZ has launched its second phase with zone B, comprising another 250 acres and expected to be completed by mid 2018. The zone is an undeniable success and according to U Set Aung, chairman of the SEZ committee, already stands for 1 bn of investment.

Power

The new gas fired power plant **U Energy Thaketa Power** in Yangon's Thaketa township will be operational by end of 2017 with 72 MW installed capacity, and another 34 MW to follow in February 2018. Seen the lack of natural gas supply, it seems that an old state owned plant nearby with much lower efficiency might be shut down. The new plant is a JV between Chinese **Union Resources and Engineering** and the Ministry of Electricity and Power.

This may be a breakthrough for more stable and sustainable energy supply in Yangon: The Yangon Region government has announced plans to further open up the sector for private - both domestic and foreign - investment. While power generation already has been liberalized, a new masterplan foresees private stakes as well in transmission and distribution. Chief Minister U Phyo Min Thein pointed out the currently high subsidies - whether private parties would be allowed to set market rates for their power supply and how such a system might look like, remains to be seen. Such solutions might pave the way for renewable energy projects as well.

IT and Telecommunications

According to local media, Myanmar railways has announced a tender for installation of fiber cables alongside rail tracks from Yangon to Mawlamyine and Dawei and from Yangon to Pyay. It is not quite clear whether the infrastructure will be used for internal data transmission only or be accessible to a broader network.

Finance

New developments in trade finance: following the **ADB's** agreements with several local private banks for its Trade Finance Program, the ADB issued its first guarantee to **United Amara Bank** for a transaction with Italian **Banca Popolare di Sondrio**, covering imports of fertilizers by a local private sector customer. No information on the volume of the deal has been disclosed.



Accompanying progress

Legal Advisory Services | Accounting | Tax Advisory Services
Tax Declaration & Business Process Outsourcing

Rödl & Partner

e-mail: yangon@roedl.pro
web: www.roedl.com

On a policy level, mid February the Central Bank announced it might consider opening trade finance for local enterprises to foreign bank branches operating in Myanmar, if it turned out that local private banks were not capable to cater for the domestic demand. Whether such comments indicate a tangible policy agenda or are just meant to put pressure on local private banks, is not clear at this stage.

Agriculture and Livestock

Myanmar coffee is set to make its way to international markets with a special focus on buyers of specialty coffees. Exports to the US, which started last year with a first delivery of 36 t, are gaining momentum, bringing almost double earnings of 7,000 USD per t compared to exports to China. According to the Myanmar Coffee Association, 50% of Myanmar's annual production of 7,000 t are exported. Supported by French Comite Champagne, Ywangan township in Shan State has managed to acquire a Geographical Indication for its specialty coffee, further enhancing Myanmar's image as a supplier of quality products.

Wood

After the EU timber ban has made it to the headlines, discussions between the EU and Myanmar about a Voluntary Partnership Agreement on Forest Law, Enforcement, Governance and Trade – so called FLEGT-VPA) are gaining momentum. Such a co-operation could help to establish valid legality certification processes, a prerequisite for timber imports into the EU.

Garment and Leather

While reports on problems related to labor standards made it to the headlines in Europe, the Ministry of Commerce expects garment export earnings to reach 1.86 bn USD in the current FY, more than double the previous year's results.

Plans for development of a garment and textile industrial zone seem to gain shape. The Ministry of Industry plans to convert plots in a state-owned factory in Shwe Taung, Bago Region into a Specialized Textile and Garment Zone (STGZ). A feasibility study will be undertaken with Japanese support.

Tourism

New statistics published by the Ministry of Tourism give a more realistic picture of actual visitors. The Ministry sets the number of foreign tourists in 2016 at 2.9 m only, a sharp decline from the 4.6 m figure which had been published for 2015. According to the Ministry, inflated figures were due to the fact that land border entries had been included, most of them in fact only day trips. Let us hope that such more realistic statistical bases will help support sustainable project developments.

The World Travel & Tourism Council is much more upbeat in its 2016 report, expecting the sector contribution to GDP to grow by 7.6% annually until 2026 from currently 2.6 % of GDP. The WTCC sets total contribution including supply chains at almost 6% of GDP already.

International Projects

Japanese **Kirin**, already the JV partner of military conglomerate **UMEHL** for the market leading **Myanmar Breweries**, strengthens its footprint in Myanmar. The company announced it will form a new JV with UMEHL for a 51% majority stake in the much smaller **Mandalay Brewery**. The deal, which is subject to approval by the Myanmar Investment Commission, would come at 4.3 m USD. Once accomplished, it would bring the UMEHL Kirin market share at about 90%, according to news reports, dwarfing western competitors Heineken and Carlsberg. Still seen the huge growth potential of the still tiny market, there should be ample business opportunities for all players.

Japanese **Kubota** has launched operations at its facility in the Thilawa Special Economic Zone, focusing on import and distribution of agricultural equipment. The project with an investment of 10 m USD includes

The 4th International Exhibition for Food & Drink, Hotel, Restaurant Bakery & Food Service Equipment, Supplies & Services

FOOD & HOTEL 2017

Myanmar 

7-9 JUNE 2017
Yangon, Myanmar

Pre-Registration at www.foodandhotelmyanmar.com

assembly activities – in line with the requirements for value added set under the SEZ special permits for trade and distribution activities of foreign companies. Furthermore Kubota announced to expand its country wide network of dealerships by 20 to 82 by the end of the year. Japanese **Yanmar** has followed suit with a distribution and service center in a JV with **Mitsui**, as well at the Thilawa SEZ with an investment of 6 m USD. The company pointed out growth potentials for its agricultural equipment with sales expected to reach 8.8 m USD within five years.

Following the YCDC's announcement, that it would privatize Yangon garbage collection in another effort to improve efficiency of its utility services, international media report, that Australian **Tytc Waste Equipment**, which had won a respective tender by YCDC already in 2015, would now invest 16.3 m USD into a garbage collection system for the 700,000 households in Yangon, to be operated in a JV with YCDC. YCDC had incurred daily losses of 10,000 USD through collection of the 2,500 t of rubbish in Yangon Region, local media reported. No news have been shared regarding increases of the highly-subsidized fees.

Swedish **Volvo** has opened a service center in Yangon, operated by its local dealers **Performance Auto International**, **UMG** and **Wai Family**.

Swiss **Endress+Hauser** has officially opened its representative office in Yangon to support business development in process automation with local customers.

German Projects

German **Metro-Group** will enter the Myanmar market with a depot for wholesale distribution, targeting the BtoB market, in the Thilawa Special Economic Zone to supply 3,300 food and non-food high quality products and deliver customized services to professional customers. The company announced it had entered a 85:15 majority JV with **Yoma Strategic Holdings**. Yoma runs a logistics operation **KOSPA**, covering amongst other cold chain logistics, in a 50:50 JV with Japanese **Kobuku**. Metro plans to launch operations in early 2018. No details on the investment volume have been published but it is said to stand in the lower double digit m EUR range. At the same time, as in other countries, METRO plans to support the Myanmar agricultural sector with tailored trainings for farmers and producers active in processing.

German American **Diebold Nixdorf** has registered a service company in Myanmar and started operations in January to support local distributors and customers with service and maintenance and enhance its footprint in the country. The company supplies ATMs to local banks via its local distributors and currently already has a 70% market share. New products to be introduced are cash recycling machines, solutions for cardless withdrawals and Point of Sales Solutions and the company sees huge growth perspectives seen the market size and the drive for technical upgrading.

German **HAKO Group** will help to clean up Yangon. The Yangon City Development Council's Pollution Control and Cleansing Department announced it had bought four machines equipped with hydraulic sweeper systems, able to remove solid waste and – a matter of relevance in Yangon - betel nut stains.

Events

[Bloomberg Invest Myanmar, 9 March 2017, Yangon](#)

[AHK ASEAN Insights, Stuttgart, 28 March 2017](#)

Save the date:

16 Asia Pacific Conference of German Business, 2 to 3 November 2018, Jakarta

Exhibitions in Myanmar

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

Insights

In Myanmar’s agricultural sector, there is just one undeniable success story with the country claiming a world leading position – and it is a sad one: opium production. Thus poppy conversion has been a favorite topic of international donors, policy makers and NGOs for years. But it is private sector activities which have achieved tangible results. **Myanmar Belle** is a bright example: to supply to his deep-frozen facilities in Nay Pyi Daw (see newsletter July 2016), its owner U Ye Myint Maung besides other locations has developed extensive contract farming agreements in Kayah State, a region which had been riven by ethnic conflict for decades and notorious as a poppy plantation hot spot. Ye Myint Maung managed to convince poppy farmers to shift to new crops – less lucrative in the short term, but a safer bet in a mid-term perspective. His secret for success: providing reliable access to markets. Under his contract farming agreements, farmers can expect a guaranteed income of 500 USD per acre, below earnings they could generate with poppy, but a stable opportunity, irrespective of global drug-trafficking’s sinister successes or defeats. As a result, where previously poppy had sprouted, spinach is currently grown on 100 acres of land and long beans on 15 acres. A good lesson to be taken up by international donors: instead of just spreading seeds and good words, supporting private sector investments in agricultural processing might be the best leverage to succeed with poppy conversion.



A market miracle: U Ye Myint Maung with poppy converted to crisp deep frozen spinach.



U Ye Myint Maung (5th f.r. with straw hat) and content former poppy farmers converted to spinach in Kayah State.