

Myanmar Newsletter, November 2014

Delegation of German Industry and Commerce in Myanmar

Dear readers,

News about the recent acquisition of local Laser toothpaste by Colgate give me mixed feelings. On the one hand that may come as a surprise to many readers abroad who would not expect the Myanmar private sector to offer relevant targets for western multinationals. But there are a number of them, some working with western equipment and some in JV agreements or talks with global players. On the other hand, the idea that the local private sector might resign with powerful foreign competition coming in, the pockets full of marketing money, is worrying. Not just for German suppliers of equipment, who would prefer to see local customers develop, but as well for the society as a whole, which in the mid-term might end up seeing locals as losing out in the reform process. No reason to take a gloomy view, but a topic to keep an eye on.

Best regards

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Politics

Election day – The parliamentary elections in 2015 will be held either during the last week of October or the first week of November, according to an announcement by the Union Election Commission.

News from the OFAC list

While everybody is waiting for more removals from the OFAC list, the US Treasury has added a new name. Previous Minister of Industry and current Member of Parliament Aung Thaung has been listed on allegations of having been involved in attacks on the opposition. Relevance for foreign businesses should be limited, as no corporate activities of Aung Thaung are mentioned. The listing does not refer to his family. The business empire of his sons, Nay Aung and Pyi Aung, includes **IGE Co Ltd** with activities in oil and gas, timber, hydro power and construction. Nay Aung has a 90% share in **United Amara Bank**. The move comes ahead of President Obama's visit to Myanmar on the occasion of the ASEAN summit mid of November.

International

Myanmar and Israel have signed an Investment Protection Treaty. Israel eyes investment especially in agriculture.

Economic Development

Myanmar still is a difficult place for startups and has deficits with regards to access to finance, land, electricity and skilled workers, but has made significant improvements in the sectors of trade and tax payments, says the most recent Doing Business Report by the World Bank, ranking the country at place 177 of 189 countries. Not a too encouraging result, but Myanmar gets praise for being the country with the most improvements in cross border trade.

FDI

With approved FDI of 4.09 bn USD during the first six months of the financial year 2014/2015 the target for the full year of 4 to 5 bn USD has already been reached. The telecoms sector is a driver with 818 mio USD - 20% of the total investment. Oil and gas stand for 700 mio USD with new offshore licenses granted and in tourism more new hotel projects than expected have been proposed. Contracted FDI stock has reached 50 bn USD end of September with 783 foreign investors, but MIC says, currently existing FDI is 39 bn USD only. DICA has raised the 2015 FDI target to 6 bn USD.

Myanmar sets standards for foreign investors: Prof. Aung Tun Thet, Member of the Myanmar Investment Commission, has announced end of October during an event on CSR activities in Myanmar that applicants for a MIC license would be expected to go for a membership in the UN Global Compact.

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Investment protection

Military owned **UMEHL** has been successful in a Singaporean litigation case against Singaporean **Fraser and Neave Ltd (F&N)**, its 55% JV partner in **Myanmar Breweries**, granting it the right to buy F&N shares in the company after F&N's had been taken over by a Thai tycoon. UMEHL had claimed the JV agreement granted them a purchase option and the Singaporean arbitrators supported that view, contradicting premature lamentation that the dispute was a proof of weak protection of foreign investors' rights. Myanmar Breweries is said to have a share of 83% in the still small local market.

SEZs

News on the Dawei SEZ: The government has informed, that work on the first phase of the project is meant to start at the end of the year. 1,500 out of altogether 6,000 acres of the initial phase will be developed for small industries. The project will include upgrading the road link to the Thai border and a small sea port. Japan currently conducts studies on the more important second phase for big industries, including a deep water seaport. Results are to be expected in March 2015. Electricity supply will be secured by a 15 MW gas fired power plant for the first phase, and another with 450 MW for the second phase.

According to Thai media, the Chambers of Commerce of both countries plan to jointly develop Special Economic Zones at both sides of the border. Sites in Myanmar are Myawaddy and Hpa-An in Kayin State and Mawlamyine in Mon region.

Power

Japanese **Marubeni Corp** plans the construction of a 1,800-2,000 MW coal-fired power plant in southern Tanintharyi region in a JV with Thai state owned partners PTT Pcl and EGAT and two Thai and Myanmar private partners. Volume is said to be 2.8 to 3.2 bn USD. 80% of the electricity produced is meant to be exported to Thailand – which makes one wonder, whether despite the low emission technology to be implemented, the project will move ahead without controversy. Marubeni plans to start construction in 2016.

Thai **Green Earth Power** plans to develop a 350 mio USD 220-MW solar power plant in Minbu, Magway Region, 200 km west of Nay Pyi Taw. Construction is meant to start beginning of 2015 and the first phase out of four with 50 MW is planned to start operation beginning of 2016. The Ministry of Electrical Power will purchase electricity under a 30 years PPA. Connection to the grid is ensured via a new 230 KV transmission line under construction.

Deficient transmission and distribution causes losses of about 30% of investment in power production, according to a study by New Crossroads Asia. The government currently works on an expansion of the national grid with support of ADB and World Bank and hopefully will take into account upgrading needs. IFC will support privatization of the Yangon Electricity Supply Board, with 49% of shares meant to be offered to local investors. According to local media Eleven Myanmar, Yangon's electrification rate is 63%, Nay Pyi Taw's 52% and Mandalay's just 29%.

Mining

The first 100% foreign owned exploration license has been granted to **Asia-Pacific Mining Ltd** from Hong Kong for exploration in Shan State. The project is the AP 4 site where the company expects deposits of zinc, lead and silver at world class quantity and quality. APML has applied as well for an exploration license in Sagaing region (copper, gold and porphyry).

Canadian **Centurion Minerals Ltd** is evaluating mineral exploration concessions near Mandalay, expecting strong prospects of big copper and gold deposits according to local media.

Myanmar is emerging as an important supplier of tin, with production to increase by 12% to 28,000 t in 2015; that is 10% of the global production, according to Bloomberg. Thai invested **Myanmar Pongipat Co Ltd** runs the Heinda Tin Min in a JV with the Ministry of Mines.

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Oil and Gas

Cloudy mid-term outlook for the Myanmar gas production? In an interview with Myanmar Times, Total Myanmar's General manager mentioned that production in the Yadana project, currently standing for 40% of gas production in Myanmar, will significantly decrease from 2020 on. Following the recent exploration deals, Total does not expect significant new production to start before 2020/2024. Local group **Parami** on the other hand announced extraction in new gas fields to start in 2018.

Infrastructure, City development and construction

Hanthawaddy International Airport 80 km north of Yangon will be built by a consortium of Singaporean **CAPE (Yangnam and Changi Airport Planners and Engineering)** and Japanese **JGC Corporation**. The consortium has won the new tender after previous tender winner Incheon International withdrew, probably because of problems with securing sustainable finance. This issue has now been solved thanks to Japanese ODA funding of 49% of the project cost of 1.4 bn. USD. The airport is expected to handle 12 mio passengers per year. Information on expected year of completion has not been published.

Privatization of 30 domestic airports under BOT schemes is on the agenda again with 45 local and foreign companies, among them Air KBZ and Air Bagan as well as Japanese and Thai companies, having submitted proposals of interest. Not surprisingly, Bagan-Nyaung U Airport is seen as the most attractive option.

The Kyaukpyu Deep Water Port will start operations in November but faces problems with draught. The 18.8 metres seem not to be sufficient for 300,000 t vessels which were expected to dock for deliveries of oil supplies.

Speeding up – With Japanese JICA's support, the upgrade of the Yangon-Mandalay rail connection could allow to do the 600 km trip in about 6 hours in 2023. The project has been praised as a high speed rail in local media, which sounds a bit exaggerated for 100 km/hour, but for sure this will be a significant improvement for the country.

Garment

Hong Kong invested **Prosperity Knitwear Myanmar** plans to start production of sweaters for **Marks and Spencer** in its new garment factory in Thilawa, currently employing 200 workers, in December. Investment volume is 4.5 mio USD with another 40 mio USD to be invested in 2015 and staff meant to increase to 2,500.

Telecommunications

Light at the end of the tunnel for internet connectivity? According to local business weekly Mizzima French **Orange** has signed a contract to co-finance and co-construct a new undersea cable, linking Myanmar and fellow SEA states to Europe. The cable is meant to have a capacity of 100 GB/s and may be completed end of 2016.

Following its launch in Mandalay and Nay Pyi Daw in September, **Telenor** has started sales of SIM cards in Yangon end of October.

Transport and Logistics

New direct shipping service between India and Myanmar: The **Shipping Corporation of India** has launched a container service from Indian Krishnapatnam Port to Yangon with 1,200 TEU vessels. Expansion plans for a weekly service with 2,500 TEU and 4,500 TEU vessels are in the pipeline.

Tourism

Hilton has opened its first hotel in Nay Pyi Daw together with local partner **Eden Group**. Four more hotels in tourism centers Bagan, Inle Lake, Mandalay and Ngapali beach are in the pipeline and said to be completed in 2017. The stock of investments in hotels has reached 2.3 bn USD according to the Ministry of Tourism.

Following its launch in Nay Pyi Daw, **Kempinski Group** plans to open a five star hotel in Yangon with 240 rooms in 2017 after renovation of a colonial heritage building, the Small Claims Court in Strand Road.

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To boost tourism, the government considers allowing gambling for foreigners, local media report.

German Projects

We specialize in beer: German suppliers have been active in Myanmar for several years already and new projects are coming up. German specialist **KHS GmbH** has supplied the three filling lines for the new Carlsberg project in Bago (see October newsletter) and a fully automated keg-line for Myanmar Breweries. Myanmar Breweries as well as Dagon Brewery and Mandalay Brewery are long standing customers of KHS.

German support to professional training. Following a feasibility study on 20 technical training centers under the Ministry of Science and Technology (MoST) by **KfW** and **GIZ**, 9 institutes have been preselected for an upgrading program, which will be discussed during bilateral government negotiations in December. GIZ TVET will organize a school manager training for the pre-selected institutes.

International projects

American **Colgate** will make its market entry through an acquisition of the local brand Laser Toothpaste from **Shwe Ayar Nadi Co. Ltd** to produce both Laser and Colgate brands. The deal is said to be worth 100 mio USD without official confirmation by the companies involved. It includes both the manufacturing facilities for toothpaste and packaging. According to local media, Colgate imports from Thailand would be covered by the license as well, another example of a more liberal handling of import licenses for foreign investors, beyond products manufactured in Myanmar. Colgate's announcement to gradually shift production from Thailand to Myanmar in the years to come may have been helpful in that context.

Mazda has officially opened its showroom in Yangon together with local exclusive dealer Cycle & Carriage Automobile Myanmar Co Ltd. And there is a new entrant in the low to medium car segment: Chinese **Dongfeng Motors** has started sales via its local partner Yaung Ni Oo Services with models in the price range of 22,000 to 24,000 USD to compete with dominant Japanese brands. Local web portal www.motors.com.mm has released results of an online survey, with a non-surprising 53% market share of Toyota, followed by Honda (11%), Nissan (8%), Hyundai (7%), Mitsubishi (6%), western, Chinese and other Japanese brands sharing the rest.

Long awaited news? The first international fast food chain is entering the Myanmar market. **Yum! Brands** together with local **Yoma** will bring Kentucky Fried Chicken to the country with a first franchise meant to open in 2015. In a press release, Yoma cited forecasts expecting the consuming middle class "to grow from 2.5 mio today to 19 mio in 2030, potentially tripling consumer spending."

GTAI reports (in German language)

Myanmars "Electric Master Plan" soll Energieprobleme lösen

<http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1095202.html?view=renderPdf>

Myanmar vergibt erstmals Geschaeftslizenzen an Auslandsbanken

<http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1097314.html?view=renderPdf>

Transport und Logistik Myanmar

<https://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1099518.html?view=renderPdf>

Exhibitions (updates to the October newsletter in bold)

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

Agro Myanmar 2014, 18 – 20 Nov, Naypyidaw, 21 Nov Mandalay, www.agromyanmar.com

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/

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

2014 International Wood Processing Machines, Cutting Tools & Hand Tools Fair, 4-7 Dec 2014, www.myanmar-expo.com/MyanmarWood/

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

Food and Hotel Myanmar 2015, 3 – 5 June 2015, www.foodandhotelmyanmar.com

International Medical, Hospital and Pharmaceutical Exhibition, 14 -16 May 2015, <http://www.myanmar.medipharmexpo.com/eng/>

Propak Myanmar 2015 and Plastics & Rubber Myanmar 2015, 17 - 19 Sept 2015, www.propakmyanmar.com

Manufacturing Myanmar 2015, 14 – 16 Oct 2015, www.manufacturingmyanmar.com

Oil & Gas Myanmar 2015, 14 – 16 Oct 2015, www.ogmyanmar.com

Building & Construction Myanmar 2015, 29 – 31 Oct 2015, www.buildingmyanmar.com

Electric, Power & Renewable Energy Myanmar 2015, 29 – 31 Oct 2015, www.electricmyanmar.com

Mining Myanmar 2015, 29 – 31 Oct 2015, www.miningmyanmar.com

Communicast Myanmar 2015, 17 – 19 Nov 2015, www.communicastmyanmar.com

Myanfood, Myanhotel International 2015, 26 – 28 Nov 2015, www.myanhotel.com

Insights

New real estate development dwarfing Shwedagon Pagoda? German Architect Walter Stolz shares with you this insight. A model of the new Marga Dagon Development illustrates how Yangon's urban landscape may change in the future. Currently a green wilderness with old red brick military housing, the compound is meant to accommodate luxury housing, commercial buildings and shopping spaces. Pre sales for the first phase are said to have been finished already. Commercially the project may be a success, but with regards to urban development, Walter



Stolz has a rather pessimistic view: "Before an integrated urban planning concept - with respect also to the big colonial heritage - has a chance to be developed, the former "garden city of Asia" will have changed it's face."