

Dear readers,

The first year of the NLD led government comes to an end and most assessments of performance are restrained. While much of the criticism on lack of strategy and implementation may be well-founded, it is still worth keeping in mind the dimension of the tasks. And when it comes to FDI achievements, I just would like to remind all those producing headlines about a 30% drop in FDI approvals as an indicator of the current government's poor performance, that the 2015/2016 basis was heavily inflated by last minute approvals. I remember that end of February 2016, FDI figures stood exactly at this year's level, before a surge of high volumes projects, a number of them today under revision. A good memory sometimes helps to be fair in evaluation... And pure statistics may not be the proper criteria anyway to assess a country's progress. It is all about substance and long term viability.

On a personal note: while foreign investment undoubtedly will be a badly needed driver of development, the role of domestic manufacturing companies will be essential as well. And most importantly, it will be people in Myanmar, shaping the future of their country. Despite the huge need for qualification with respect to professional skills, I am very optimistic after three and a half years where I had the privilege to meet many amazing, ambitious, committed, dedicated, innovative and inspiring Myanmar persons. I tried to cover part of these encounters in the Insights section of this newsletter and at the end of this edition you will find both a new story and updates on previous ones. Thus all my best wishes go to Myanmar and its people!

Best regards

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Politics

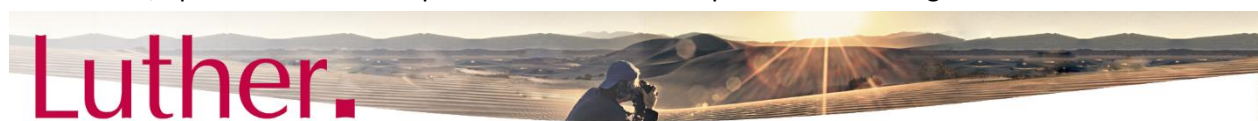
Good news for expats – and the country alike: Parliament has rejected drafts of the foreigners' law and a foreign workers law, which had triggered concerns and advocacy action by the foreign chambers active in Myanmar. New drafts to be submitted by the Ministry of Labor, Immigration and Population hopefully will take into account recommendations on effective and workable regulation, which in fact is overdue.

While forthcoming by-elections in April will be a first test for the NLD government, a new political party is set to emerge. Leaders of the so-called 88 Generation – named after the student protests back then which had triggered far reaching political turmoil back then – announced they would launch a political party of their own to contest the 2020 elections. A welcome step towards a more pluralistic political spectrum.

Economic Policy and economic development

Breaking news with regards to a liberalization for trade and distribution: in the framework of the new investment law, wholesale and retail distribution would be opened up for foreign companies, according to an official of the Ministry of Commerce, speaking at a GMBC event. With the exception of small retail / convenience shops below 1,000 sqm space, the sector would be open both to JVs and 100% foreign owned companies, subject to approval by the Ministry of Commerce. Detailed criteria, eg on minimum capital requirements, and processes will be published in the coming weeks. Bonded warehouse concepts, another option foreign companies had been eager to use, will be admitted as well, outside the Thilawa SEZ, and even actively promoted. These moves should contribute significantly to improve supply of quality goods and raw material at reasonable price levels and thus improve competitiveness of local manufacturing businesses.

The government is getting serious with to tackling the problem of loss making State Owned Enterprises. In 33 factories, operations will be suspended and investment put on hold. Savings are assessed at 73 m USD



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(we guess on an annual basis), while salary payments will be continued at the time being. A committee will be set up to assess the long-term viability of these operations. Most prominently on the list of suspended projects figures the Steel Mill No 1 in Myingyan, which undergoes a long term and high cost refurbishment by Italian Danieli. Other plants affected include the Thanlyin refinery (with two failed attempts for JV privatization), fertilizer plants in Kyun Gyaung and Kyaw Swa, 11 textile factories and the government owned paper mill in the Ayeyawaddy Region. Three more fertilizer plants and the LPG plant in Minbu have been given green light to continue operations.

The lack of reliable and up to date statistical data is a huge impediment for any desktop research. Besides improvements on government databases, there is hope in sight with regards to data in industrial development. Singaporean **Shenton Institute of Applied Finance (SIAF)** together with the **Singapore Institute of Purchasing and Materials Management (SIPMM)** plans to publish a monthly Myanmar Purchasing Managers' Index (PMI). The index will be based on interview with managers from 200 companies.

In a surprise move the government has adjusted public holidays at short notice ahead of the Thingyan break in April. Public holidays have been cut by 5 days to the period from 13 to 17 April to avoid the usual standstill of all economic activity. As a compensation, five holidays will be added in October and December. Seen the short notice and the fact that most employees already have booked trips, the country may end up with three more days off this year. A well-intentioned move, which due to the short notice and thus rocky implementation may backfire...

FDI and investment policies

A list of the zones qualifying for seven, five and three years tax exemption under the new investment law has been published and is available for download [here](#). While most zone 1 areas, qualifying for 7 years tax breaks, are located in more remote regions, including the whole of Chin and Rakhine States, two Mandalay Region townships are covered, including the location of the Mandalay Myotha Industrial Park. To qualify for the 7 years' tax holiday, 65% (most likely referring to revenues generated) of the related operations need to take place in the zone 1 plants. Zoning criteria seemed to be linked to so called promoted sectors, as a prerequisite for tax exemptions – details are expected to be published shortly.

SEZ and Industrial Zones

According to local media reports, the Dawei SEZ project which as stalled for long years, is back on track. Or at least, a high-ranking commission has been formed to steer the re-start. No indication has been given regarding a tangible commitment of the Japanese government to support with funding. The consortium includes **Rojana Industrial Park Public Co Ltd**, a Thai based JV with Japanese Sumitomo, but that seems to be all about a tangible Japanese footprint at this stage. Other consortium members are Thai Italian-Thai development and LNG Plus International.

Singaporean **Bok Seng Logistics** has signed a MOU with **Ayeyarwady Development Public Co.** on transport infrastructure development at the Patheingyi Industrial City Project which developers plan to complete until 2018 including a port. An upgrade of the Yangon Patheingyi highway, which seems to have been approved, will be crucial for the success of the project though.

Energy and Power

According to international media, Myanmar will see its first tender for a LNG terminal launched early in April in a move to bridge the supply gap for natural gas as long as exploration of gas fields has not been finalized. The project under the Ministry of Electricity and Energy will include a floating storage and regasification unit with a capacity of 3 to 4 m t per year, a 200 km pipeline and a 1 GW gas fired power plant – which previously was said not to be covered by the tender. The location of the project has not been decided upon, Mon State is said to be an option with the power plant possibly located in Yangon.



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Investment volume is set at 2 bn USD and the project is meant to be completed by 2020. Almost 100 companies are said to have submitted EOIs. For the commercial viability of the power plant at least, a review of currently highly subsidized tariffs is a matter of urgency.

These have been the biggest obstacle for the development of the power sector so far as not any tariff currently is cost-covering and each badly needed new power plant puts additional burden on already strained government budgets. But hope is in sight: there are indications, that an increase of power tariffs (social media mention it could even stand at 300% but the government officially denied) is in the pipeline and could happen earlier than 2018. According to local media, tariffs for private households beyond a certain level of consumption could be increased to 50 MMK per kWh from currently 35 – thus still far from being cost covering – and for corporate customers from 100 to 150 MMK. Let us hope that any new tariff system will be smartly designed and implemented efficiently, and that consumers will understand it is a prerequisite for stable power supply, everybody is earning for with summer heat building up.

Yangon will see its first waste to energy plant operational early April, YCDC announced. The 700 MW plant which has been built with funding by Japanese Future Engineering Co-operation Agency, is located in the Shwe Pyi Thar Industrial Zone and will supply to the national grid – a most welcome input, seen the fact the two heavy oil plants meant to bridge massive supply gaps, are delayed due to funding constraints. As an emergency measure, Parliament has approved funding of about 22 m USD for diesel and gas fired mobile generator power solutions with a capacity of 25 MW to cover electricity demand in Yangon. American **GE** is said to supply the systems.

And renewables are making progress – while Thai **Green Earth Power** has received MIC approval for its long discussed 150 MW plant at Magwe with an investment of 290 m USD, biomass makes tangible progress: A biomass gasification power plant fueled with rice husk has been launched in Nay Pyi Daw. The plant with a capacity of 0.5 MW has been set up by **MAPCO** in co-operation with Japanese donors and is meant to serve as a demonstration plant. MAPCO plans to build two more plants in Ayeyarwady Region with capacities of 2.2 and 1.6 MW each.

Finance

KBZ will be the first bank to enter a direct agreement with a US based bank regarding USD transactions. Its partner will be **Sumitomo Mitsui Banking**, with its New York branch. The bank says, it will be able to organize USD transactions within 24 hrs under this agreement, despite US financial sanctions under the Patriot Act still in place with a due diligence requirement. But according to KBZ information, the deal will not cover outbound USD transactions.

Access to finance remains a major constraint for local SMEs. As a remedy, according to news reports, the Central Bank plans to impose a minimum percentage of local private banks' commercial loans to be issued to SMEs and the agricultural sector. To compensate higher risk profiles, interest rates might be set beyond the current 13% threshold. At the same time, public banks are currently lending at 8 and 8.5% respectively to these two target groups. It remains to be seen whether such a move – in the current Myanmar environment, marked by a lack of risk assessment capacities – will be effective to develop SME loans as a tangible business opportunity for local private banks.

Agriculture and Fisheries

Introduction of a disease resistant strain of white shrimp could boost Myanmar's prawn industry and exports of the product which is in high demand in international markets. As in other markets, breeding of black tiger prawns has suffered setbacks due to widespread diseases. American **Marine Genetic LLC** will launch a hatchery for trial breeding of 5 m prawns in Rakhine State, Ayeyarwady and Yangon Region under its local subsidiary **Best Burma**. According to Marine Genetic, current extensive shrimp farming in Rakhine, based on wild catch, is neither efficient nor sustainable. The company projects that Myanmar shrimp

exports could reach 100,000 t annually, worth 1 bn USD until 2022.

Construction and urban development

French **Accor** will take over management of the Mandalay Hill Resort, which had been under its Novotel brand already from 1995 to 2002, when EU Sanctions kicked in. Mandalay Hill Resort will be run under the Mercure brand, a new development in the vicinity under Sofitel – a strong move in the Mandalay hotel market which up to now is under developed. The company furthermore announced that long stalled Centrepoint Hotel project in Yangon will be taken over by Accor as well to operate under its Pullman brand – a riskier bet in a Yangon luxury hotel market already marked by overcapacities.

Affordable housing has emerged as a topic of relevance to absorb urbanization trends. Singaporean engineering consultancy **Surbana Jurong** will consult the Myanmar Construction Entrepreneurs Association (MCEA) under a MOU signed early in March. MCEA with its public company is expected to build 1 m houses until 2030 all over the country and plans to start implementation in the coming financial year. Pricing will be a critical issue in a country where construction cost continues to be far beyond regional average, despite increased domestic supply of construction material.

Infrastructure

The government announced to have an airport in Mrauk-U, an archeological site in Rakhine State, developed by private investors as a government project has been stalling due to lack of finance. Investment is assessed at 26 bn MMK – about 19 m USD. At the same time, tourist arrivals in Mrauk-U, kind of an untapped Bagan and an uncontested tourism highlight, have dropped by about 30% from last year's 4,100. For private investors, the business case thus is not that evident – as long as conflicts and military action in the region have not come to an end.

Agri and food processing

The government wants to further expand GAP certification for local farmers to cover 15 species of fruit and vegetable – a prerequisite to qualify for exports. Up to now, only 27 mango farmers had undergone the process.

Singaporean **Wilmar** plans to launch a flour mill operation in a JV with a local partner, to be located in the Thilawa Port area.

More instant noodles to come: Japanese **Nissin** has received MIC approval for a new plant in a foreign local JV **Sar Taw Kal Nissin Company Limited**. The production will be located at Yangon's Hlaing Thayar Industrial Zone.

Chemical

Yangon Industrial Gas, a local foreign JV, has been given MIC approval for production of industrial gases, to be located in South Dagon Industrial Zone.

Construction material

Singaporean **Soibuild** is the next player to become active in manufacturing of steel bars and other steel products to supply to the local construction sector. The plant will be located in the Thilawa SEZ, investment is said to stand at 13.9 m USD. Access to a customer base should be straightforward: Soibuild itself is involved as a contractor into a number of real estate projects.

Local **Fortune Group** has received MIC approval for production and sale of elevators under its subsidiary **Fortune Elevator & Escalator Co. Ltd**. The approval explicitly mentions the elevators to be at international standard (but which standards may apply, likely still is pending).

Another Thilawa SEZ agreement has been sealed with Korean **AJU** for a manufacturing project. The company focuses on construction material. No details on products and project outlines are available at this stage.

Thai **Nawarat Advance Prefab** has received MIC approval for production and sale of prefab concrete in a JV with a local company. According to its website, the company has a WFO entity registered in Myanmar

already since 2000 under **Myanmar NWR Company Limited**, but which had not been operational up to date.

Electrical and industrial inputs

Korean **Koryo Cable** has signed an agreement with the Thilawa SEZ for an investment in manufacturing, namely production of power cables, building wires, various electric wire and bare conductors. Investment stands at 8.2 m USD.

Hong Kong invested **Wisechamp Electronic** has received MIC approval for manufacturing of cable harnesses and connectors. The plant is meant to be in Dagon East Industrial Zone.

Malaysian **Adachi Global Industries** has received MIC approval for manufacturing and marketing of air and oil filters in a JV with a non disclosed local partner. The factory is to be set up in North Okkalapa.

According to local media, Chinese **Opple Lighting** plans to set up production of LED bulbs in Myanmar, but no details have been disclosed so far.

Fast moving consumer goods

Thai **I.M.B.M** has received MIC approval for a project in manufacturing of cosmetics. The plant is to be located in Mingalardon Industrial Zone.

Garment, Shoes and Bags

Export earnings have skyrocketed during the current financial year – according to the Ministry of Commerce, during the first 11 months, they reached 1.64 bn USD, almost 1 bn USD above last year's amount. Increasing order volumes from western buyers contribute significantly to this development. At the same time, critical reporting on labor standards has made it to the headlines of Western, including German, media. While no doubt and despite all efforts by local and international stakeholders there still are substantial problems on the ground, facts based reporting would be helpful. A message to all journalists who happen to read this newsletter: the current minimum wage of 3,600 MMK per day refers to an 8 hrs working day. And while 40 hrs working weeks may be the standard for pampered Europeans, this is not how any country in the world (including European), has shaken off the status as a developing country. Thus, taken into account actual working times with two hours of overtime, permitted by international regulations, and the rather bountiful remuneration of overtime with a top up of 100% set by Myanmar law, workers normally earn 5,400 MMK per day, and including payment for one free day a week end up with slightly below 100 EUR monthly wages – not the 51 EUR mentioned in a number of media outlets. For sure still not opulent income, but a difference of almost 100%. The relevant law stipulates a bi-annual reassessment of the minimum wage and the Ministry of Labor already announced that an increase is in the pipeline, be it just to compensate inflation.

Unperturbed by international reporting, a number of new investment projects for CMP production have been granted approval: Chinese **Springair Ace**, **Nan Tong Great One**, **Sinoproud**, and **Kaixi Lingerie** (for underwear), as well as Thai **Thong Thai Textile** and Korean **Myanmar Qun San**. Japanese **Asian Just** will operate a CMP plant in a JV. All factories will be located in Yangon.

Related segments of CMP production are getting momentum as well: **Evergreen Sports** from Hong Kong and Korean **CMF Myanmar** plan to launch CMP manufacturing of bags and **Yeo Yi (Myanmar) Footwear**, said to be a UK investment, has received approval for a shoe factory. Again, all plants are going to be located in Yangon.

Badly needed supply chains are in the pipeline as well: Chinese **Tian Cheng Pen Jiao** has received MIC approval for manufacturing of synthetic resin for garment processing. The plant is to be located in Hlaing Thayar.

IT and Telecommunications

Singaporean FibreLinks starts raising capital for an ambitious project to set up a comprehensive fiber optic network in Myanmar, following a license granted end of 2015. Overall investment would stand at 860 m USD, but initial capital would be 25 m USD, according to local media.

Thai **Chan Wanich** has received approval for a WFOE project in processing and printing of security documents, to be located in Dagon Industrial Zone.

Online TV streaming services are coming to Myanmar. Malaysian **iflix** announced, it would offer a service at 3,000 MMK per month or 30,000 MMK per year, focusing mostly on mobile users. A move likely to hike profits of mobile telco operators....

Logistics

A number of MIC permits have been granted to logistics projects, namely dry port services to local **Resources Group** and to Singaporean **KM Terminal and Logistics** both in Yangon and Mandalay region.

Medical

Two hospital and clinics project have been given MIC approval, both local foreign JVs: **MJ Parkview Healthcare** will operate a private hospital in Yangon's Hlaing Township and **Pioneer Asian Specialty Clinics** will launch an eye care treatment clinic in Pazundaung Township.

A new medical laboratory already has been launched by Thai **National Healthcare Systems Co Ltd** in a 60:20:20 JV with local **Sea Lion** and **Bahosi Hospital Group**. The facility with an investment of 2.5 m USD will support hospitals and clinics with a range of analytical services.

Packaging

More cans for Myanmar: Thai **Sahadharawat Co Ltd** is the next company to invest into a plant for manufacturing of metal cans – according to news reports in order to supply to food and chemical industries, including paint manufacturers. The plant will be located in the Thilawa SEZ and investment is said to stand at 5.1m USD.

Wood Processing

Singaporean **Areca Collection**, a subsidiary of **Falcon Group** has received MIC approval for a furniture manufacturing plant in Yangon's Hlaing Thayar Industrial Zone. The company mainly supplies to high level hotels.

MIC approval has been granted as well for a local investor, **Kaung Myat Company Limited**, to set up a saw mill and veneer production in Yangon.

Tourism

A new approach for tourism development with a focus on domestic target groups: local **iGreen Construction Co** has received approval for construction of leisure residences at Ngwe Saung Beach including entertainment facilities. No information on the project volume and implementation have been disclosed.

This may be a driver for high end tourism: **Nepalese Himalaya Airlines** has announced it would operate direct flights between Kathmandu and Yangon twice a week at 350 USD for a round-trip. And more of relevance for business travelers: **Emirates** will connect Yangon and Phnom Penh from July onwards – but the Phnom Penh – Yangon trip will be for night owls only, landing at 0.40 am. Again in view of tourism, there is a rumor that a direct flight will connect Bagan and Angkor Wat from July onwards – not sure though whether the timing would be ideal to launch such an offer.

Events

Save the dates:

[Asia Pacific Regional Conference, 3 to 5 November 2017, Perth](#)

16th 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/>

[AHK ASEAN newsletter Q 1 2017](#)

Insights revisited

Do you remember ----

---- **Roland Kohl with his pioneering venture Kayser Myanmar**, assembling brushless motors and other light industrial parts for high end industrial customers in Europe? (Newsletter June 2015). He is expanding and since early 2017, has installed equipment for injection molding and metal stamping to develop his own supply chain and possibly supply pre-products to other assembly plants in the country. This may be a small contribution to reducing Myanmar’s trade deficit, but it shows the way ahead for gradual upgrading of the Myanmar manufacturing sector. Another far-sighted move by an investor, whose commitment is unabated, despite ongoing frustration with bumpy roads and greedy landlords.

----- **Frances Naw, the mango jam cook?** (Newsletter May 2016) She is now selling her delicacies in Yangon at Go Green and Hla De and has expanded her product range to include grape, pomelo and strawberry. If you are based in Yangon, rush to grasp your bottle of yummy low sugar jam. And if you are visiting from Germany and eager to support a start-up – just bring in supplies of German Gelfix powder.

----- **Pyae Phyo Aye, the chili expert?** (Newsletter April 2016) He has successfully set up his chili solar dehydration plant and in the meantime, has expanded his operations. Besides exports to Thailand, he is in discussion with European buyers. And – a topic dear to his heart – he plans to co-operate with a local processor to finally supply Myanmar chili lovers with good quality and safe to eat home grown chili powder.

----- **Thuzar Aung, the courageous student** struggling with her blocked student’s account? (Newsletter September 2016) She has successfully completed her first semester of master studies of environmental engineering in Hamburg and with her professor works on a master project to implement flood protection in her home town Wuntho. Greetings to all DeutschBankers whom I have been annoying with her application and thanks to the one who helped in this matter. It has been worthwhile!

Insights

Coconut oil is an integral part of traditional Myanmar hair care and still in use a lot despite the Western brands which have flooded the market. On the other hand, modern life style trends with regards to healthy food make it to the country. Coconut oil is the flavor of the day already in stylish western kitchens and Ye Htut Htake, a young Myanmar entrepreneur who has completed studies of Politics & Economics in the UK, has launched a new venture to upgrade his families’ business, Mya Ayer Group. For two years already, he sells "Cocohealth", Cold Pressed, Extra Virgin Coconut Oil at an outstanding quality in Yangon and recently has made it to the shelves of Marketplace and a number of specialty shops. But this is not the end of his ambition.



The product: what is in a coconutshell

In order to expand and upgrade the business and further develop the value chain, he plans to launch a processing plant in Man-aung, an island in Rakhine State. His concept is ambitious but clear cut, and advantages for both his business and the local communities are tangible: Man-aung is a center of coconut plantation, but farmers’ incomes are meagre due to the lack of connectivity. With his processing plant on the spot, incomes of contract farmers could double and Ye Htut could still realize savings despite the high transportation cost to Yangon. Processing in Man-aung would happen in bulk, filling in bottles is to take place at the Yangon factory. A holistic concept which covers as well further processing options such as coconut water, coconut cookies, copra – possibly as a natural fertilizer – and coir. Man-aung qualifies for organic products as well – the soil there is virgin in the best sense of the term. For Ye Htut this would pave the way to access high end export markets with his virgin coconut oil, where exigent high income

consumers are soaking up such fashionable delights as a sponge. Ye Htut already has acquired land and is about to launch plantation and start construction of the processing facility.

Access to finance as always is an issue – without ODA finance, he assesses implementation at full scale would take five years. With a loan at reasonable conditions, he thinks he can implement within two years and thus is working on proposals to international donors. Further support regarding access to markets will be crucial as well. In the meantime, Yangon based readers are invited to check out Ye Htut’s coconut oil. He recommends it as weight reducing miracle cure if swallowed one teaspoon full on an empty stomach. Might be a good alternative to gyms in Yangon’s sweaty climate.



Ye Htut (2 f.l.) on inspection tour in Man-Aung