

Myanmar Newsletter, September 2014

Delegation of German Industry and Commerce in Myanmar

Dear readers,

September has given a boost to German Myanmar relationship. On the top political level the Myanmar President Thein Sein has paid a long awaited visit to Germany beginning of September, meeting Federal President Gauck and Chancellor Merkel, before heading on to Switzerland and the Netherlands. On the ground in Yangon, we are working to enhance visibility of German business. Four company representatives have taken the initiative to launch a German Myanmar Business Chamber (GMBC) to offer a bi-lateral platform for networking and exchange of experiences. Philipp Hoffmann (JJPun), Andre de Jong (Robert Bosch), Jens Knoke (Henkel) and Christoph Steinwehe (Loi Hein) will initiate official registration processes as founding board members, contributing their strong corporate backgrounds and a wealth of expertise in their respective business sectors. The Chamber will co-operate closely with the Delegation of German Industry and Commerce with the goal of establishing an official AHK in the future. The founding board members already invite German companies to join as members and support the future Chamber's work. Following the official foundation, an elected board will direct GMBC's activities. We hope that many of you will join and help to create a powerful and substantial German Myanmar business platform. I will keep you posted on the further process - for any questions in connection with the above, you can contact us at info@gm-bc.com. Expressions of interest in membership are of course most welcome!

Best regards

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Demographics

Less Myanmaris than expected: Following the census preliminary results, population data have been revised downwards to just 51.4 mio, about 9 mio less than previously thought. 26.5 of them are women – a sex ratio in sharp contrast with some of Myanmar's neighbours, which may help to avoid problems looming there. Yangon has a population of 5.2 mio, in line with previous estimates, Mandalay of 1.2 mio and Nay Pyi Daw catching up with 1.16 mio. Overall population density is 76 per sqkm.

Development

New population figures have been taken into account in ADB's most recent report Myanmar: „Unlocking the Potential“ according to the authors – even if the tables still have the 60 mio figure. The report sees Myanmar coming out of poverty with GDP per capita levels of up to 5,000 USD until 2030 – in case of course major progress in hard and soft infrastructure can be achieved. The report can be downloaded at www.adb.org/sites/default/files/pub/2014/myanmar-unlocking-potential.pdf

International

During the ASEAN summit end of August Russia and Myanmar have agreed to set up a bilateral trade and economic commission. According to Russian media, more than 60 Russian companies have participated in the first meeting, among them **Bashneft** (90% majority partner in a 38 mio USD oil production project) and state-owned **United Aircraft**.

Policy Moves

Myanmar enhances efforts to combat money laundering. The newly established Anti-Money Laundering Central Board is chaired by the Minister for Home Affairs and will closely co-operate with international organizations. End of August the parliament has announced to take measures against money laundering of Chinese money inflows through real estate projects in Myanmar.

Investment Policy

The long awaited revised directive on Foreign Direct Investment has been published in August as notification 49/2014. The new rules reduce the list of prohibited activities to just 11 from previously 21 and reduce the number of sectors where JVs are required from 42 to 30. Mining, production of construction material, infrastructure construction works, ship building and repair, manufacturing of railway rolling stock, inland port services and warehouse services, private hospital services and tourism are now open for WFOE.

A new Investment Law, merging the up to now separate laws for domestic and foreign investors is planned to be enacted beginning of 2015. Among the issues to be solved are unification of tax benefits (foreign investors under the Foreign Investment Law enjoy up to 5 years of tax holidays) and requirements regarding local staff quota.

FDI

DICA expects FDI inflows to reach 5 bn USD in 2014/2015 (following 4.1 bn in 2013/2014), with telecoms and energy projects being a driver of growth. During the first 5 months of the FY, projects worth 3.2 bn USD have been approved. Less encouraging is the fact that only 8.1 % of these inflows went into manufacturing, with a focus on garments.

Myanmar authorities understand flaws of FDI statistics. DICA has commented on national rankings being misleading as most western corporates would direct investments through their subsidiaries in other Asian countries.

Trade and Distribution

In the August newsletter, we had reported on plans to open trade and distribution to foreign companies. Mid of August, there has been official confirmation by the Ministry of Commerce, mentioning the agricultural sector as a first priority to help boost exports. It seems that a gradually opening is planned, information on the sectors which will be opened first has not been disclosed yet. In the new directive on FDI (see above), retail and distribution are not mentioned any more as restricted sectors but whether that means that foreign applicants will actually get a license, is not clear. The rumor is, that the distribution license Heineken has been granted recently would cover imports in addition to locally manufactured products – that would be a significant liberalization, of interest for potential investors, but the information has not been confirmed officially.

Myanmar's trade deficit widens further. While imports increased by 1.6 bn USD during the first four months of financial year 2014/2015, exports rose by just 200 mio USD during the same period. One of the factors are declining exports of agricultural products (-7% yoy) and seafood (-30,7% yoy). The drastically shrinking forestry exports (-91.4% yoy) are due to the export ban for timber logs, in place since 1 April 2014. More encouraging is the fact that exports of finished products increased by 6.25% yoy. Mineral exports rose by 16.2%.

SEZs

News have been released on power supply in the Thilawa SEZ planned to start operation end of 2015. Japan will finance and build two power plants with a capacity of 50 MW which are expected to cover initial electricity demand in the zone, said to reach up to 20 MW in 2015, rising up to 90 MW in 2018 and up to 225 MW in 2020. Later on a coal fired power plant will increase supply (see below under Energy)

According to the Thilawa zone management, 18 investors have signed deals to invest in Thilawa SEZ. Besides three local companies, investors come from Cambodia, Hong Kong, Japan, Singapore, Taiwan and the US. Sectors covered are packaging, electronics, construction materials, and garment / gloves.

V Power from Hong Kong, British **Aggreko**, **Max Power** from Singapore and Chinese **Sino Hydro** compete in a tender for electricity supply to the Kyaukphyu SEZ in Rakhine State.

Industrial Zones

According to local media, the Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) plans to develop an industrial park in Ayeyarwady region. Project volume would be about 470 mio USD. A feasibility study by Taiwanese **Sinotech Engineering Consultants** would surely need to assess the rather weak infrastructure connections. Electrical power is planned to be supplied by a fossil fuel power plant set up by Taiwanese **Foxlink**.

Sustainability is meant to be key for development of new industrial zones in addition to the existing 29 zones, most of them located near Yangon. According to Vice President U Nyan Tin, cost-effective and low-pollution factories will be given priority in licensing processes for new industrial zones.

Finance

A decision on the licenses for foreign banks is still pending and details of their scope of activities are still under discussion. Still the Central Bank has announced that they will be allowed to extend MMK loans to avoid dollarization of the economy.

Energy

Sea change for Myanmar's hydro projects? The Ministry of Electrical Power has announced to involve western partners in further projects while up to now China had been the exclusive partner. Some projects already are in the pipeline. According to media reports, companies from the UK and France (Shweli 3 project), Norway (Middle Yeywar and Bawgata projects) and Austria respectively the UK (Middle Paunglaung project) will be involved.

American private equity fund **ACO Investment Group** has announced to develop a 480 mio USD solar project with two 150-MW plants at Myingyan and Meiktila near Mandalay. Operation is meant to start in 2016.

A list of coal fired power plant projects has been published in local media, some of them controversial for ecological impact concerns as the Toyo Thai project in Mon State (see August newsletter). **Virtue Land**, subsidiary of **Asia World**, plans to build a 300 MW BOT-plant near Thoung Khon in the Ayeyarwady Delta, close to Yangon. Other plants near or in Yangon are: 270 MW in Htanbin TS (**Htoo** and Chinese **Huaneng Lancang**), 650 MW in Thilawa SEZ (**Toyo Thai**), 500 MW in Kyauktan (**Diamond Palace** with JV partners from Malaysia and Singapore). Five other projects are planned in Ayeyarwady, Sagaing and Taninthary Regions and in Shan State. Coal is meant to contribute 33% to the overall electricity generation by 2030.

The Ministry of Electrical Power is looking into wind energy. Studies are going on for plants with a capacity of 80 to 100 MW each in 18 sites, most of them in Rakhine State, others in Ayeyarwady and Yangon Regions and in Chin State.

In an op ed in Myanmar Times, the head of JICA in Myanmar has warned about the dependency on IPP power projects set out in current government plans which are meant to cover as much as 80% of electricity supply. Negative effects would be high export rates and a risk of price fluctuations.

In an effort to improve the electricity distribution system, new transformers will be installed across the country. This should support measures to increase electricity generation capacity from today's 2,500 MW. Demand is said to increase at about 30% yoy according to media reports and meant to reach 4,900 MW in 2015. Experts project demand to reach up to 40,000 MW in 2030.

Infrastructure, City development and construction

New dry ports for shipment of inland cargo are planned to be developed in Yangon and Mandalay. Myanmar Railways has invited local and foreign investors to submit expressions of interest.

Yangon is growing – a new township is planned to be developed in the western part of the city. Plans include construction of low cost housing and five bridges across the Hlaing river. After the rather secretive project has been made public in August, the Yangon government has agreed to restart a tendering process following criticism of lack of transparency in the choice of a contractor.

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According to a consultancy, the Myanmar construction sector is worth 3 bn USD, 1.5 bn of them in the residential sector. They expect the sector to grow at 8% a year over the next 5 years.

Oil and Gas

Further onshore oil exploration agreements have been signed with foreign companies: Singaporean **UNOG Pte**, and **IGE Pte Ltd**, Russian **Bashneft International BV**, British Virgin Islands **Sun Apex Holding Ltd**, **ONGC Videsh Limited** from India, **Brunei National Petroleum**, Canadian **Pacific Hunt Energy Corp**, **CAOG SARL** from Luxembourg and **Petronas Carigali Myanmar Inc** from Hong Kong. They partner with the following local companies: **Apex Geo Services Co Ltd**, **Machinery and Solutions Co Ltd**, **Parami Energy Development Co Ltd**, **Precious Stone Mining Co Ltd** and **Young Investment Group Co Ltd**.

Agriculture

Discussions are held for a trade agreement between Myanmar and China regarding sanitary and phytosanitary standards for rice exports. China is the biggest buyer of Myanmar rice, but an agreement would be required to legalize exports. Following crackdowns by the Chinese authorities, export volumes have declined sharply in August.

Tourism

Since 1 September, an e-visa system is available for tourists. According to the Tourism Ministry, applicants will get an approval letter within five days after application and payment by credit card. Cost is 50 USD.

A Kempinski Group managed luxury hotel will open in Nay Pyi Daw in November, in time for the ASEAN summit meetings. Owners of the 45 mio USD project are local investors KBZ Group and Jewellery Luck Company. Surely the place will offer no cheap accommodation with room prices from 220 to 4,000 USD.

German projects

KfW contributes to Rural Development Programme (RDP), Gauff implements

Infrastructure is key to improve the living conditions of rural people. The RDP supports through construction of small infrastructure measures such as roads and markets and Germany contributes via KfW Development Bank with a 7 mio EUR grant funds mainly for the upgrading of rural roads in the Southern-Shan State, starting in Taunggyi District. The roads to be financed will be selected based on technical and socio-economic criteria. German consultant Gauff and its local affiliated company MMIC will assist the Myanmar public authorities in the process.

Lufthansa is expanding its presence in Myanmar. The German carrier has launched new booking procedures which allow customers to book and pay flights locally for tickets covering both the connecting flights within Asia operated by airline partners and the long distance connections to Frankfurt, Munich, Zuerich or Vienna. Tickets can be purchased at Lufthansa partner travel agencies in Yangon.

International projects

Nestle has confirmed plans to invest about 50 mio. USD in food and drinks manufacturing in Myanmar with a focus on coffee, water and drinks and dairy. Approval of the MIC is still pending.

Japanese **JFE Engineering** has started operation of its JV steel plant **J&M Steel Solutions Co Ltd** located in Yangon. First exports have been shipped, starting with supplies for a steel bridge in Laos. Presumably supplying local infrastructure development will be a focus of the new production.

J Korea Express will enter a JV with the Road Transport Administration Department to develop a distribution centre in Yangon under a 20 years BOT scheme. Countrywide seven distribution centres are meant to be developed. The JV will add 200 trucks to the under-equipped national transportation system.

American logistics firm **UPS** enters the Myanmar market for air freight forwarding.

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GTAI reports (in German language)

Broschüre Verhandlungspraxis Kompakt

(https://www.gtai.de/GTAI/Content/DE/Trade/Fachdaten/PUB/2014/07/pub201407288008_19279.pdf)

Myanmar will Rohstoffproduktion intensivieren

(<https://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1045182.html?view=renderPdf>)

Myanmars Bekleidungsindustrie gewinnt rasch an Dynamik

(<https://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1040704.html?view=renderPdf>)

Myanmars Tourismusprojekte locken Investoren

(<https://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1038932.html?view=renderPdf>).

Branche Bauwirtschaft kompakt

<https://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1068246.html?view=renderPdf>

Exhibitions (updates to the August newsletter in bold)

Myanmar Build and Décor, 24 – 26 Sep 2014, www.myanmarbuilddecor.com

Manufacturing Myanmar 2014, 2 – 4 Oct 2014, www.manufacturingmyanmar.com

Ildex Myanmar 2014 (Animal Production and Processing) , 6 - 7 Oct 2014,

www.imexmanagement.com/show/130/ildex-myanmar-2014/

Aqua Fisheries Myanmar, 7 - 8 Oct 2014, Email: van.ptb@veas.com.vn

Medical Myanmar, 9 – 11 Oct 2014, www.medical-myanmar.com

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.myanarmedihealth.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

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

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Insights

Some 45 participants gathered at the second AHK networking meeting on 18 September to get an update on the financial sector and does and don'ts for trade transactions, money transfers and financing of local activities from expert bankers Rajesh Ahuja (ANZ) and Thomas Aubry. During the event, sponsored by Luther Legal Services, founding board members have announced the forthcoming launch of a German Myanmar Business Chamber with the goal to establish an institutional platform for networking activities.



Bankers Rajesh Ahuja (mid) and Thomas Aubry (right) with Monika Staerk

Jens Knoke, Andre de Jong and Christoph Steinwehe (from left to right) explain their initiative to set up a German Myanmar Business Chamber

