

Delegation of German Industry and Commerce in Myanmar

Dear readers,

the first networking meeting of the German business community, organized by the Delegation of German Industry and Commerce, has taken place on 8 July. Strategies and challenges in distribution have been the topic of the day. With about 40 participants, a number of them joining from companies based in Bangkok or Singapore, that was a good start for a business-related exchange of experiences and assessments within the German community. We will keep you posted on further events.

Best regards

Monika Staerk

Delegate of German Industry and Commerce in Myanmar

monika.staerk@myanmar.ahk.de

International policy moves

Big power contacts: While President U Thein Sein has visited Beijing in June and met with his Chinese counterpart Xi Jinping, US assistant secretary of state for democracy, human rights and labor Tom Malinowski, during his visit to Myanmar, has held meetings with so called specially designated nationals on the US OFAC List to discuss with them efforts they would need to make in order to be removed from the list. According to the Wall Street Journal, tycoons Tay Za from Htoo Htoo and Steven Law from Asia World were among the invitees – but whether they accepted the invitation has not been disclosed.

Economic Development

The IMF in June has upgraded its economic outlook on Myanmar. GDP growth in 2014 is expected to reach 8.5%. Drivers of growth would be expanding gas production and rising investment levels.

Tax revenue in FY 2013/2014 has reached 3 bn USD, which still amounts to only 4.4% of GDP, the lowest percentage in the region.

State Owned Enterprises under the Ministry of Industry have incurred losses of some 195 mio USD during the second half of FY 2013/2014, following privatisation of some of the more lucrative businesses.

Investment policy

The government has announced plans to allow foreign investment in hospitals, clinics and laboratories within a Joint Venture with a local partner. Implementation is meant to take place in the framework of a forthcoming revision of the Foreign Investment Rules which according to DICA will be published shortly. While rules are not yet in place Thai **Thonburi Hospital Group** has already informed that it plans to build three hospitals in Yangon and Mandalay together with local Aung Shwe Three International (AST). Investment will be 165 mio USD. Construction of the first project in Yangon is meant to start in December and expected to be completed mid 2016.

Trade and Customs

The Myanmar Customs Department has announced plans to install an automated cargo clearance system by the end of 2016. Japan's Nippon Automatic Cargo Clearance System will serve as a basis. The move should help to increase efficiency and transparency for customs procedures. A similar system has gone online in Vietnam in May this year.

Finance

In an attempt to improve local SMEs' access to finance, state owned Myanmar Insurance has launched a credit guarantee insurance scheme for Yangon region as a pilot program. The service will be available for both credits with and without a collateral, at premiums between 3 and 1.5%. In case of default, up to 60% of the losses will be covered.

Details have been given on the scope of business permitted to foreign banks after granting of licenses end of September. Among other restrictions, they will not be allowed to open retail branches, operate retail

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Tel / Fax + 95 (0) 1230 1823

banking and offer banking services to local customers. The government obviously wants to encourage JVs with local banks. According to the Myanmar Times, the redrafting of the Financial Institutions Law currently under discussion might change a very fundamental rule - applied in all sectors -, qualifying a local bank as foreign, once a single share is in foreign hands. A change of this criterion might serve as a precedent to discuss currently restricted business scopes for foreign-local JVs in other sectors such as distribution.

Another Asian player in banking: **Taiwan Cooperative Bank (TCB)** beginning of July has announced plans to open a rep office in Yangon.

Industrial Zones

While the planned SEZ in Dawei at the Andaman Sea is stalling, development the Myawaddy Industrial zone more to the north and close to Mae Sot in Thailand is making steady progress. 60% of the project are completed and the zone is expected to be operational by spring 2015. 45 plots are meant to be developed on an area of 800.000 sqm. One might expect a number of Thai businesses currently employing Myanmar migrant workers, to shift production there.

Development in more remote areas and SME promotion is high on the agenda of the Myanmar government. Two Industrial Zones in Hakha and Tedim, located in Chin state in the west of Myanmar and one of the poorest states of the country, are meant to help implement these policy goals.

Energy

An ambitious energy plan by the Ministry of Electrical Power plans to increase power-generating capacity to nearly 25,000 MW by 2030, up from currently just 4,360 MW. The plan includes a significant change of the energy mix, with the share of hydro power reduced to 37% from currently 70%. 33% of 2030's generating capacity would be supplied by coal fired power plants, 20% by gas and just 10% by renewable energy sources other than hydro.

Infrastructure and City development

BOT activities in road and bridge construction will be open for 100% foreign owned companies following changes in the Ministry of Construction's regulations. Up to now, foreign companies were required to work with local partners. The same week end of June Japanese JICA has announced to lend 2 mio USD for building of a new bridge linking downtown Yangon to Thaketa township in the east and connecting to Thanlyin, location of the Thilawa SEZ. Construction is meant to start in April 2015.

The container and general cargo port at the Thilawa SEZ will be financed with a Japanese loan of 205 mio. USD. The Myanmar Ports Authority has announced to publish eight construction tenders.

Another landmark real estate project in Yangon has been announced: **Marga Landmark**, a Hong Kong-Korea-British JV together with local Thu Kha Yadanar will develop Dagon City 1, a mixed-use project with a 5 star hotel, residential, office and retail space at a high end location close to Shwedagon pagoda. Investment is said to be 300 mio. USD. The project will be implemented by HongKong based architects Wong Tung together with local architects Splne and the Myanmar office of engineering group Meinhardt.

Construction material

Locally produced cement cannot compete with imports in terms of quality and price, local construction companies say - and international principals of industrial sites confirm. This may offer market potential for German suppliers. Myanmar Business Today quotes the owner of Taw Win Construction Co who attributes the deficiencies to Chinese equipment having replaced German supplies following the previous EU sanctions. While per capita consumption of cement is still low, the market is expected to grow to fulfill demand in construction and infrastructure development. The current three state-owned and 12 private cement factories have an annual production capacity of 4 mio. t. Nine new factories have been approved by the MIC and are meant to start operation in 2015, boosting production to some 10 mio. t per year. Thai **Siam Cement SCG** is the biggest investor with a 388 mio. USD plant planned near Mawlamyine in Mon

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state. **Semen Indonesia** announced construction of a 200 mio. USD plant and local investors plan factories in Mandalay region, and Mon, Kayin and Shan states.

International projects

New foreign investments have been approved in June / July

The rumor regarding american **Colgate-Palmolive** is confirmed. The firm plans to open a factory in Shwepyitha Industrial Zone in Yangon via their Thai operations. Information on the investment volume and the product range has not been disclosed yet.

Japanese probiotic drinks maker **Yakult Honsha** has announced to set up production in Yangon in the first half of 2015.

Foreign investment is expanding in the garment sector with four new production sites planned by **Fu Yuen Garment** from Macau, **Eslite Garment**, **Polar North Garment** and the outdoor apparel manufacturer **Eusebio Sporting** from Taiwan. And shoemakers are coming in: Taiwanese **Pou Chen Group** has announced plans for a 100 mio. USD investment in Yangon. The production is meant to be operational by end of 2015 and to produce 300,000 pairs of shoes per month initially, up to 800,000 pairs in 2019. At the same time, not all FDI prove successful. Korean invested **Master Sports Shoes**, which had started production in 2013, has been closed down "due to a lack of customers" according to official media.

Vietnamese pharmaceutical company **DHG** considers an investment in Myanmar for production of antibiotics and other pharmaceuticals. Surveys are still under way. Volume might be 4.5 mio. USD and subject to an agreement with the local partner and approval of authorities construction could start in 2015.

Indonesia based **Maxpower (Thaketa)**, developer and operator of gas power plants with close links to GE, has got approval of the MIC for a natural gas power plant.

During a visit of Myanmar Minister for Electric Power Khin Maung Soe to the UK, **Rolls Royce** and Scottish **Aggreko** have signed deals for supplies in the energy sector. Rolls Royce has concluded a long term service agreement with local RKG+Z&A following the supply of three 9.2 MW gas turbines for expansion of the Hlawga power plant in Yangon. Aggreko will provide temporary power solutions through a gas power plant in Kanbauk, Tenasserim Division, according to local media.

Japanese **NEC Asia Pacific** will supply ICT and security systems for the International Convention Centre in Nay Pyi Daw together with local partner Shwe Taung Group.

Singaporean mid- and downstream oil company **Puma Energy** has formed a JV with local Asia Sun Energy under Puma Energy Asia Sun. The JV company will build a jetty and storage tanks for handling petrol, oil and tar at the Thilawa port under a BOT scheme. According to local media, similar projects in Thilawa will be handled amongst others by Apex Gas and Oil, Padauk Shwe War Port and Petroleum, Thuriya Energy Depot Management, and Shwe Taung Energy Services.

Japanese tire manufacturer **Bridgestone** has opened an office in Yangon beginning of July to do market research. The company is supplying to the Myanmar market since the 1990s.

French geoscience company **CGG** has opened an office in Yangon to support exploration activities in oil and gas with below-surface electronic surveys.

Japanese **Panasonic** eyes localization. Details have not been disclosed, but the local branch, which has been set up in 2013, is meant to foster co-operation with local engineering partners. Showrooms and service centers for B2C and B2B solutions will be launched in Yangon and Mandalay later this year.

Another player enters the market in the luxury cars segment: end of June **Jaguar Land Rover** has opened a showroom managed by local dealer Capital Automotive.

British wholesale company **TESCO** is considering market entry in wholesale (which despite existing restrictions for foreign activities in retail may be allowed outside city centers). According to media reports Chairman Richard Broadbent during a visit in Myanmar has announced to start working on contracts with

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suppliers at an initial stage before planning retail outlets. **Siam Macro**, another cash and carry company now owned by Thai CP, as well is said to explore opportunities in the Myanmar market.

Exhibitions (updates to the June newsletter in bold)

AutoExpo 2014, Auto Parts and Accessories, 18 – 21 July 2014, www.emmafair.com

Myanmar International Food and Beverage, 24 – 26. July 2014, www.myanmarfoodbev.com

ProPak Myanmar 2014, Plastics and Rubber Myanmar, 4 - 6 Sep 2014, www.propakmyanmar.com

Manufacturing Myanmar 2014, 2 – 4 Oct 2014, www.manufacturingmyanmar.com

Ildex Myanmar 2014 (Animal Production and Processing) , 6 - 7 Oct 2014, www.imexmanagement.com/show/130/ildex-myanmar-2014/#

Aqua Fisheries Myanmar, 7 - 8 Oct 2014, Email: van.ptb@veas.com.vn

Medical Myanmar, 9 – 11 Oct 2014, www.medical-myanmar.com

Oil & Gas Myanmar 2014, 15 – 17 Oct. 2014, www.ogmyanmar.com

Myanmar Water, 22 – 24 Oct 2014, www.myanwater.com

Intermach Myanmar, Subcon Myanmar, Industrial Manufacturing and Subcontracting Exhibition, 29 -31. Oct 2014, www.intermachmyanmar.com

2nd Building and Construction 2014, 30. Oct – 1 Nov 2014, www.buildingmyanmar.com

2nd Electric Power & Renewable Energy Myanmar 2014, 30. Oct – 1 Nov 2014, www.electricmyanmar.com

2nd Mining Myanmar 2014, 30. Oct – 1 Nov 2014, www.miningmyanmar.com

Power & Electronics, Machine Tool & Automation, 13 – 16 Nov 2014, <http://mt.emmafair.com/>

Agro Myanmar 2014, 18 – 20 Nov, Naypyidaw, Email: van.ptb@veas.com.vn

CommuniCast Myanmar 2014, 19 - 21 Nov 2014, www.communicastmyanmar.com

2014 Myanmar Int'l Textile & Garment Industry Exhibition, 20 – 23 Nov 2014, www.myanmar-expo.com/MTG/

3rd Myanmar International Plastics, Rubber, Packaging, Printing & Foodtech Industry Exhibition, 27 – 30. Nov 2014, www.myanmar-expo.com/MyanmarPlas/myanmarplas.asp

Agrilivestock Myanmar, 9 -11 Dec 2014, www.agrilivestock.net/AGRILIVESTOCKMYANMAR14/index.html

Livestock Myanmar, 1st Feed, Livestock and Meet Industry Show, 29 – 31 Jan 2015, www.livestockmyanmar.com

Gtai reports (in German Language)

Wirtschaftstrends Kompakt zur Jahresmitte 2014

http://www.gtai.de/GTAI/Content/DE/Trade/Fachdaten/PUB/2014/06/pub201406178002_19105.pdf

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Asia Pacific Conference of German Business, 20 – 22. November, Ho Chi Minh City Featuring a Myanmar breakfast briefing

Program information and registration at <http://www.asiapacificconference.com>

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Insights

Japan Tobacco International launches high end production

Myanmar still is a smokers' paradise and imports of cigarettes are prohibited – good reasons for JTI, sister company of Japan Tobacco with headquarters in Geneva, to start production in the country. Standing before their site in Mingalardon Industrial Zone which has started operation in April 2014, you feel like being moved to another universe – or at least another country. The site has been built according to highest building and engineering standards, set by the JTI global engineering unit in German Trier. It features not just modern production technology from German world leader Hauni, but high tech building materials and security systems as well as facilities like an inhouse clinic, canteens and locker rooms as you would find in a state of the art production in Europe. A proof of what can be done in Myanmar if you have the stamina of the German Manager Oliver Lauer who has pushed through that project in a record time of 11 months.



AHK - networking meeting and discussion on 8 July at the Savoy Hotel

Yangon's Savoy Hotel for sure is the cradle of German business activities in Yangon – and was the perfect location for the first networking meeting. During a moderated discussion, speakers Andre de Jong (Robert Bosch) and Jens Knoke (Henkel) shared their experiences on distribution in Myanmar. The buffet dinner that followed offered opportunity for one-to-one exchange.

