

Dear readers,

As in other parts of the world, the US election and its surprising result has been talk of the town in Yangon. And as for other parts of the world, most likely it does not bode well for the country. While experts tried to ease off concerns, rightly pointing out that Myanmar will not be the main target of potentially protectionist policies, I fear there still is reason to worry. Firstly, with regards to trade policies, any more protectionist global framework will result in a distortion of trade flows, set to harm the weakest parts of the supply chain. Not to mention increasing levels of political and economic uncertainty which regularly have damped investors' appetite for risk taking. And there is a political dimension at stake: the US pivot to Asia has played a core role in Myanmar's process of transformation during the past five years, allowing the country to balance interest of other stake holders in the region. And even if a volte-face on the Obama era policies may not happen, one can hardly expect a similar strategic focus to persist. There is nothing to be done for now – once can just wait for the moment where foreign policy strategy papers will be at hand, to be scrutinized for the word "Myanmar" ...

Best regards

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## Politics

Following visits to China and the US, State Counsellor Aung San Suu Kyi has finally made it to India end of October and to Japan early November. In New Delhi, co-operation in the power and financial sectors as well as co-operation among Central Banks have been agreed upon. During her four day visit to Japan, Japanese Prime Minister Abe pledged further public and private sector development funding of 7.7 bn USD for the coming five years.

## Economic Policy and economic development

There had been indications by the government regarding more sluggish growth this year but end of October, the IMF following the annual consultation visit as the first international organization reassessed its GDP growth projections. The IMF expects growth of just 6.5% citing as reasons a correction in the real estate market and thus construction as well as weak commodity prices. They expect inflation to stand at 9% for the current financial year. This will put further pressure on spending power. More alarming is the slump of agricultural commodity exports, mainly rice and mostly to China, which directly affects the livelihood of many farmers. More sophisticated concepts in agriculture need to be implemented as a matter of urgency. The government has readjusted GDP estimates of the previous government for FY 2016/2017 down by 3.8 % from 81.06 tn MMK from 84.14 tn MMK, citing shrinking world market prices for export products, MMK depreciation and natural disasters as a reason. The budget deficit has reached 4.97% of GDP, narrowly below the legal threshold of 5%.

The government plans to tackle currency fluctuation with a new dedicated committee, chaired by the Dy Finance Minister U Maung Maung Win and the Dy Governor of the Central Bank, U Seth Aung. The move comes timely, as the Kyat continued to depreciate and the USD stood at record highs, skyrocketing to 1,340 MMK per USD on the black market on 21 November. Again, official and grey market rates diverging again at worrying degrees.

Myanmar is crawling up the ranks of the World Bank's *Ease of Doing Business* Report, from rank 171 the year before to 170 out of 190 countries in this year's edition. Progress is most tangible in the section on Setting up a business, where Myanmar has made it from the last place to 146 in 2016. Port infrastructure together with electricity supply is assessed as one of the major shortcomings.

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A dedicated agency for SME development is meant to be set up, to be co-funded by the government (30%) and interested business associations (70%) – not a bad move, but until such an institution will be up and running effectively, valuable time may have elapsed for local manufacturing businesses to grasp tangible market opportunities – before foreign investors take them in their hands.

### FDI and investment policies

Foreign investment approvals have reached 1.4 bn USD during the first six months of the Financial Year – a decrease by more than 50% year on year. The slowdown may partly be due to the hand over and reformation of the Myanmar Investment Commission. The implementation of the new Investment law may mean another transition period – and hopefully a boost of FDI inflows afterwards.

While by-laws and notifications are still in the making, the MIC has announced that the new investment law will be applied from 1 January 2017 onwards.

### Taxes

The government will get more serious on enforcement of Personal Income Tax payments for foreign employees. In 2015/2016, according to local media reports, PIT income from this group already stood at more than 47 m USD.

### Trade and trade policies

End of October trade data confirm the trend: decreasing volumes, reaching 15.5 bn USD, and a decreasing trade deficit, standing at about 2 bn compared to almost 3 bn for the same period the year before – with exports of 6.8 bn and imports of 8.9 bn USD.

### Energy

To bridge a supply gap in Yangon region to be expected for the coming hot season, Turkish **Kardeniz Powership Onur Sultan** will send a floating heavy fuel power plant with a capacity of 470 MW. The contract by the Ministry of Electricity and Energy comes on top of a tender for a this time land based 300 MW power plant which had been awarded to a Myanmar-American consortium. According to the Yangon Electricity Supply Corporation, demand for installed capacity in Yangon region stands at 1250 MW in 2016, up from 1050 MW the year before, a 19% increase.

The government seems to get serious in developing LNG as an option to bridge the power supply gap until – hopefully – sufficient domestic offshore gas resources will be available. A tender for a LNG terminal and pipeline is said to be in preparation and up for publication some time in Q2 coming year.

The Waste to Energy plant of Japanese **JEC** under construction in Shwe Pyi Thar Industrial Zone is expected to start operations by April 2017 – but the PPA for supplies to the national grid has not yet been finalized.

American **Convalt Energy**, via its Myanmar subsidiary has received permit for two solar PV plants at 150 MW each in Myingyan and Meikhtila Districts respectively. The 480 m USD project is meant to be implemented under a BOT and to be operational within 2 years. Convalt is a subsidiary of **ACO**, which had signed the PPA for this same project end of March 2016. Another Thai invested 150 MW plant in Minbu is said to be in the pipeline, according to the MIC: American **Qasar** plans to invest about 400 m USD in power projects in Myanmar – among them a 100 MW solar PV project in Sagaing with an investment of 150 m USD. Other projects include hydro and a fuel power plant for the Thilawa SEZ. But from permit and PPA to going online, here as for other projects there seems to be some way to go.

One of the big hydro power projects approved by the previous government has been cancelled for environmental reasons – the 600 MW Homalin dam in Sagaing Region with an investment of 4.7 bn USD.



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### Infrastructure

According to local media, Korean **BXT International** has received approval for a development on Kaladan river in Rakhine State – on the land reclaimed, housing, hotel and restaurant developments are meant to be located.

Construction of the new Japanese backed bridge linking the Thilawa SEZ to Yangon will start in August 2018 only, local newspapers report, saying that construction may take up to five years. The 320 m USD project will significantly improve Yangon's trade infrastructure and eventually pave the way for the Thilawa ports to absorb container volumes currently shipped from the down town ports.

### Water

Water treatment is badly needed in Yangon and elsewhere as water quality is decreasing at worrying pace. Japan has pledged 870 m USD for the Greater Yangon Water Supply Improvement Program including development of water treatment plants north and north west of Yangon to purify water from rivers and dams and wastewater at a later stage. Water and soil tests are underway and completion is scheduled for 2019.

### Urban development and construction

Urban development master planning is happening beyond Yangon – again with financial support by Japanese JICA, urban development plans 2040 for Mandalay, Mawlamyine and Patheingyi are to be finalized. Mandalay's position as an economic hub is obvious – and a vision of Mawlamyine, located at the mouth of the Salween river and near the Thai border, as an ASEAN corridor city with significant industrial and logistics potential, seems to make sense as well. South Western Patheingyi's strength again is seen in logistics, tourism and agricultural development. According to the Ministry of Construction, in all three cities the plans include developments of Central Business Districts and improvement of public transport. In Mandalay and Mawlamyine, development of riverfronts is scheduled, Mawlamyine and Patheingyi can expect an upgrading of ports and projects in tourism development.

Scenic Myeik will see its first Condominium development according to local newspaper reports. The Sea View Condo project by a JV between local investor **Pyi Phyo Tun International** (known for its activities in seafood and wood processing) and **Hong Kong Future Group** with a volume of 300 m USD is said to include 12 high rise buildings of up to 32 storeys offering almost 2,500 units for prospective tenants upon completion in a five years' time – where ever these are expected to come from. It may be time for a zoning plan down there? And for sure high time for a visit.....

### Finance

Chronically loss-making state owned lenders are on the target list of the government's efforts for SOE restructuring according to newspaper reports. Supported by the World Bank, plans include the issuing of shares, starting with Myanmar Agricultural Development Bank. A move which if successful might contribute to a more level playing field for domestic private banks as well.

### Logistics

The move may bring relief to Yangon commuters but will cause further headaches for trading businesses: from 15 Nov onwards, a ban on daytime container trucking between 6 am and 9 pm has come into effect.

On the other hand, the launch of the e-customs system in Yangon on 19 November may bring relief to traders, helping to increase efficiency and transparency. In a next step, the system will be introduced at the trade center at Myawaddy, at the Thai border.

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### Fisheries

Another local foreign JV, **Ocean Muse Fisheries**, has received MIC approval for a seafood processing plant in Yangon. Besides drying and processing, freezing is in the list of activities and contract manufacturing of imported fish is in the scope of business.

### Livestock

Chinese **Famsun** plans to partner with local chicken breeders to set up a feed processing plant and three poultry farms in Yangon, Mandalay and Sagaing regions, according to local newspapers. The Chinese investor will finance with loans at 12% interest rate – and a 2 years' payback period, which is favorable in the Myanmar environment.

### Garment and Leather

More CMP garment projects have received MIC approval: Chinese **Rui-Ning Garment, Dongyi, Futeli Garment, Myanmar Solamoda Garment, Dishang Fashion** and Japanese **Myanmar Postarion** – all of them for projects in Yangon Industrial Zones. Local invested **Mahar Hpa An** will launch operations in southern Hpa An to produce underwear.

### Wood processing

First steps are made in regional diversification and developments of value chains: local **Swel Hein Group** has received MIC approval for a wood processing project in Lashio, Northern Shan State.

### German Projects

KfW supports SME finance: KfW has officially launched its SME Lending Platform (SELP), tailored to improve access to finance for local small enterprises. Under the scheme, KfW will finance a refinancing facility to Co-Operative Bank Ltd. (CB Bank), other local private banks are meant to follow. Besides transfer of money, transfer of know-how to the local banking sector is an essential aspect of the program: CB Bank will receive support to develop sustainable and needs-based financing to SMEs and an effective SME lending segment – respective training activities are part of the program.

### International Projects

Japanese **R&K Trading** has launched its steel processing site in the Thilawa SEZ in November. With investment of 14.3 m USD and an annual capacity of 120,000 t, the plant is the biggest and most up to standards in Myanmar's underdeveloped steel market. The plant will process steel rolls imported from Japan to supply to the domestic construction market and prospectively to infrastructure and ship-building.

Korean **CJFoods** has launched its operations in Thilawa as well. The company is blending and repackaging imported edible oil for distribution in the country. Investment volume is said to be 8.3 m USD.

Two new Thai fertilizer projects in the Thilawa SEZ: **Central Chemical Public** will launch a repackaging unit for imported fertilizer with an investment of 12.5 m USD and **CPP Fertilizer** plans to launch a plant for blending and mixing fertilizers with an investment of 10.5 m USD.

Singaporean **Meranti Singapore** plans to launch a galvanizing plant in the Thilawa SEZ with an investment of 85 m USD, according to the management. Agreements with the SEZ as well as domestic and international JV partners are still to be finalized. A focus of the venture will be supplies to the domestic market with some potential for exports.

Malaysian **Daibochi Plastic and Packaging** has announced plans to partner with local Myanmar Smart Pack Industrial. The JV, Daibochi Packaging Myanmar, with a 60% foreign majority at 6.8 m USD investment, plans to invest 5.5 m USD to upgrade current production facilities. Production is meant to cater domestic demand with additional opportunities for export – and DPM is set to expand within the ASEAN region in the future.

According to the Wall Street Journal, the first said high end real estate development in Yangon may be for sale: Vietnamese **HAGL** is said to consider selling its shopping mall and hotel complex – whether this would affect as well the office complex, is not clear. The background of the move, which comes just months after

HAGL had launched an ambitious expansion project is not related to Myanmar but to the overall financial situation of the company. It remains to be seen whether any buyers may pop up.....

**GTAI information (in German language)**

[SWOT-Analyse Myanmar](#)

[Produktmaerkte in Myanmar 2017](#)

**Insights**

Some two years back the place looked a bit like moonscape with a huge billboard and made visitors doubt about whether and when an industrial estate might be up and running. Today you enter the Thilawa Special Economic Zone via an impressive gate – and there is no reason for investors to sigh in a Dante



Thilawa SEZ in early summer 2014



- and in November 2016

mood: “Abandon all hope, ye who enter here”. Much to the contrary, the SEZ proves to be a success story, operating at regional standards and offering an experimental ground for further liberalization e.g. on trade and investment. The offices have moved from the impromptu barracks to a flashy building which accommodates the one stop service center for investors and service provides such as banks and insurance offices. The first phase of the Zone A development is practically sold out, 20 factories are operating, 40 more are under construction and more investors have signed reservation agreements. The SEZ management says, 760 m USD have been committed to the zone, which target both export production and supplies to the domestic market. Logistics still is a bit of a bottle neck as most international shipping lines do not yet call on the MITT port next door – but this is set to change, once more production sites will be operating and turnover of goods will increase as a result. Most importantly, the SEZ can serve as role model on what can be achieved in Myanmar and hopefully soon will have sizeable competition by other projects in the making in other parts of the country.



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