

Dear readers,

Regional integration – or disintegration? – has been the topic of the month in June, at least for us Europeans. In the ASEAN as well, the rules of the game may be changing, as Myanmar is emerging as a more assertive voice, somehow spearheading democratic development in the region. And one needs to remember that it had been admitted into the ASEAN in 1994, during a first period of reform which unfortunately had been ebbing away quickly, to stay on as kind of a pariah in the next decade. For anybody interested in the current ASEAN scenario and Myanmar's new role in this context, a recommended read is Nicholas Farrelly's article in the [Asia Nikkei](#).

Let us hope that Myanmar's democratic development will be beneficial for the whole of ASEAN – and most importantly, that they do not end up with a referendum on an exit (no need to follow colonial role models in this specific case...)

Best regards

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### Politics

#### International

The Minister of Development Co-operation, Gerd Mueller, has been the first German cabinet member to meet with the new government. The Minister had talks with President Htin Kyaw and State Counsellor Aung San Suu Kyi and announced that the budget for German development support in the field of technical vocational training would be raised by 10 m EUR to 35 m EUR – adding to the altogether 140 m EUR, Germany has provided since 2012. In Yangon the Minister attended a German Myanmar private sector dialogue (see Insights).

The Singaporean Prime Minister Lee Hsein Loong has visited Myanmar and has met the State Counselor Aung San Suu Kyi. Besides bilateral topics, ASEAN issues have been on the agenda and local media report that Prime Minister Lee had invited Aung San Suu Kyi to represent ASEAN on the international stage, e.g. during G 20 meetings. During his program, PM Lee officially opened the Singapore-Myanmar Vocational Training Institute in Yangon.

Other international visitors in June included the Mongolian President Elbegdorj and French Foreign Minister Ayrault. The latter has announced development grants with a volume of up to 200 m EUR, amongst other for a feasibility study on a hydro power dam.

State Counsellor and Foreign Minister Aung San Suu Kyi has paid a visit to Thailand end of June. The Dawei Special Economic Zone project has been one topic of discussion – but no commitment has been made from the Myanmar side.

Good news for financial transactions: Myanmar is not a high risk country for money-laundering any more. End of June, the intergovernmental Financial Action Task Force announced it had removed Myanmar from its grey zone watchlist.

#### Economic development

Bad floodings had affected last year's growth. End of May, the World Bank published the GDP growth figure for 2015, at 7% – below forecasts and average growth rates of the previous years, which had stood at 8.5%. Besides the floods, a slowdown in investment ahead of the elections and global economic developments were given as a reason. Despite further challenges ahead, World Bank expects growth to recover to 7.8% in 2016 (below the ADB projection of 8.4%). Good news regarding inflation: World Bank expects the rate to ease to 8.5% in 2016.

The NLD has disclosed first outlines on their economic policy agenda. With regards to development of local industries, the strategy would be to support – not to protect. A smart move deserving any advice on effective implementation international partners can give. Restrictions on foreign investment are planned to be eased further in view of a level playing field. Whether this will include access to trade and distribution remains to be seen. With regards to budget allocation, more and badly needed funding is meant to be channeled into education.

Mid of June the President has launched a committee to steer economic policies. Besides government ministers, a number of experts are involved, among them Seth Aung, Dy Governor of the Central Bank, and Hantha Myint, previously Chair of the now dissolved NLD Economic Committee. Further Committees set up include an Implementation Committee for the National Transport Master Plan and most importantly a National Committee for Water Resources which hopefully will help to tackle the massive mismanagement of water usage. For expats to watch out: a Central Committee for Foreigner Supervision will be in charge of drafting legislation for foreign residents and visitors.

### **FDI**

Beginning of June, the reshuffle of the Myanmar Investment Commission (MIC) has been finalized. The new Chair is Minister of National Planning and Finance Kyaw Win, the Vice Chair Minister of Commerce Than Myint. Both ministries as well as the Ministry of Resources and Environmental Conservation are represented with Permanent Secretaries. The Ministry of Electricity and Energy is not represented in the commission any more. The number of private sector representatives has been reduced to one, Aye Lwin, Joint Secretary General of the UMFCCI. Independent experts are not involved any more. Good news: Aung Naing Oo, Director General of DICA, will continue to serve as the MIC Secretary. In an interview with Reuters he pointed out that cancellations of previously MIC approved projects might be detrimental to foreign investors' confidence.

The new MIC will have to tackle a quite significant backlog of project applications which beginning of June amounted to about 100 projects: 48 by foreign companies, mainly from China, Hong Kong and Singapore in the garment and fisheries sectors, worth more than 2 bn USD, and 50 projects of domestic investors.

### **Trade and trade policies**

According to figures published by the Ministry of Commerce, exports have recovered during the first weeks of the current Financial Year and the trade deficit has narrowed as a consequence. During the first ten weeks, exports stood at 2.05 bn US, an increase by 11.4% compared to the year before. Imports increased by just 2.5 % to 2.79 bn USD. It remains to be seen, whether the trend will pursue.

Import license requirements are planned to be further relaxed soon – end of June the Ministry of Commerce announced that another 250 products would be exempted from the import license requirement before long – more than 4,400 products currently require licenses. Once we have details, we will share with our readers.

A new online system for trading licenses has been launched mid of June by the Ministry of Commerce. During the first month, licenses for 50 products, mainly agricultural products, construction material and garment, can be applied for online. Applications can be submitted at [www.myanmartradenet.com](http://www.myanmartradenet.com) and for garment at the MGMA site [www.myanmargarments.org](http://www.myanmargarments.org). The move is meant to reduce red tape and the system is planned to be expanded gradually to cover up to 4,000 items.

### **Important news for suppliers to Myanmar – withholding tax**

Exporters from Germany should watch out: a long standing regulation, that income derived from certain sales of goods and services to Myanmar customers is subject to 3.5% withholding tax for non resident suppliers and service providers, is now being enforced. As a result, buyers in Myanmar are expected to deduct an amount of 3.5 % of the contract price and discharge the withheld income tax to the Myanmar tax authorities. Suppliers from a country with a DTA in place, that is India, Korea, Lao, Malaysia, Singapore, Thailand, the UK and Vietnam, may be eligible to apply for an exemption from the withholding tax.

### Project cancellations

A new section which might be of relevance for the months to come...

In the context of the new government's review of previous MIC approvals, a first termination has been decided: it concerns the Botathaung Jetty project at one of the Yangon downtown ports, which has been terminated because of negative environmental impact.

Obviously not related to any problems with MIC approvals: Malaysian **Naim Indah Corporation** has cancelled a project for an office tower in Yangon, based on a MOU concluded in summer 2015 with local **United Pacific Development Company**.

### Mining

Australian **Metro Mining** has entered a 80:20 majority JV with local **Mahar San** for exploration and later on production of a copper mine in Sagaing Region. The company says it will initially invest 100,000 USD per year for drilling and feasibility studies – a low volume for any project of relevance.

### Oil and gas

International industry platforms report that according to the current National Development Plan from 2016/17 to 2020/21, Myanmar expects to export 14.6 bn cbm of gas during the current Financial Year while producing 4.5 bn cbm for domestic supply. Break down of overall production of 19.5 bn cbm is 19.1 bn offshore and 400 m onshore, according to MOGE.

### Energy

A new foreign investor in power projects: Malaysian **Ranhill Holdings** has submitted a bid for a tender for a 400 MW gas fired power plant.

Yangon Chief Minister Phyo Min Thein has raised the issue of not cost covering electricity prices beginning of June. He explicitly targeted tariffs for private end users, which stand at 35 MMK / kWh for small consumers – it is a bold but overdue move to address these subsidies in public.

Is this good news? According to local media, officials from Russian nuclear agency **Rosatom** claim efforts are made to implement a MOU signed with Myanmar on development of nuclear technology – but at the same time cites the lack of legislation as an impediment to any quick moves...

### Finance

**BOT Lease**, a subsidiary of **Bank of Mitsubishi UFJ Financial Group**, plans to open a representative office in Myanmar to facilitate leasing services, following the enactment of the Financial Institutions Law in January, which qualifies leasing companies as non-bank financial institutions. BOT Lease still seeks the respective approval and a license from the Central Bank, Japanese media report. **CB Bank** is meant to act as a local partner. The company wants to focus on leasing cars, construction equipment and information technology devices. This may imply another competitive advantage for Japanese equipment in the country. According to Japanese media, the Myanmar leasing market within five years might develop to a volume of several bn USD. At the same time IFC has announced they expect a leasing law to be drafted within the next months to provide guidelines for a currently unregulated sector.

### Infrastructure, urban development and construction

According to research by Timetric Construction Intelligence Centre, the construction sector will see stable growth rates over the coming years, driven by infrastructure spending and urban real estate. The residential sector stands for almost 50% of the industry in 2015, followed by infrastructure with almost 20%. According to the National Transport Master Plan, investment in infrastructure is meant to reach 4.2 bn USD until 2030. A good reason to join our [business mission for construction and infrastructure](#).

The 3<sup>rd</sup> International Processing & Packaging Exhibition for Myanmar

The logo for PROPAK MYANMAR 2016, featuring a green cube with a white 'P' and 'PAK' on its faces, and a green leaf-like shape on top.

**PROPAK MYANMAR 2016**

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Good news for urban development in Yangon: Chief Minister Pyo Min Thein has set sustainable development and a liveable environment as a top political goal. But one should not cherish any illusions: implementation will be costly and take time.

A new luxury condominium project is in the pipeline, located in Hlaing Thayar township in the outskirts of Yangon (and thus less likely to come under scrutiny in view of urban planning) but in the vicinity of a huge industrial zone. Chinese **Toener Investment Group** and local **SMI Real Estate** plan to jointly develop as many as 13 condominium towers of up to 31 storeys under the name of Riverside Garden until 2020. Two of the towers are planned to be up and running within the next two years.

### IT and telecommunication

A new entrant in the telco sector: Malaysian **OCK** has registered a subsidiary in Myanmar and plans to join the ranks of telco tower companies. OCK will build and lease more than 900 towers for Telenor.

### German Projects

Endress + Hauser has opened a representative office in Yangon to support its business development in sectors as food and beverages, oil and gas, mining, cement and others.

**KHS GmbH**, a leading supplier of filling and packaging machinery and solutions for the beverage industry, has opened a branch office in Myanmar. The company expects to expand its well established machine portfolio and services to domestic and international investors in the country.

**DBSchenker**, active in Myanmar via its Thai branch for 16 years already, has opened a fully owned subsidiary in Yangon, offering contract logistics and warehousing services.

**DHL Express**, which has been active in Myanmar for three decades, in June has launched a new express facility in Yangon – the largest in Myanmar and featuring advanced equipment to ensure efficiency and high safety standards.

**Bayer** has included Myanmar into its scholarship program for medical and chemistry students. For any Myanmar talent eager to work on a study project in Life Science in Germany, the program offers comprehensive support.

### International Projects

According to Thai media reports, Thai **Nawarat Patanakarn** plans to start production of pre-cast concrete products for flooring, fencing and foundation piling within this year. The company works in a JV with a local partner, which has not been disclosed. The overall investment budget in Myanmar is reported to stand at 14 m USD – but this figure may include investment into a hotel project currently under review.

Japanese **Kansai Paint** has launched production in its factory in Shwe Pyi Thar Industrial Zone, in a JV with local **Hnin Myitzu Oo**. Annual production is said to reach 10 m t. The portfolio covers products like insulating paints, waterproff paints and mosquito repellent paints. Kansai claims to hold 10% of the Myanmar market with its currently imported products.

Thai **Toyo-Thai** plans to build a LPG bottling plant for imported propane gas in Mundon, south of Mawlamyine. Approval by the Mon State government has been given, but the MIC process is still pending. The investment volume is said to be 10 m USD.



French **Bolloré Logistics** with its Myanmar branch has opened a new warehouse facility in Mingalardon, in the northern part of Yangon.

According to local media, French **ATR** plans to build an aircraft maintenance and repair facility at Yangon International Airport.

The ADB has announced it will increase its lending to the public and private sector from 2017 onwards, allocating 350 m USD annually for the following five years period. Currently the annual lending amounts to 150 USD. Priority sectors will be energy, infrastructure, education, agriculture and rural development.

### Insights

During his visit to Myanmar mid of June, the German Federal Minister for Economic Development, Dr. Gerd Mueller, has met with German and Myanmar businesses during a business forum organized by the German Embassy. The Delegation of German Industry and Commerce and the German Myanmar Business Chamber have contributed and business representatives from both countries had the opportunity to share their insights on support needed for infrastructure development, professional training and capacity building for local manufacturing companies.



The Minister with Myanmar speakers U Maung Maung Lay, Prof Aung Tun Thet, U Barber Cho, Ko Myo Thwin and U Tin Htut Oo.



Ambassador Weber-Lortsch, GMBC EC members Marita Schimpl, Christoph Steinwehe, Jens Knoke, and Philipp Hoffmann, Patrick Benning (Deutsche Welle) and Monika Staerk (Delegate of German Industry and Commerce) with the Minister.

### **GTAI reports (in German language)** **Wirtschaftstrends zur Jahresmitte**

### Events

### **Business Mission 9 – 14 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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