

Myanmar Newsletter, October 2014

Delegation of German Industry and Commerce in Myanmar

Dear readers,

today a comment on a very practical note. While we see mobile communications improve with the new providers, one sometimes has the impression, that communication in Myanmar still is a zero sum game and that improved mobile connectivity implies even worse internet connections. Yes there are days when one can download 6 MB without a problem, but there are others, when a 500 KB attachment causes headaches. That is why we need to work on practical solutions – which means: for the time being, forget about your 8 MB corporate profiles with the glossy pictures and the colourful charts. If you want to reach customers and potential distributors, get back to basics and work on text only with information on your products, target industries and applications, potential customers and competitive advantages. You can be sure to reach your target audience much more effectively – and your dedicated Delegation Office will be better able to support you with such compacted and comprehensive information.

Best regards

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Policy Moves

Data on ethnicity and religious affiliation gathered during the spring census will not be published together with other results in May 2015, but at the earliest end of 2015 – that means after the election expected to take place in November 2015. Sounds like a wise decision to avoid more heated electoral campaigning.

Sanctions

News re the OFAC list: Lawfirm PWP Legal comments on the US Office of Foreign Assets Control (OFAC)'s revised guidelines. They say: "entities owned by blacklisted persons are also considered, by virtue of their ownership, sanctioned. This is important not only to American investors: Any foreign investor forming a joint venture with a sanctioned person may have difficulties repatriating funds as foreign banks will usually refuse to handle money transfers if the transfer originates from a joint venture company partly owned by a sanctioned person."

Economic development

The Myanmar government has published official economic data beginning of October. According to the Ministry of National Planning and Economic Development, GDP growth was 8.7% in FY 2013/2014 after 6.7% the year before. Growth targets for FY 2014/2015 are set at 9.1% - above the World Bank's most recent estimate of 8.5%. GDP per capita is said to be 1,140 USD. Tax revenues stand at just 6% of GDP. IMF has announced that the fiscal deficit will increase to 5.5% of GDP this FY, going back to 4.5% in 2015/2016.

Trade and Distribution

During the first half of FY 2014/2015, trade volume has risen by 30% yoy to 13.45 bn USD, with the deficit widening. Exports stood at 5.37 bn USD and imports at 8.07 bn USD, compared to 4.66 bn and 5.41 bn during the same period the year before.

According to the Ministry of Commerce, by the end of the year, Myanmar companies should be able to use an online system to apply for export-import licences, to speed up procedures.

SEZs

A visit of Thai Prime Minister Prayuth to Myanmar in October may make the Dawei SEZ project regain momentum, which is stalling after Ital Thai Development had to withdraw due to a lack of finance. A trilateral approach, including Japan, should give the project a push. Negotiations between the Thai and the Japanese governments have been held. We will keep you posted.

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Finance

End of September, the long awaited licenses for foreign banks have been granted to 9 applicants. No European bank made it, but there is not much reason to complain, as just French BRED had submitted an application. Asian banks will be the frontrunners, with just Australian **ANZ** bringing in a flavour of western banking. The other happy few are: **ICBC** from China, three Japanese banks: **Bank of Tokyo Mitsubishi**, **Sumitomo Bank** and **Mizuho Bank**; **UOB** and **OCBC** from Singapore; **Maybank** from Malaysia and just **Bangkok Bank** out of the four Thai banks in the tender process. No license has been granted to one of the Korean applicants. The licences are preliminary and final licenses will be granted after 12 months subject to compliance with the Central Bank's requirements. Some news have been spread on the scope of business as well. Foreign banks are allowed to operate just one branch, retail banking is prohibited and minimum investment of contributed capital is 75 mio. USD. The new license holders will be allowed lending to both foreign and local companies. Interest rates for local currency loans will be fixed by the Central Bank of Myanmar to a range between ten and 13 percent while there will be no fixed rate for USD loans. Local currency loans to local companies can be granted only via a syndicated loan with a local bank.

While one would expect a consolidation to happen in the local banking sector, another private bank has been granted a license: Shwe Rural and Urban Development Bank Ltd., owned by Shwe Than Lwin business group, driving the number of local private banks to 23.

Insurance is still closed for foreign businesses, but with **Muang Thai Life Assurance**, another player has opened a rep office in Yangon.

The Securities and Exchange Commission, which is to manage the forthcoming stock exchange, will not gain autonomy within the near future but will operate under the Ministry of Finance for the time being, local media report.

Energy

Toyo-Thai's 1,280 MW coal fired power plant project in Mon State we had reported about is on hold for the moment, as their feasibility study has not been finalized in time. The project with a volume of 2.7 bn USD was meant to be implemented under a 30 years BOT scheme.

Indian **Tata** plans a 660 MW coal fired power plant in Patheingyi, Ayeyarwady Delta (see under **Insights**).

Infrastructure, City development and construction

Plans for an upgrade of the Yangon Circular Railway Line substantiate. Supported by Japanese JICA the project with a volume of about 700 mio. USD includes building of bridges, upgrading of railway stations and communications systems.

More real estate projects in Yangon: Singaporean **Oxley Holdings** has announced plans for a commercial and residential development in Mayangon TS in the North. Another high end condominium is in the making in Yangon's Bahan TS. Investors are local **Than Htike Lu Mining and Construction Company** and **Linyi Construction Company** together with Chinese **Chang Geng Environmental Construction Company** and **HK City Sunshine Company** from Hong Kong. Meant to accommodate more than 160 apartments after completion in 2018 one wonders whether we may not see some excess supply by the end of the decade.

Local **FMI** and Singaporean lighting company **Krislite** are teaming to develop a high end real estate project Kris Plaza in Nay Pyi Daw including luxury housing, a shopping centre and commercial space. Start of operations is scheduled for mid 2016, information on the project volume has not been disclosed.

To ease congestion in Yangon downtown, the Yangon City Development Committee YCDC plans to establish a second commercial centre in the north of the city, close to the Myanmar Convention Centre. The project is planned to include office space and shopping facilities and is meant to be finished in a five years period. Details on project volume and tenders have not been disclosed yet.

Public control: the controversial plan for city expansion west of Yangon we had reported in the September newsletter has been suspended for the time being following public and media criticism of a lack of

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transparency in conception and the tendering process. Others say interested parties want to prevent real estate prices from going down in the urban area.

A new law will set standards in construction: the Ministry of Construction says the forthcoming building code for inspections, construction materials and technology is in line with international standards. While UN Habitat has consulted on environmental issues, UK and US support may have tangible impact as well. The American Society of Civil Engineers seems to have been an active advisor. Local media cite the Ministry saying that it was adhering to the British building code and US concrete technology, worksite standards and steel structural design standards.

Agriculture and Fisheries

American agency USDA sees El Nino negatively affecting Myanmar rice production with an increase of just 1% to 12.16 mio t in 2014/2015 and exports up at the same 1% to 1.31 mio t only, contradicting more optimistic projections of the Myanmar Rice Federation which had hoped to boost exports to 2 mio t. According to the USDA forecast, Myanmar will be South East Asia's number 5 rice producer after Indonesia, Vietnam, Thailand and the Philippines.

Cloudy outlook for the Myanmar aquaculture. Despite favourable conditions on the ground and high demand from foreign buyers, the sector sees a dramatic decline due to lack of infrastructure and technical equipment as well as bad access to finance. Annual production of currently 200 to 300 t is not even sufficient to cover domestic demand. The number of hatching firms is shrinking and prices for baby prawns have doubled during the last two years.

Telecommunications

Norwegian **Telenor** has started sales of SIM cards with 2G/3G coverage in Mandalay and Nay Pyi Daw, with Yangon to follow – avoiding the a bit premature launch of competitor Ooredoo which had to endure some sarcasm due to incomplete coverage in Yangon during the launch period.

While former monopolist **MPT** has formally launched its new JV with Japanese **KDDI**, **Vietnam Post and Telecommunications** enters the market with the opening of a rep office. **Yatanarpon Teleport**, holder of the 4th mobile license, has announced to disclose its foreign partner soon.

Roaming: MPT has expanded its roaming services thanks to an agreement with French Orange. From Germany, users of E Plus and Telecom have access to the MPT network. Still no connection for Vodafone! Users should keep in mind that while they may receive text messages from MPT mobiles, they will not be able to reply for the time being – unfortunately without receiving a „delivery failed“ message! For more information see www.roaming-myanmar.com

Transport and Logistics

Two more players in international express mail services: Local firms **UCS Express Mail Services** and **Myanmar USU Co** have been granted licenses to compete with local **Myanmar Express Mail Services (EMS)** and **DHL**.

To keep in mind when sending product samples or material for exhibition etc: Maximum value for import and export shipments to and from Myanmar without formal shipment clearance is 500 USD. Value greater than this will require a formal and time consuming clearance process.

Tourism

The government plans to focus on tourism promotion during a visit Myanmar year in 2016. Visitors are expected to reach 3 mio in 2014 and the official target for 2015 is 5 mio.

Best Western has announced to open a new hotel in Mandalay in autumn 2015.

French **Accor** has opened its first Novotel hotel at Inle Lake with the local partner Myat Min Company and another hotel in Nay Pyi Daw. While the opening of the Yangon outlet (with Max Myanmar) is in the pipeline, another local partner, MGS Group has announced Accor's plans to build two IBIS hotels in

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Yangon and another in Bagan. These mid range hotels should be very welcome to travelers seeking affordable accommodation in a market, where 5 star projects are mushrooming for the moment.

International projects

Carlsberg Myanmar, a JV of Danish brewery Carlsberg with local Myanmar Golden Star Breweries, will start production and sales in October as the first international producer in the Myanmar market, ahead of rival Heineken with a production site under construction. While there are strong local brands in the market, the company sees illegal imports as the main challenge. The local beer market is growing steadily from low levels with a per capita consumption of just 3.2 litres and sales volumes of 265 mio USD according to Euromonitor. The research firm sees annual growth of 21% until 2018, up to a market size of 675 mio USD. The Carlsberg site in Bago north of Yangon has been set up turn key by German company **Ziemann**.

Indonesian conglomerate **Lippo Group** has announced plans to build and operate 15 hospitals in Myanmar within the next seven years with a first investment in Myanmar already up and running. The local partner has not been disclosed.

MDG is the local minority partner for **Nestle's** investment in coffee production, subject to approval by MIC (see September newsletter). The factory will be located in Dagon Seikkan Industrial Zone, with an initial investment of 25 mio USD. Production is planned to start by end of 2016. Other projects in drinking water, dairy, ice cream and chocolates are in the pipeline.

Swiss **ABB** has officially opened its new office in Yangon as a first step to establish a service organization. Their previous presence some 20 years ago had been held by their German entity before they had withdrawn because of western sanctions.

Vietnamese **DHG's** investment plans in pharma (see July newsletter) are on hold. The company had planned to take over stakes in Vietnamese Anh Sao Viet Pharmacy which runs a JV in Myanmar.

GTAI reports (in German language)

Myanmars Pharmaimporte wachsen 2014 zweistellig

www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1085838.html?view=renderPdf

Myanmar baut Gesundheitssystem aus

www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1088202.html?view=renderPdf

Myanmars Wirtschaft wächst dank Reformen weiter dynamisch

www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1089786.html?view=renderPdf

Exhibitions (updates to the September newsletter in bold)

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

Myanmar Medi Health and Wellness, 31 Oct – 2 Nov 2014, www.myanmarmedihealth.com/

International Myanmar ICT Exhibition, 7 – 9 Nov 2014, www.ictexhibition.com.mm

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

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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

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

Insights

New directions for the Myanmar garment industry?



Arrows mark the way to the emergency exit in a new garment factory in Pathein in the western Ayeyarwady Delta, in process for a BSCI certification on labour standards. Pathein has been identified as a new location for the garment industry in view of regional diversification. An industrial park developed by local D.I.G. looks a bit lost for the moment with just one Taiwanese/Malaysian investment running on full capacity and two other sites far below – but six more plots have been sold already. Land cost is a tangible advantage with

one acre on offer for 60,000 USD for a 50 years lease under an MIC investment permit. Labour is cheaper than in Yangon with average monthly wages of 80-100 USD but productivity stands at just 50 to 70% of Yangon levels according to one of the investors. He is confident, that this will improve thanks to extensive training – but while electricity supply today is almost constantly available from the grid, this may deteriorate with more investors coming in. A 660 MW coal fired power plant, to be built by Indian Tata is scheduled for completion in 2019, but the project is controversial. Telecommunication is poor and so is road transport – but this may change once a planned four lane BOT highway project from Yangon to

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Patheingyi will be implemented, reducing travel time for container shipments as well as for tourists heading to Nya U Beaches. Not an option for new investors for the moment according to the industry expert, but a good expansion option for companies producing in Yangon already. And nature imposes safeguarding of labour standards: with no streetlights in place, workers need to be sent home in time before dawn to reach their villages safely.

