A new market in 1 hour

AHK Myanmar’s weekly factsheet and webinar series, in collaboration with the German-Myanmar Business Chamber (GMBC)
DISCOVER YOUR BUSINESS OPPORTUNITIES WITH US

Construction in Myanmar, Laos and Cambodia

Myanmar, Laos and Cambodia have some of the youngest and fastest-growing populations in the ASEAN community. With the increasing urbanization, the growing middle class and tourism, the development and expansion of the infrastructure systems, office spaces, housing facilities or hotels are crucial.

However, the three countries are mostly dependent on construction material imports, foreign technical support and knowledge in this sector. Most of the projects are financed with foreign direct investments, especially from China, Japan and Singapore. Myanmar, Cambodia and Laos are facing additional challenges such as e.g. missing quality standards, legal uncertainty and transparency in the sector policies, insufficient electricity supply, high construction costs due to the high import demand for building materials and sophisticated construction equipment and natural disasters as cyclones and earthquakes.

MYANMAR

Myanmar is the largest country of the three states, with a population of 54.3 million and a land area of 653,500 km². In 2018, the construction industry had a value of more than US$ 9.5 billion, representing a share of around 16.5 % of the country’s GDP and a major driver of the economy in 2019. The government approved a Union budget amount of US$ 698.7 million towards construction for the fiscal year 2019-2020.

Between 2013 and 2015, the construction sector in Myanmar’s commercial capital Yangon experienced a boom due to a massive demand and undersupply of high-quality commercial and residential space and hotels. Enhanced by the lack of alternative investments, the affluent Myanmar population purchases condominium apartments on a large scale. As a result, there is a growing oversupply of upmarket apartments and simultaneously a lack of affordable housing for the local low-middle income class. By 2040, Yangon is expected to join the ranks of mega cities around the world with a population of over 10 million.

Moreover, the establishment of numerous foreign companies has greatly increased the demand for office space with reliable basic technical equipment and stable internet connections. The rental price per sqm reached extraordinary high levels in 2014 and 2015, with peaks similar to Tokyo or Manhattan for popular locations such as downtown Yangon. It has recently been going down significantly but still remains fairly high at almost US$ 30 per sqm for retail space rent, according to Colliers International. Upmarket service apartments still fetch prices of close to US$ 7,000 per month for a 4 BR rental unit.

Meanwhile, Myanmar has only invested 1 to 1.5% of its GDP in transportation infrastructure in the last ten years. The majority of roads and large parts of the railway system need to be thoroughly renovated and expanded. The state-operated Myanmar Railways runs its old trains at only 50% of the officially permitted speed. Due to the low level of comfort and low speeds, more than 60% of the rail network is used by fewer than 1,000 passengers a day. Therefore,
one major project is the rehabilitation of the railway line between Yangon and Mandalay, financed by JICA, which shall reduce travel time between the country's two largest cities by 50%, to around eight hours (which is slightly less than the current travel time for cars on this route), and is scheduled for completion in 2025.

In contrast, Myanmar’s waterway traffic remains far below its potential. The country’s most important river, the Ayeyawaddy, runs through Myanmar in a north-south direction and links the most important cities, Mandalay and Yangon. The expansion and maintenance of this waterway would provide an efficient and sustainable alternative to road and rail transport just with little investment. At the same time, a better utilization of the inland water transportation on the Ayeyawaddy would need to be accompanied by environmental safeguard measures as the river’s ecosystem has already come under increasing pressure due to sandmining and other invasive activities.

Foreigners are able to do a long-term lease (typically 70 years) in Myanmar but cannot buy land. Additionally, foreigners and foreign-owned companies can buy and own selected condominium units.

CAMBODIA

The Kingdom of Cambodia has a population of 16.25 million and a land area of 176,520 km². With an annual contribution of around 10% to GDP, the construction industry is one of the main pillars of the Cambodian economy. Cambodia’s construction sector attracted a total investment of US$ 9.35 billion in 2019, up 79% from US$ 5.22 billion in 2018. The country had granted licenses to 4,446 construction projects in 2019, 55% more than the previous year. Key investors in the kingdom’s construction and real estate sector are from China, South Korea and Japan.

The construction boom has been concentrated in the capital city of Phnom Penh and more recently in the seaside town of Sihanoukville. The total number of condominiums in Phnom Penh is estimated to grow by 120% this year. Sihanoukville, the largest seaside town in Cambodia, has become a newly emerging high-rise construction hotspot with bustling construction activities, which are largely financed by Chinese investors.

The land ownership is still limited to Cambodian citizens. However, a company can be considered Cambodian if 51% or more of the shares are held by Cambodian citizens. Additionally, foreign entities can lease land for up to 70 years. The World Bank ranked Cambodia 178th out of 190 countries for dealing with construction permits (Myanmar 46th and Laos 99th). Its building permits process involves 20 procedures, takes 652 days and costs 3.3% of the warehouse value.

LAOS

Laos has the smallest population, about 7.06 million inhabitants, among the three countries covered here and has a surface area of 230,800 km2, without any direct access to the sea.

The population in the capital city Vientiane is expected to grow up to 1.4 million by the year 2030. Construction projects, such as the Laos-China railway, the Vientiane-Vangvieng expressway, the construction of the Siphandon new city development and infrastructure projects in the special economic zones will significantly fuel the macroeconomy and the sector.

One of the biggest infrastructure projects in Laos is the Ban Ka No. 1 tunnel near the ancient Lao capital of Luang Prabang. With a length of 4,585 meters, it is the second longest tunnel in the Mekong River region. The single-track electrified line runs south from the China-Laos border at Boten to Luang Prabang, Vang Vieng and Vientiane. The China-Laos Railway project started in December 2016 and is scheduled to be completed and opened to traffic in December 2021. The tunnel marks an important milestone in the tunnel construction of the China-Laos railway.

YOUR BUSINESS OPPORTUNITIES

Recently, the Kingdom of Cambodia has received a loan from the Asian Development Bank (ADB) towards the cost of the Road Network Improvement Project. The improvement and rehabilitation works for the National Road No.6, which is part of the South Ecomonic Corridor (SEC)-2 Bangkok-Siem Reap-Stung Treng-Pleiku-Quy Nhон Corridor,
will include asphalt overlay, pipe culvert, U-side drains, performance-based maintenance both during construction and 18-months after completion of the construction.

The ADB also provided a loan for the Second Greater Mekong Subregion Highway Modernization Project, to develop a new four lane arterial expressway between Bago and Kyaikto, in Myanmar, of about 62 km.

Myanmar’s Ministry of Transport and Communications and Myanmar Railways are planning to redevelop the 25.7-hectare site around the Yangon Central Railway Station into a new central transportation hub surrounded by housing and commercial facilities. The project is planned to be finalized by 2027. The total project costs are estimated to be US$ 2.15 billion and shall be financed by the private sector.

More project opportunities for the Myanmar construction sector (and beyond) are listed in the nationwide Project Bank.

BEST PRACTICE COOPERATION WITH GERMANY

Germany is the first partner of Myanmar to support the construction of rural roads. So far, Germany has provided Myanmar with EUR 47 million grant aid to develop rural areas by upgrading and constructing rural roads and bridges. The German Development Bank, KfW, additionally contributes US$5.7 million to Myanmar for the Rural Infrastructure Programme, comprising the development of the agricultural transport infrastructure by expanding rural roads and small-scale infrastructure measures, such as markets, in the southern Shan State.

Moreover, there are several German players already active in the Myanmar and Cambodian markets, e.g. Gauff Group. Also, the construction machinery manufacturer Liebherr has been active in Myanmar since 2007. The company has a strong market presence through its Myanmar distribution partner Octagon, a subsidiary of the Shwe Taung Group.

OUR BUSINESS PARTNER RESEARCH

Even during times of COVID-19, we are there to support you and your business in discovering new and expanding existing business opportunities. We continue to offer our tailored business partner research for you. All services can be exclusively provided via e-mail and phone. For more information, please contact us under the details below.

Sophie Waldschmidt, Head of Projects and Services

E-Mail: Sophie.Waldschmidt@myanmar.ahk.de
Tel: +95 (0) 945 062 9364

JOIN OUR WEBINAR

We are hosting a webinar on the topic of Construction in Myanmar, Laos, and Cambodia on Thursday, 30 April from 10:00 to 11:00 Germany time / 14:30 to 15:30 Myanmar time. We are looking forward to welcoming two external experts on this topic: Mr. Rainer Israel, Director at INROS LACKNER Consulting Engineers & Architects and Mr. U Kyaw Soe, Myanmar Construction Entrepreneurs Association

Please pre-register your participation with our Events and Communication Manager Mrs. Thet Htet Lin Han @ Yuki:

E-Mail: ThetHtetLin.Han@myanmar.ahk.de
Tel: +95 (0) 945 062 9364