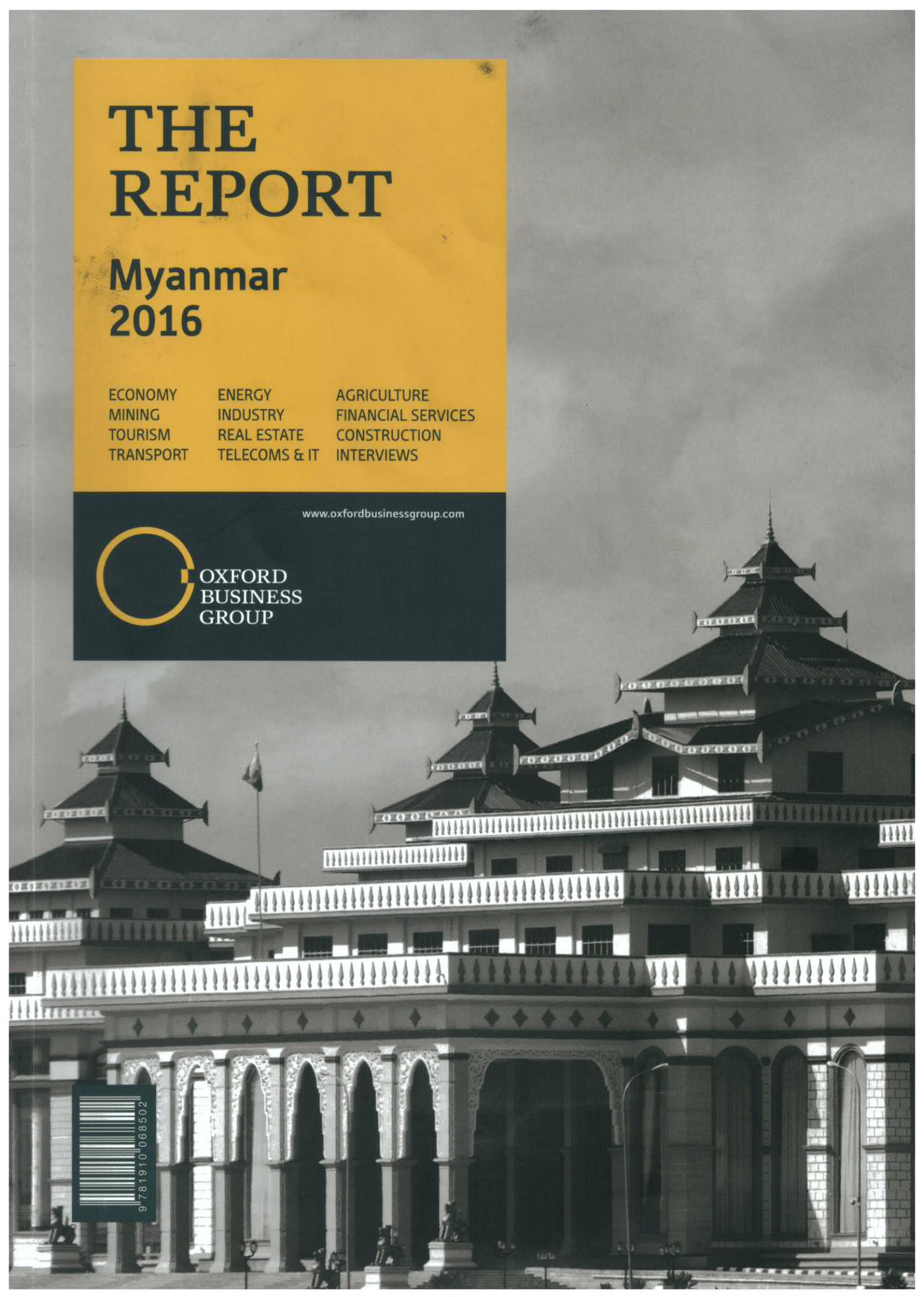


THE REPORT

Myanmar 2016

ECONOMY ENERGY AGRICULTURE
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On point

Page 27

After five straight years of healthy growth in foreign trade and inward investment, Myanmar is expected to become increasingly integrated into the global economy. In the fiscal year to April 2015 it reported foreign trade receipts of \$29.2bn, up from \$18.2bn in 2011/12, while FDI quadrupled from \$1.9bn in 2011/12 to \$8.1bn in 2014/15, and the country's leaders appear to be serious about continuing to further open up the economy.

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Editor-in-Chief: Andrew Jeffreys

Managing Editor, Asia: Paulius Kuncinas

Editorial Manager: Michael Nesbitt

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Editorial Researchers: Sara Costa, Billy Fitzherbert, Souhir Mzali, Jenna Oelschlegel, Teresa Meoni

Creative Director: Yonca Ergin

Art Editor: Meltem Muzmuz

Graphic Assistants: Gülhan Atbaş, Arzu Çimen

Illustrations: Shi-Ji Liang

Photography Editor: Mourad Hammami

Production Manager: Selin Bolu

Operations & Administration Manager: Burçin Ilgaz

Logistics & Distribution Coordinator: Esra Sezgin

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Future facing

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Expected GDP growth of 9.3% during FY 2015/16 and record levels of foreign investment have had a significant effect on the economy. The country has continued to liberalise regulations and ease the cost of doing business for foreign and local players. Yet Myanmar still lags behind many of its neighbours in global best practices. The new government is working to address these concerns.



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Balanced rollout

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The goal of total electrification by 2030 has seen the country rapidly develop its energy resources. Myanmar holds significant hydro and solar potential, and liberalisation has helped to transform the country into an attractive investment destination. Currently an estimated 800 power plants serve to generate a total capacity of 4456 MW, and plans are under way to deliver another 30 GW of electricity by 2030.

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Regrowth

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Myanmar's agricultural industry is modernising, and the sector continues to play a major part in economic growth. Agriculture generated 24% of GDP, 24.6% of export earnings and employed 61.2% of the labour force in 2014. After some years of underinvestment, the country is enacting initiatives to boost production and yields, and encouraging foreign investment.



Treasure trove

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While most industries have benefitted from an influx of foreign investment since the opening of the economy, the mining sector has been slow to catch up. Though much will depend on the mining law reforms passed in late 2015, prospective investors are eagerly waiting to tap into the country's many rich deposits of metals, ores and minerals.

Closing the gap

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In 2014 the industrial sector accounted for 21% of Myanmar's GDP, nearly double the sector's 2008 GDP share of 11%. Foreign direct investment in the sector grew in 2014 and the first three quarters of 2015, reaching \$1.5bn over the period. From 2012 to 2014 the country's retail sector expanded in line with the country's overall GDP growth, in excess of 7%.



On the map

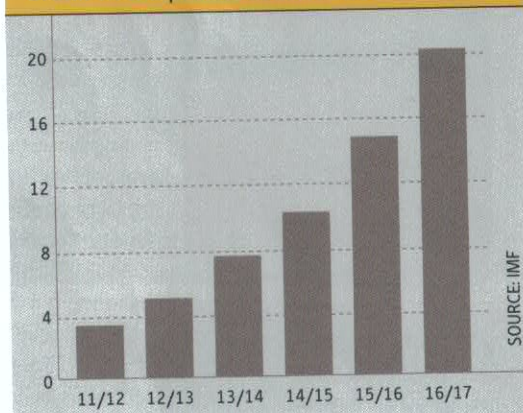
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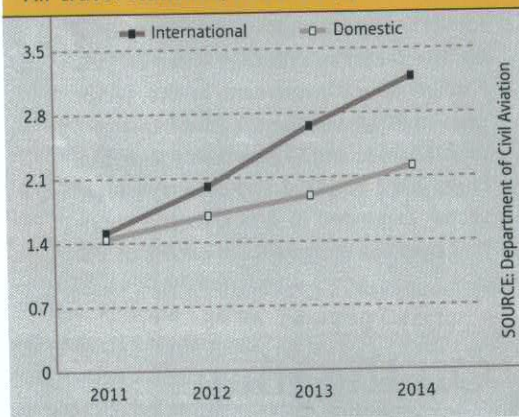
Since opening up to the outside world in 2010, the country has seen a sharp increase in foreign travellers. The sector is expanding, modernising and improving infrastructure in order to meet its tourism goals. The government is working to maximise tourism's contribution to employment.

Myanmar in figures

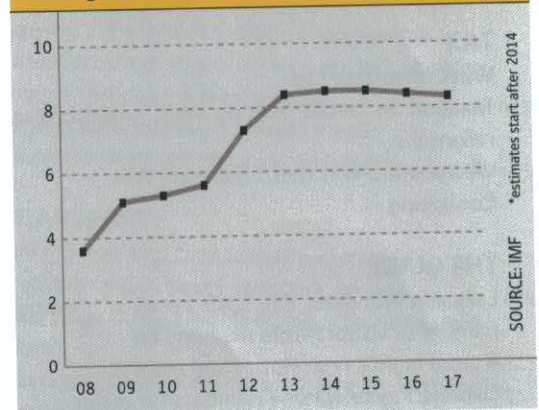
Credit to the private sector, 2011-17 (trn MMK)



Air travel statistics, 2011-14 (m)



GDP growth, 2008-17* (%)



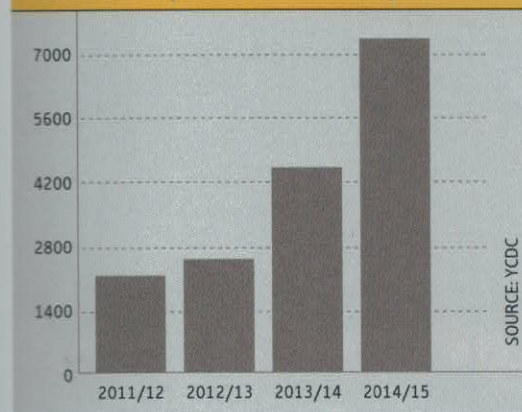
Exports of food & live animals, 2008-14 (\$ bn)



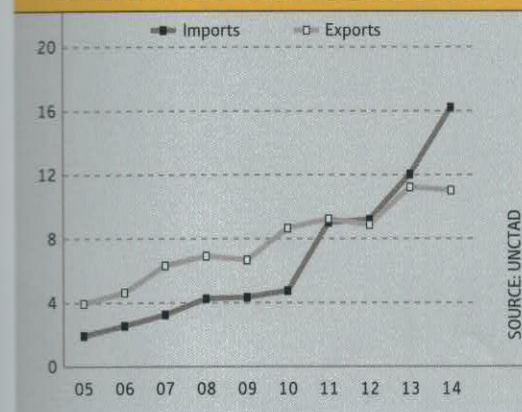
Natural gas production, 2004-14 (m toe)



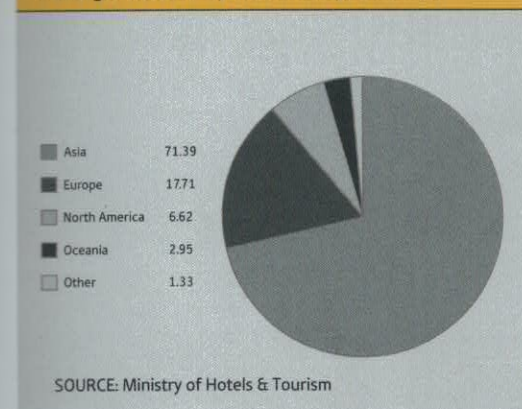
Construction permits issued in Yangon, 2011-15



International trade statistics, 2005-14 (\$ bn)



Foreign visitors by nationality, 2014 (%)



Economic indicators, 2014-17

	2014	2015	2016	2017
GDP current prices (MMK trn)	62.83	76.47	92.64	109.60
GDP per capita, current prices (MMK m)	1.22	1.47	1.77	2.08
Total investment (% of GDP)	25.46	25.23	26.10	26.23
Inflation, avg. consumer prices (% change)	5.91	12.17	11.76	9.20
Vol. of imports of goods & services (% change)	27.42	16.11	11.13	11.53
Vol. of exports of goods & services (% change)	22.63	5.73	14.85	16.35
General gov't revenue (MMK trn)	16.56	15.92	19.05	22.74
General gov't revenue (% of GDP)	26.36	20.82	20.57	20.75
General gov't total expenditure (MMK trn)	18.40	19.58	23.38	27.76
General gov't total expenditure (% of GDP)	29.29	25.61	25.24	25.33
General gov't net lending/borrowing (MMK trn)	-1.84	-3.66	-4.33	-5.02
General gov't net lending/borrowing (% of GDP)	-2.93	-4.79	-4.67	-4.58
General gov't gross debt (MMK trn)	19.85	25.56	30.93	36.84
General gov't gross debt (% of GDP)	31.60	33.43	33.38	33.61

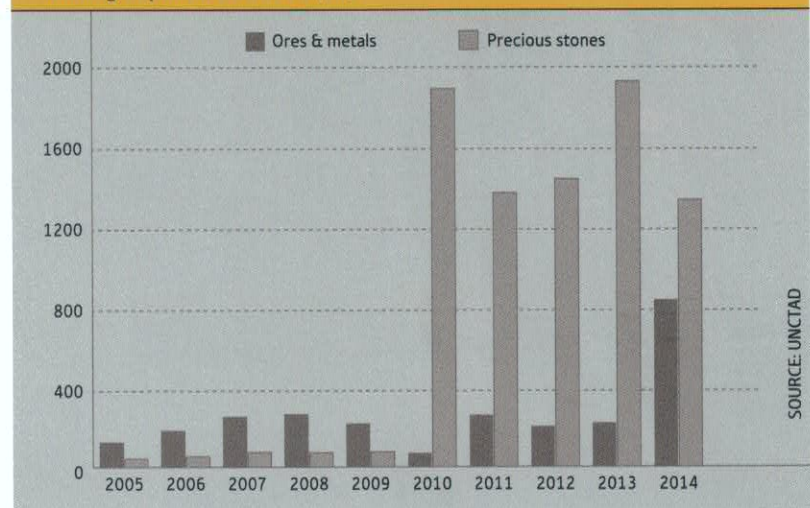
SOURCE: IMF

Projected energy demand by sector, 2009-30 (m toe)

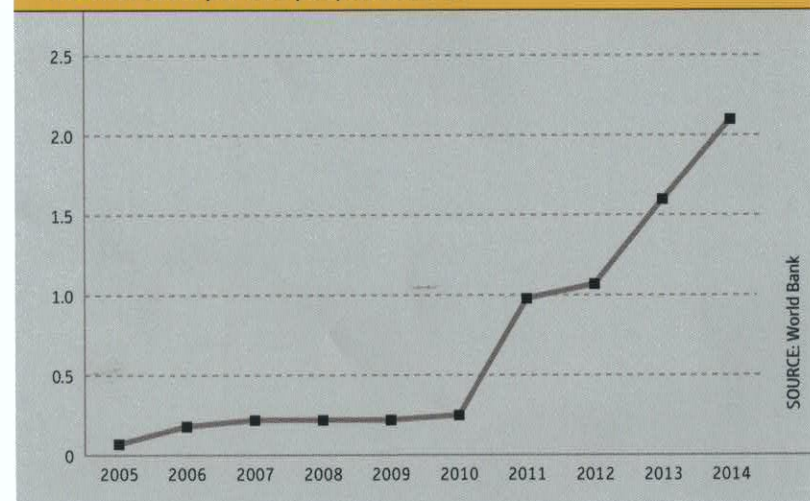
	2009	2012	2015	2018	2021	2024	2027	2030
Residential (rural)	7.18	7.31	7.4	7.52	7.58	7.54	7.5	7.77
Industry	0.59	0.7	1.15	1.69	2.38	3.25	4.34	5.7
Transportation	1.22	1.44	1.81	1.95	2.14	2.4	2.71	3.07
Commercial	1.54	1.59	1.65	1.74	1.84	1.95	2.09	2.25
Residential (urban)	1.01	1.08	1.09	1.13	1.17	1.19	1.23	1.31
Agricultural	0.19	0.25	0.34	0.43	0.52	0.6	0.62	0.63

SOURCE: ABD

Mining exports, 2005-14 (\$ m)



Internet users per 100 people, 2005-14





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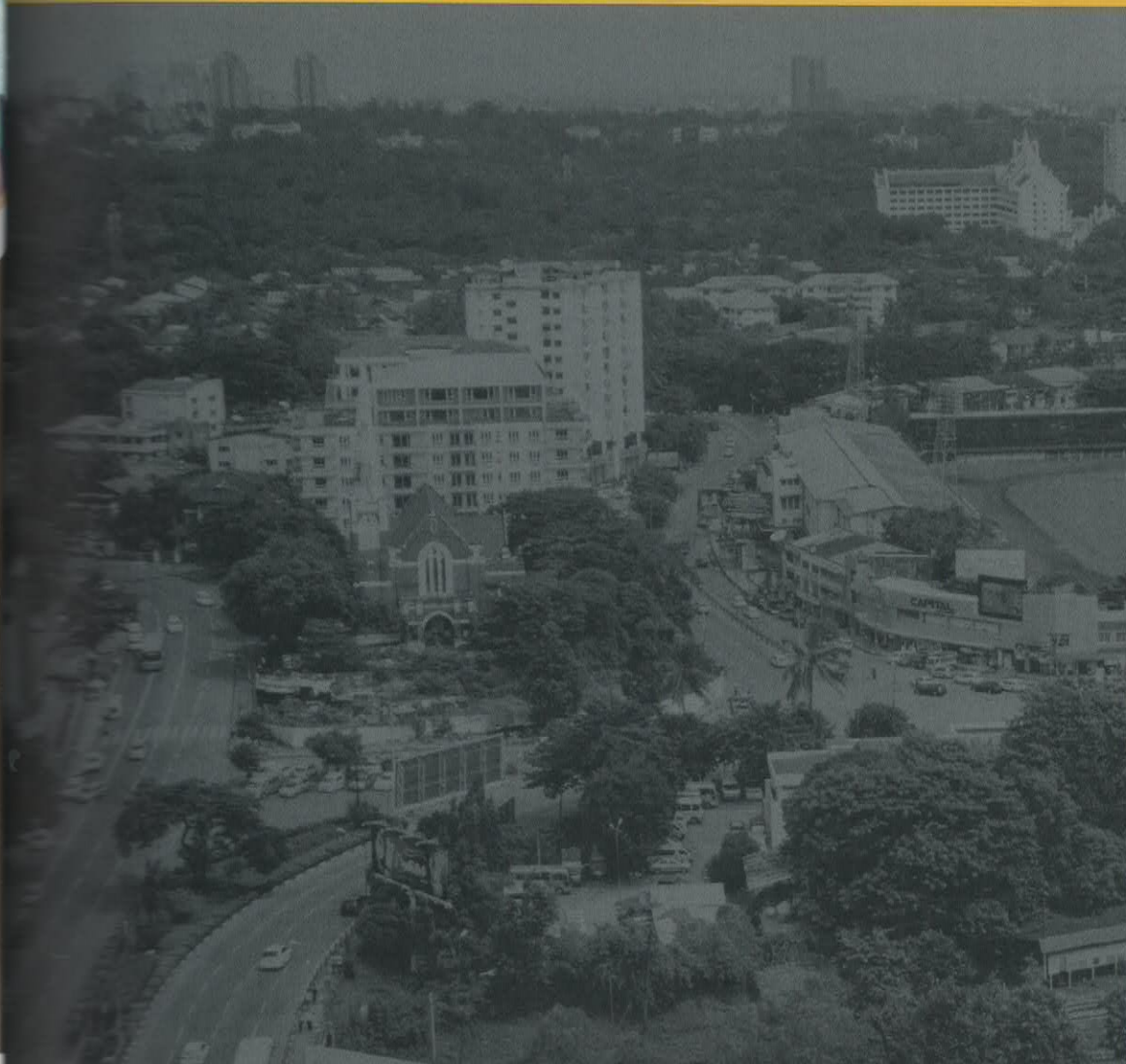
Country Profile

Recent free and fair elections signal major changes

Increased investment brings new opportunities

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The newly elected government is focused on modernisation

Entering a new future

Progress has come quickly, and the results are evident

Formerly known as Burma, many have hailed the Republic of the Union of Myanmar's recent economic, political and social restructuring as ground breaking, and for good reason. In a relatively short period, it has gone from an isolated economy to an investment focal point.

Over the last few years the nation has seen the military junta relinquish power, greater freedom of the press, the advancement of human rights and the release of political prisoners, including Nobel Peace Prize-winner Daw Aung San Suu Kyi – all of which led to an easing of international sanctions and the revival of the economy.

ELECTIONS: While major strides still need to be taken to promote more inclusive growth, critical developments across the country's diverse landscape continue to heighten investor appetite. This was given a significant boost with victory of Daw Aung San Suu Kyi's National League for Democracy (NLD) over the ruling Union Solidarity and Development Party (USDP) in the November 2015 national elections.

While the new government is in a strong position to steer the modernisation of the economy, it has also inherited a wealth of challenges, such as ongoing ethnic and religious conflict, widespread poverty, the illegal trade of precious resources and a weak social infrastructure.

However, efforts taken by the outgoing government under President U Thein Sein to improve transparency, promote peace and increase spending on health and education have to some degree alleviated the strain left behind by decades of military mismanagement. These critical steps have led to the gradual improvement in the social welfare of Myanmar's people, and with the incoming NLD administration expected to prioritise inclusive growth, the well-being of Myanmar's emerging citizens is looking significantly more positive.

GEOGRAPHY: Located between the Himalayas in the north and the Andaman Sea to the south, and roughly shaped like a diamond, the landscape of Myanmar is as diverse as it is intriguing. Wedged between China to the east and India to the west, Myanmar also shares borders with Thailand, Laos and Bangladesh. Stretched over 676,578 sq km, it is the 40th-largest country in the world and the second largest in South-east Asia, behind Indonesia. The coastline stretches out 2832 km, with the Bay of Bengal on the south-west coast and the Andaman Sea to the south-east.

The country is divided by three parallel mountain ranges in the north that commence at the eastern extremity of the Himalayas. These ranges are the Arakan, the Pegu and the Shan Plateau. In the northernmost part of the country in Kachin State is Hkakabo-Razi, which, at 5881 metres, is the highest mountain peak in South-east Asia. The northern mountain ranges also partition the country into three river systems, cutting across highlands, lowlands, deltas and jungles. They are the Ayeyarwady, the Sittaung and the Thanlwin.

The Ayeyarwady is the longest river in Myanmar, extending over 2170 km. It flows from north to south, originating in the Kachin River at the N'mai and Mali River's confluence, starting in the Himalayan glaciers and ending in the Andaman Sea. The Ayeyarwady River has five tributaries, the largest being the Chindwin River. Similar to the Nile River in Egypt, the Ayeyarwady River and Chindwin River are crucial sources of life in the dry central lowlands of the country.

DEMOGRAPHICS: With a population of more than 51m-scattered across 14 states/regions with 412 townships/sub-townships, Myanmar is the 12th-most populous country in Asia and the fifth in South-east Asia, behind Indonesia, the Philippines, Vietnam and Thailand. The three main cities



Nearly 90% of people practise the Theravada form of Buddhism, which spread from India in the 11th century

are the business capital of Yangon, with a population of more than 7.3m; followed by the second business capital of Mandalay, with 1.73m people, and the administrative capital of Naypyidaw, which has approximately 1.16m inhabitants.

According to the latest statistics from the Department of Population under the Ministry of Immigration and Population, 30% of people live in urban areas, with urbanisation occurring at a rate of 2.9% per annum. The median age in Myanmar is 27.1, with a population growth rate of 0.89%, a fertility rate of 2.29 and a marital fertility rate of 4.03. The 2014 census, the first of its kind in 30 years, estimated that the average household size is 4.4 people, with children between birth and the age of 14 accounting for 28.6% of the population, while the economically productive age group (15-64) represented 65.6% and the elderly population (65+) accounted for just under 6%.

Life expectancy at birth for males in Myanmar is 63.9 years with females expected to live on average six years longer. This figure, however, is much lower in areas with a high number of internally displaced people (IDP) due to conflict and limited access to health care. This is most apparent along the eastern border with Thailand – an area that the government as well as donor agencies are collaborating with local health organisations to improve (see Health chapter).

YOUTH: With a median age of 27, and 55% of people under the age of 30, the majority of Myanmar's population is well positioned to capitalise on the expansion of the economy. However, education remains a major obstacle. Once regarded as having the best education sector in the region prior to military occupation, schooling has since dwindled, with students lacking access to basic supplies. The method of teaching that has been passed down over the last few decades has changed little since

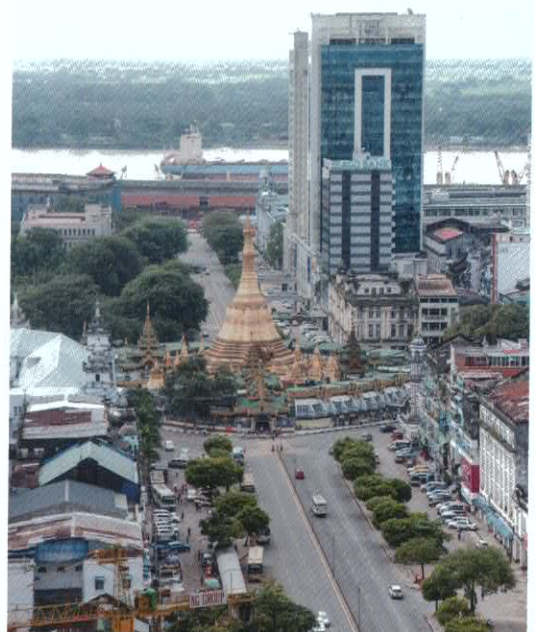
the colonial era. This lack of progress has translated into learners with limited creative thought.

Efforts to bolster Myanmar's education framework were given a significant boost under U Thein Sein. Whereas education received 1.3% of the national budget on average during military rule, during his last term education spending was increased to 5% of total government expenditure. The funds have been earmarked to employ an additional 50,000 teachers, extend free schooling through to higher education and will also be used for university scholarships and to supplement fees at technical institutions. These initiatives are set to prepare the youth of Myanmar for the rapidly expanding job market.

RELIGION: Theravada Buddhism, which became the country's official religion in the 11th century, is ingrained across Myanmar with almost 90% of the entire population following its teachings. An estimated 4% of the population follow Christianity, which was introduced during the British colonial period. A similar proportion of the country are Muslims who are largely followers of Sunni Islam. Approximately 1% are Hindu, and the remaining 1% consists of practitioners of Mahayana Buddhism, Vajrayana Buddhism and animism.

For the most part, religious beliefs are practiced in peace, but communal violence continues to bubble to the surface, particularly in Rakhine State, where at least 146,000 Rohingya, a religious and linguistic minority from western Myanmar, have been displaced since 2012 due to conflicts between Buddhist and Muslim communities.

LANGUAGE & ETHNIC GROUPS: There are more than 100 languages spoken across Myanmar by some 135 ethnic groups. The Burman, or Bamar, is the largest ethnic group accounting for 68% of the population. The second largest being the Shan with 9% of the population, followed by the Karen (7%), the Rakhine (3.5%), the Chinese (2.5%), the



Almost 30% of the population live in urban areas

Mon 2%, the Kachin 1.5%, Indian 1.25% and the Kayah 0.75%. The remaining 4.5% of the population is made up of the Wa, the Naga, the Lahu, the Lisu and the Palaung ethnic groups.

The most commonly spoken language is Myanmar (formerly known as Burmese), which is the primary language of instruction at schools. Other major vernaculars include Shan, Karen, Kachin, Chin, Mon and Rakhine. Up until the early 1960's English was widely taught at schools across the country. The language was readopted in the late 1980's and is generally spoken by the older generation and the expanding urban elites.

CLIMATE: Myanmar has a subtropical climate with three seasons. The summer season runs from March until mid-May, with temperatures soaring past 40°C in central parts of the country. April is the hottest month. The rainy or monsoon season follows directly after summer and lasts until late October, July is the wettest month, with an average of 582 mm of rainfall. The cold season starts in November and ends in late February. January is both the coolest, (18–23°C) and the driest month with 3 mm of average rainfall.

Monsoon rains in Myanmar are among the harshest in the world. Torrential rains began in July 2015 and continue into September, causing severe flooding in 12 of the country's 14 states. According to the Ministry of Agriculture more than 5222

sq km of farm land were inundated and 2781 sq km damaged, leaving the government to declare a state of emergency.

NATURAL RESOURCES: Myanmar has an abundance of natural resources, with extractive industries continuing to play a leading role in the country's foreign investment climate. According to the Department of Geological Survey and Mineral Exploration, there are more than 2000 occurrences of 62 different commodities. Among them are precious stones, including the largest deposit of jade in the world, and lucrative metals, such as tin, copper, gold and zinc.

To add to those resources, the country also has vast amounts of arable land and forests and is a major exporter of natural gas. It is also home to one of the world's oldest petroleum industries, with its first crude oil exports dating back to the British colonial era in the mid-19th century. With a deepwater shelf that has been fairly underexplored by modern oil exploration methods, many oil and gas experts believe that major new discoveries are more a question of when rather than if. As international oil companies continue to invest and collaborate with local firms the potential for further discoveries is formidable. 2016 should prove to be one of remarkable change in Myanmar. For the first time in recent memory the country is poised to take advantage of its natural strengths.



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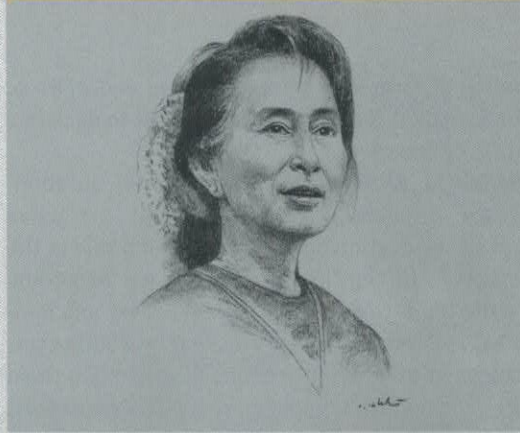
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Daw Aung San Suu Kyi

A mandate for change

Daw Aung San Suu Kyi, Chairperson, National League for Democracy (NLD), on democracy in Myanmar

The role of the people is essential in building democracy. It will be successful only if the entire country participates actively, as it is a system based on the will, influence and power of the people. Citizens' involvement is needed, and the decision of the people is very important. The NLD guarantees that it will honour the country's desire, demonstrated through a transparent, free and fair election.

The NLD was established in 1988 with the aim of building a federal democratic country that protects human rights. We are based strongly on the principles of non-violence, national reconciliation, coexistence and non-retaliation. We never gave up on these critical points, despite the hardship the league and its members faced over the past 27 years. We will continue observing these principles to ensure a peaceful and stable transition for our country.

The NLD contested in the 1990 election with the aim of building a federal democratic union through cooperating with everyone else in a way that does not damage the country or the public. It is common knowledge that we did not have the chance to serve the country even though we gained overwhelming public support. However, the 1990 election highlighted the deep desire of the people of Myanmar for democracy, and the NLD was able to continue to exist. We are always grateful to the voting public.

We contested in the 2012 by-election to implement the objectives of the NLD within the legal framework of the country. We accomplished this to the best of our ability. Our goals were to achieve the rule of law, end armed conflicts and revise the constitution. Thanks to the trust and support of the public, we won in 43 of the 44 constituencies. However, we hope people will understand that the capability of just under 40 representatives is quite limited in a parliament attended by over 600 representatives.

We believe the people should have improved knowledge and awareness on why the constitution

needs to be changed due to the efforts of the league both inside and outside the parliament. We still haven't effectively delivered the objectives we set during the 2012 by-election campaign. We need to wait until we become the government in order to deliver them. The people can give us the mandate and that is why the NLD is going to contest the elections held on November 8, 2015.

Rule of law is associated with maintaining peace and stability. Laws need to be just and ensure the safety of the people. Therefore, legislation which is unjust needs to be removed or revised accordingly. The judiciary and executive branches hold the power to ensure effective enforcement of the laws. Only the government can effectively implement the rule of law. So being able to form a government is essential for the long-term future of the rule of law.

During the campaigning period of the 2012 by-election, the NLD presented our objectives for the peace building process. We plan to implement peace building through three critical steps: the first step is achieve a nationwide ceasefire, the second is to hold political dialogues and find solutions, and the third is to secure a constitutional guarantee of equality and self-administration, which are the principles of the Panglong Agreement.

It is very important that this ceasefire agreement should be a lasting deal based on mutual understanding and trust. After the ceasefire agreement is successfully signed, the second and third stages, which are the foundations of everlasting peace, need to be implemented. Those stages need to be put into action simultaneously. The new government that will emerge from the general election in November 2015 is responsible for handling the second stage, which is political dialogue. The NLD is ready for this responsibility, if the people of Myanmar approve.

We never gave up the ambition of building a federal democratic union, even though we faced all kinds of

challenges and adversaries in the past 27 years. Since 2010, the league has been aiming to hold a second Panglong Conference. The second Panglong means a union-level dialogue based on the belief that all the ethnicities including *Bamars* (Burmans) can work together, in accord with the essence of the Panglong Agreement, to effectively achieve common goals peacefully. The NLD is fielding candidates in every state and region across the country, with the goal of forming a central government that represents the spirit of union and works for the emergence of a real federal structure in the country.

The central government needs to actually uphold the democratic standards and work in balance with the state and regional governments to establish a real federal democratic union. The league is asking the people for the right to build unity by drawing strength from diversity. The peace process can take a long time, and it is proper to look for agreements by thorough discussion without rushing. However, it is important not to prolong the discussions without any time limitations. It is also very important to implement the agreements reached through the discussions.

Therefore the second stage, which is dialogue, should be complemented by the third stages, which is the revision of constitution without delay. Our people know that the *Tatmadaw* (government army) plays a crucial role in changing the constitution. It is also common knowledge that the NLD and the *Tatmadaw* do not share a common perspective regarding the change of constitution. However, we believe we have a common wish to secure a stable and prosperous federal democratic union in the future. People have an earnest wish to see the *Tatmadaw*, which was founded by General Aung San together with the people, as a body that works for the interest of every person in the country.

The people want the *Tatmadaw* to be united with them in every aspect of the country's fate, including

the revision of constitution, and honouring the results of the upcoming November 2015 elections. The NLD wants to see the *Tatmadaw* of Myanmar as a modern and globally respectable entity, which earns the trust of the people by upholding democratic standards and strongly ensuring the safety, freedom and peace of the people and the country. The NLD will cooperate with the *Tatmadaw* in state-building and democratising without any suspicion. We wish to work together in revising the constitution, without putting in danger the stability and peace of the country and the people.

The league desires for the establishment of a society where people from all parts of it can exist peacefully and stably. As an opposition party which has struggled for over 27 years, some question our ability to serve in the executive branch. I confidently state that we do have the capacity. You need to know what to do and what not to do to deliver a duty. Through studying the episodes that led Myanmar, which was once the brightest star of South-east Asia, to an insignificant planetoid in 50 years, we have learnt a lot. We have learnt from the people what we need to do.

The NLD is very confident about being evaluated by the people. The league never did any harm to the country nor the people. The league always works within the rules and regulations framework when competing in the political scene. The NLD strongly opposes injustice but never crossed the professional line to attack any person or entity. We have never broken a promise made to the people. The league never coaxes people through lies and extortion.

It is our commitment to continue interacting with the people with respect and transparency as we have done since our establishment in 1988. We pledge with our honour and our lives to serve the people, and to serve them in the most honest manner. We wish that the people decisively grant us the mandate to form a government in the November 8, 2015 elections.

Excerpted from a speech given September 21, 2015.



The November 2015 elections have signalled a new policy direction

A shift in direction

As democracy takes hold, so do expectations for the future

Myanmar is currently passing through a crucial period of political debate, against the background of an era marked by rapid economic growth and international openness.

Myanmar is currently passing through a crucial period of political debate, against the background of an era marked by rapid economic growth and international openness. The successful November 2015 parliamentary elections capped a landmark year for the country. Myanmar has undergone changes that only a few years ago might have seemed unlikely, if not impossible. These events come just after a decade since the government began moving on its "Roadmap to Democracy", and three years after the country's most famous former dissident, Daw Aung San Suu Kyi, took her seat in Parliament.

Much has changed in recent times, with discussion continuing on Myanmar's next steps. The role of powerful and important institutions, such as the military and the priesthood, is still evolving, while the country also possesses one of the most ethnically diverse populations in South-east Asia. Balancing the needs and expectations of these different groups is undoubtedly one of Myanmar's greatest political and humanitarian challenges.

With the outcome of the elections now decisively decided in favour of Daw Aung San Suu Kyi's National League for Democracy (NLD), the country also faces the task of finding the most efficient and equitable way to translate surging investment, economic activity and international goodwill into sustainable growth. This is also happening at a time of heightened popular expectations of rapid change – both in terms of standards of living and political and economic freedom. Myanmar's political arena thus looks likely to continue to be a vibrant one in 2016.

EARLY HISTORY: While the Ayeyarwady River and its wide plain have long dominated the geography of Myanmar, this 2170-km-long waterway has also proved instrumental in the country's history and politics. It was into this fertile region that the Pyu – the first recorded inhabitants – arrived from Yunan back in the 2nd century BCE, bringing Therevada Buddhism

with them. Another group, the Mon, then colonised the southern regions of the river plain, to be joined in the 9th century CE by the Mranma, or Burmese, who created the Bagan Empire.

This early medieval state was the first to establish wider control over the Ayeyarwady, while also bringing into its boundaries some of the more mountainous territories on the river's periphery. This lasted until 1287, when repeated invasions by the Mongols finally brought the empire down.

In the years that followed several other dynasties and kingdoms came to battle for control of this lucrative region. One of the most successful was the Taungoo dynasty, which re-established the Bagan Empire and expanded it further, incorporating the Shan States, the region of rugged mountains and forests in the northern and eastern parts of modern Myanmar. The Taungoo also occupied parts of modern China and Thailand until 1752, when the Mon rose up in rebellion, taking Ava (Inwa), the capital, and establishing the Restored Hanthawaddy Kingdom with the support of the French.

BRITISH RULE: This was to be short-lived, however, with the Konbaung dynasty re-establishing its control in 1767. This lasted until 1885, by which time three wars with the British Empire – then in control of neighbouring India – had resulted in the downfall of the kingdom and the beginning of British colonial rule. Thibaw Min, the dynasty's last king, or "Lord of the White Elephants", abdicated in November 1885.

British rule lasted until 1948 and was resisted by many people in Myanmar. Some took this as far as alignment with Japanese forces in the second World War. This included Daw Aung San Suu Kyi's father, General Aung San, who led the pro-Japanese Burma Independence Army, later the Burma Defence Army and finally the Burma National Army (BNA), during the Japanese occupation of the country from 1942. As the tide in the war turned, however, and Japanese

In 1886 Myanmar was officially incorporated into the British Empire, and colonial rule began in earnest. The last king of the Konbaung dynasty abdicated in November 1885.

promises of Burmese independence failed to crystallise, the BNA launched an uprising against the country's new rulers in 1945, joining the Allied side.

INDEPENDENCE: The war ended with the British re-occupying the country, a move met by widespread protests and calls for independence from all sectors of Myanmar society. An executive council, bringing together nationalists, socialists, communists and liberals, began negotiating with the British government and colonial authorities, culminating in the country's independence on January 4, 1948.

Yet this was far from a peaceful transition. Assassinations, including that of General Aung San; insurgencies by rival communist factions, buoyed by the Chinese communist victory in 1949; and incursions by defeated Chinese Kuomintang armies gave the country a violent early start.

In 1962 there was a military coup, led by General Ne Win, who instituted the "Burmese Way to Socialism", a path that involved the nationalisation of industry and isolation of the country from global markets and international aid. Many dissidents were expelled, imprisoned or killed, while conflicts continued with the Karen National Union, the Rohingya Muslims and the Parliamentary Democracy Party, based amongst exiles over the border in Thailand.

TOUGH TIMES: In 1988 a major uprising occurred, followed by a fresh coup and martial law, administered by the State Law and Order Restoration Council (SLORC). In 1989 the SLORC then changed the country's name from Burma to Myanmar and in 1990 it convened multi-party elections for a constituent assembly, in which the NLD, led by Daw Aung San Suu Kyi, won by a landslide. However, the military did not allow the assembly to convene, kept NLD leaders under house arrest and cracked down on opponents and the press. In 1992 General Than Shwe took over as leader of the regime. Conflict continued with the KNU, although peace settlements were reached with the Wa and Kachin hill tribes, the Kokang and several of the warlords controlling parts of the Shan States. In 1997 SLORC was replaced by the State Peace and Development Council (SPDC), which, in 2003, announced a seven-step Roadmap to Democracy.

Two years later, a constitutional convention was called, but the NLD and other opposition groups were



Some restrictions on public rallies have recently been lifted

not invited. In that year, the country's capital was moved from Yangon to Naypyidaw.

Another major uprising occurred in 2007, led by Buddhist monks, which was brutally suppressed. However, the SPDC then announced that a constitutional referendum would be held, along with elections, by 2010. The referendum did indeed take place in 2008, while the country was being battered by Cyclone Nargis, which killed an estimated 130,000 people. Nonetheless, the SPDC announced that the constitution was approved, and a general election was held in 2010 under the new rules. It was won by the military-backed Union Solidarity and Development Party (USDP), but was also dismissed by the opposition, with the NLD boycotting the ballot.

Yet clearly, 2010 marked a watershed moment in Myanmar's history, with Daw Aung San Suu Kyi released from house arrest and the pace of reform quickening. In 2012 the NLD took part in a series of by-elections, winning 41 out of 44 contested seats across the two houses of parliament.

In November 2015 Myanmar held groundbreaking parliamentary elections. Once again the NLD won the election by a substantial margin, winning nearly 80%

In 2010 Daw Aung San Suu Kyi was released from house arrest, and the pace of reforms quickened. This led to the 2012 elections, in which the National League for Democracy won 41 out of 44 contested seats.

AMPS Co.,Ltd.

Aung Myin Pyae Sone

+95 9262200192 , +95 98601709 , +95 9450014130 , +95 9420301853

95-1-579076 , 564080

www.ampsconstruction.com

marketing@ampsconstruction.com

www.facebook.com/amps

E-1(002), Corner of Thumngalar Road & Eikarthaya Street,
Thumngalar Housing, Thingangyun Township, Yangon, Myanmar.





Western countries have been gradually easing economic sanctions

Under the 2008 constitution the president is the supreme executive power, head of state, and the head of the cabinet and the government.

of contested seats. The military is guaranteed a quarter of all seats in the parliament under the constitution, but a civilian government headed by the NLD is poised to take control of the reins of power in Myanmar for the first time in decades. Daw Aung San Suu Kyi will sit in parliament for her Kawhmu constituency in Yangon, but is still constitutionally barred from holding the presidency. The elections were hailed as free and fair by outside observers and signalled a significant policy shift by the military, which has traditionally held absolute power.

Myanmar has already begun to benefit from its transition to democracy. The US announced that it was lifting sanctions on shipping hubs in Myanmar in 2015, with further easing of sanctions by the US and other countries expected if the transition to democracy in the country continues smoothly.

NEW CONSTITUTION: Under the 2008 constitution, the president is the supreme executive power, head of state, and head of the cabinet and government. A special clause in the requirements for eligibility as president states that a president's spouse or children may not owe allegiance to a foreign power, a clause that appears intended to rule out Daw Aung San Suu

Kyi's candidacy for the position, given that she is the widow of a UK citizen and her children have UK citizenship. The outgoing president is U Thein Sein, who comes from Kyonku in the Ayeyarwady delta. He holds the rank of lieutenant general in the *Tatmadaw*, the popular name for the military.

The president is elected indirectly, via the Presidential Electoral College. This is made up of three sections, or committees, with the first section drawn from members of parliament (MPs) representing each region or state, the second from MPs representing the population at large and the townships, and the third from MPs appointed by the military. Each committee nominates a candidate, and then the parliament, the Pyidaungsu Hluttaw (Assembly of the Union – AU), convenes as the electoral college to decide the winner, with the two runners-up becoming vice-presidents (VPs).

PRESIDENT: According to the constitution, the president serves a five-year term and may be re-elected only once. He or she then chooses the cabinet, except for the ministers of border affairs, home affairs and defence, who are chosen by the *Tatmadaw*. The president has wide powers of appointment elsewhere, however, which can be extended by declaring a state of emergency. The head of state may be impeached by a two-thirds majority of the AU, with the VP who received the highest number of votes from the electoral college taking over if such a circumstance were to occur. The AU, meanwhile, consists of two houses, the lower, Pyithu Hluttaw (People's Assembly, PA) and the upper, Amyotha Hluttaw (House of Nationalities, HN). The PA has 440 representatives while the HN has 224. Both houses are made up of 75% elected MPs and 25% MPs appointed by the military.

The speaker of the PA is U Thura Shwe Mann, while the speaker of the HN is U Khin Aung Myint, who is also chairman of the combined AU. These positions are sure to change once the newly elected parliament convenes in February 2016.

PEOPLE'S ASSEMBLY: The 330 directly elected PA members represent population and township constituencies. The 2015 elections saw the military-backed USDP lose its status as the largest political party, a position it had secured at the 2010 balloting, with 212 seats. The USDP's numbers plummeted from 222

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in the AU to just 29. The NLD's candidates captured 238 seats in the AU, a testament to its popularity and double that of its closest opponent.

Many of the parties have an ethnic base – such as the Rakhine Nationalities Development Party (RNDP), with nine seats, the All Mon Region Democracy Party, and the Pa-O National Organisation (PNO), both of which hold three seats. Many of these parties are also the political wings of former armed groups that have signed peace agreements with the government – the PNO, which controls the Pa-O People's Special Region 6, is an example. The 168 elected representatives of the HN, meanwhile, are divided into groups of 12 from each region or state, and include one representative from each Self-Administered Division (SAD) or Self-Administered Zone (SAZ). The military-appointed members of the HN – all of whom are Tatmadaw personnel – are appointed in groups of four for each region or state.

LOCAL LEVELS: Myanmar divides into a patchwork of local-level administrative units, each with their own regional leadership. There are seven regions or divisions – Ayeyarwady, Bago, Magway, Mandalay, Yangon, Tanintharyi and Sagaing – and seven states – Chin, Kachin, Shan, Rakhine, Mon, Kayah, and Kayin. In addition, there is one SAD – the Wa SAD within Shan State – and five SAZs, four of which are also within Shan, and with the fifth in the Sagaing Division.

In general terms, the regions and divisions in Myanmar tend to have an ethnic Bamar majority, while the states, SAZs and SAD have non-Bamar ethnic majorities. The states and regions have their own local governments – either state or regional Hluttaws – which are unicameral bodies, composed of two elected members per township, as well as ethnic representatives and military appointees. The president selects a chief minister for each state or region, with this choice then having to be approved by the local Hluttaw. The chief minister then chooses cabinet ministers, whose portfolios are assigned by the president.



Daw Aung San Suu Kyi remains the most popular figure in politics



The 330 directly elected members of the People's Assembly represent the population and townships

Local security and defence officials are appointed by the Tatmadaw. The division of powers between central and local authorities varies, with the self-administered areas enjoying greater local responsibility.

JUDICIARY: The third estate is headed by the Supreme Court, with U Tun Tun Oo currently serving as its head, the chief justice. The legal system is based on a combination of English common law, dating from colonial times, and subsequent decisions of the Myanmar authorities. The hierarchy descends from the Supreme Court down to the state and division high courts, the SAD and SAZ courts, then district, township and other local courts. There is also a Constitutional Tribunal to hear matters concerning constitutional law, while a military courts-martial governs the Tatmadaw.

OUTLOOK: Much of the current political debate concerns amendments to the constitution. This has become particularly acute in the aftermath of the 2015 elections. The Tatmadaw also continues to exercise great power and influence within the political system, with its future role by no means certain. For constitutional change to occur, a 75% majority of the PH is necessary – a figure that was achieved by the NLD in the most recent elections – followed by success in a referendum. This 75% threshold had the potential to put a considerable break on future moves towards reform, however with the NLD capturing the necessary amount of seats, constitutional reform could happen rapidly. At the same time, ethnic and religious conflicts will continue to present a challenge to any government in Naypyidaw.

Yet Myanmar has advantages, including a commitment to reform among its large and youthful population. It is also home to significant natural resources, as well as a great deal of international good will. As such, 2016 may turn out to be a key moment in the country's progress, with much at stake – and plenty of opportunities still left to play for in the future.

The 168 elected representatives of the House of Nationalities are divided into groups of 12 from each region or state, and include one representative from each Self-administered Division or Zone.

The division of power between central and local authorities varies, with the self-administered areas enjoying greater local responsibility.



Goh Chok Tong

Reaching potential

OBG talks to Goh Chok Tong, Emeritus Senior Minister, Singapore

In your opinion, what should the new government focus on to ensure the long-term growth and stability of Myanmar?

GOH: First and most importantly, it should focus on the smooth transition to a stable democracy. This means forming a government of national reconciliation and unity. It should be an inclusive government, and not a government of winner-takes-all. Next, the leaders should bring in the best people to govern, both fresh faces as well as experienced hands. Laying the foundation of good governance is absolutely crucial to the long-term growth of Myanmar.

Myanmar has ample natural resources but lacks capital, technological and managerial expertise as well as skills for a modern, manufacturing economy. It has to create a business-friendly environment, especially one that is welcoming to foreign investors. The legal, financial and institutional frameworks must be clear. Regulations and laws must be fairly applied.

Long-term growth of the economy requires investment in human resources, in schools, universities, skills-training institutes and teachers. As the economy develops, workers will expect higher wages. A system that is fair to investors, employers and workers must therefore be implemented.

How will the revival of the Singapore-Myanmar Joint Ministerial Working Committee (JMWC) serve to promote bilateral cooperation?

GOH: It will enhance bilateral cooperation in the trade, investment, finance and legal sectors. The 5th JMWC meeting was successfully convened in July 2015. Both sides explored how Singaporean companies can better align their investment interests with the development objectives of the Myanmar government. The key areas include food and agriculture; development of small and medium-sized enterprises; banking and capital markets supervision; building internationally recognised accreditation

infrastructure; strengthening the country's legal framework; and improving air connectivity. As a new government under the National League for Democracy will be in place, the JMWC will enable Singapore to understand its economic priorities.

How will the creation of the Singapore-Myanmar Vocational Training Institute (SMVTI) deepen Myanmar's talent pool?

GOH: The SMVTI, located in Yangon, will focus on training in hospitality and tourism, electrical skills, facilities management, and engineering services. This bilateral initiative aims to uplift the level of skills training in Myanmar and instil pride and professionalism in vocational and technical education. We hope that the experience from this pilot project will be replicated and improved upon in other institutes and universities in Myanmar.

What plans does Singapore currently have in place to strengthen financial cooperation with Myanmar's banking sector?

GOH: The Monetary Authority of Singapore has been sharing its experience with the Central Bank of Myanmar and the Myanmar Ministry of Finance. Singapore banks operating in Myanmar, like OCBC and UOB, are also helping to develop expertise and capacity in Myanmar's emerging financial sector.

How is growing industrialisation creating new interest from potential investors in Singapore?

GOH: Myanmar has abundant labour in its 50m people, who also offer a sizeable market across a diverse landscape. Many of the industries in Singapore, which are facing challenges due to higher land and labour costs, may find Myanmar an attractive destination to expand. Singapore has deep knowledge in logistics and infrastructure development, and there will be demand for such expertise in Myanmar as it grows.



Chairing ASEAN in 2014 showcased the country's new status

Myanmar and ASEAN

Building relationships with new friends and old

After decades of dictatorship, Myanmar emerged as an unlikely beacon of democracy in South-east Asia in 2015, as the National League for Democracy (NLD), under former political prisoner and Nobel-Prize-laureate Daw Aung San Suu Kyi, strode to a victory in November's landmark election. With the government in Naypyidaw poised to hand over power in February 2016, elsewhere in the 10-member ASEAN bloc, governments from Thailand to Malaysia and Cambodia sought to curb debate; limit the media, restrict opposition parties and pass stricter laws in the name of maintaining security.

The question now is how Myanmar's first democratically elected government will deal with its ASEAN partners – whether it will continue the engaged approach adopted under outgoing President U Thein Sein or take a more hands-off stance and focus on the country's domestic challenges.

ASEAN BACKGROUND: It was ASEAN that first attempted to court Myanmar, triggering widespread condemnation for its 1997 decision to invite the country, under what was then a military regime, to join the organisation. Tainted by its poor human rights record, Myanmar remained an outsider in the group. In 2005 under pressure from ASEAN members, the country agreed to forfeit its turn in the ASEAN chair, a sign that it still had a way to come.

It was only in 2014, three years after it began an ambitious political and economic reform programme, that Myanmar was able to take the ASEAN helm. Its chairmanship proved more successful than many had expected. Despite a lack of recent diplomatic experience, the country successfully organised the more than 1000 meetings that the organisation holds each year, pushed forward the ASEAN Economic Community (AEC) agenda to create a single market and production base, and kept a range of other initiatives on track, not only among ASEAN members, but also with the world's major

powers, including the US, Japan and China – long one of Myanmar's closest regional allies.

Even before the November 2015 election, reforms had led to the gradual relaxation of economic sanctions. Taking the chair of ASEAN was an opportunity to show the world how much the country had changed in recent years. However, Daw Aung San Suu Kyi could prove to be more cautious about the group. Although barred from the presidency by a clause in the constitution, the NLD's electoral mandate is likely to mean the decisions of a woman known universally as "The Lady" will be key to the country's future direction, as she has positioned herself as the party's leading figure.

"Throughout her years of incarceration, ASEAN was extremely cautious not to upset the military regime, trying to balance its diplomatic efforts to persuade Myanmar to continue reform and to free her," wrote Thai human rights commentator Kavi Chongkittavorn in the Bangkok-based *The Nation* newspaper in December 2015.

REGIONAL COOPERATION: Nonetheless, Myanmar's year at the helm of ASEAN showed that, despite its long-standing ties with China, it could also navigate its way through difficult diplomatic situations, notably in relation to the South China Sea, where China's expansive claims have fuelled tension with governments in the Philippines, Vietnam and Malaysia.

"Myanmar pursued relatively modest goals on the South China Sea issue and rather skilfully negotiated between pushing for a collective ASEAN-position and deflecting China's frustration," Yun Sun, a senior associate and fellow with the East Asia programme at the US-based think tank the Stimson Centre, wrote in a 2014 report.

Respondents to the US Chamber of Commerce's 2016 "ASEAN Business Outlook Survey" were broadly optimistic about ASEAN's economic prospects,

Even before the November 2015 elections, reforms had led to the gradual relaxation of economic sanctions by Western countries.

Singapore, Thailand, Vietnam and Malaysia are among the top 10 foreign investors in Myanmar behind China, which backed Myanmar throughout its isolation and remains the leading investor in the country today.

ASEAN's total trade was \$2.5trn in 2014, an increase of nearly 1trn over seven years. Trade within ASEAN made up 24% of the total – the largest share – followed by China at 14% and the EU at 10%.

naming Myanmar as one of the three most popular countries for expansion (the others being Indonesia and Vietnam). Those surveyed also stressed the importance of the AEC – launched officially, if not completely achieved, at the end of December 2015 – to their companies' prospects, in particular its elimination of trade tariffs, liberalisation of investment and more streamlined customs procedures. Some 73% of executives surveyed in Myanmar said their companies' level of trade and investment in ASEAN had increased since 2013, and 93% said they expected it to increase further through 2020.

ASEAN's total trade was \$2.5trn in 2014, an increase of nearly \$1trn over seven years, according to the ASEAN Secretariat. Trade within ASEAN made up 24% of the total – the largest share – followed by China at 14% and the EU at 10%.

ASEAN integration and closer cooperation should provide a significant opportunity for Myanmar to gain access to regional and international markets, and benefit from its neighbours' expertise, even though, as a low-income nation, it has until 2020 to fully adopt the provisions of AEC. Joining the community will connect it to the global supply chain, supporting the government's plan to position the country as a manufacturer of basic components for industries like electronics.

INFRASTRUCTURE: The country also needs billions of dollars to develop crucial infrastructure, such as roads, ports and air links, ensure regular power supply, and create a modern banking and financial system. Much of that investment will need to come from outside, and Myanmar's ASEAN neighbours, unencumbered by US sanctions, have proved among its most committed financial backers. Singapore, Thailand, Vietnam and Malaysia are among the top-10 foreign investors in Myanmar behind China, which backed Myanmar throughout its isolation, and remains the leading investor in the country today.

After decades of underinvestment, Myanmar's road network is the most poorly developed in the region, and airport and air transport technology require significant modernisation efforts. While the railway network has been expanded, it remains in poor condition and is reliant on old engines, rolling stock and signalling equipment.

Less than one-third of the population is connected to the electricity grid, and even in Yangon blackouts remain common. The country has the lowest life expectancy and highest rates of child and maternal mortality in ASEAN, with the UN's "Human Development Report" ranking Myanmar 148th out of 188 countries in 2015. Despite rapid growth, Myanmar remains behind its neighbours when it comes to telecommunications and the internet.

At the end of 2013 the mobile market was liberalised, reducing the cost of SIM cards and phones, and allowing more people to get online. The Myanmar ICT Development Organisation says just over a third of the population are now online. While about 3.6m people, or 7% of the population, now use Facebook

this falls short of levels elsewhere in ASEAN. This signals that the country still has room to improve.

The expansion of telecommunications – the winning bidders for the new licences were from Norway and Qatar – is an indication of the country's willingness to embrace change. The kyat was floated in 2012, the same year that a new foreign investment law was adopted – amendments are under discussion. A securities exchange law has also been passed, and the Yangon Stock Exchange, backed by Japan, opened in December 2015.

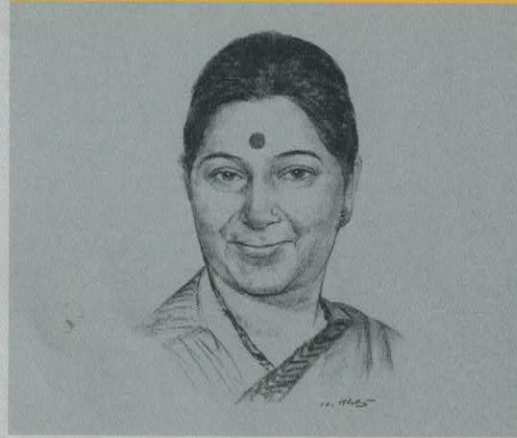
Three special economic zones with special incentives and simplified procedures for foreign investors are also under development at key locations in the south and west of the country. The neighbouring projects at Dawei and Thilawa are backed by Thai and Japanese investors, and will focus on heavy industries, oil and gas, garments and technology.

IMPACT OF REFORM: Reform has helped lift Myanmar's rating in the World Bank's "Ease of Doing Business" report. In the 2016 index it rose to 167th place, compared with 177th the year before. The World Bank's report saw the biggest improvement in starting a business, dealing with construction permits and getting access to electricity. Still, closer integration and liberalisation carry risks in a country that is undergoing substantial reform. Its relatively undeveloped economy – Myanmar's GDP totals just \$64bn – may also leave it vulnerable to external forces. As labour markets are opened, for instance, Myanmar's best talent may find it more attractive to work in ASEAN's wealthier countries.

Myanmar's progress towards the AEC should shore up its economic reforms, in line with the development path taken by its ASEAN neighbours many years ago. Keen Observers will keep a close eye on political developments in a country that, despite its new image as one of the region's most promising democracies, must still contend with the legacy of its isolated and turbulent past.



Billions of dollars will be needed to improve the country's roadways



Sushma Swaraj

New connections

OBG talks to Sushma Swaraj, Minister of External Affairs of India

What priorities were identified by the India-Myanmar Joint Consultative Commission (JCC)?

SWARAJ: The India-Myanmar JCC, co-chaired by the two countries' foreign ministers, is intended to promote the development of relations in promising areas for cooperation, such as security and defence, trade and investment, development partnership activities, and global and multilateral issues. As two neighbouring developing countries, overall development of the region and a peaceful and stable neighbourhood is a priority for us. India's development commitment to Myanmar is nearly \$2bn, including directly executed projects and soft loans covering both connectivity and capacity-building projects spanning areas like IT, health, industrial training, language learning programmes, management and parliamentary procedures.

In what ways will India's "Act East" policy promote the economic development of Myanmar?

SWARAJ: India's "Act East" initiative has both a policy and an action dimension. At the policy level, it captures the importance that India attaches to the economies of the East in our foreign policy. At the action level, it signals a more active economic engagement and speedy implementation of programmes and policies. The most obvious way that the "Act East" policy will promote economic development in Myanmar is by leveraging its location between the two large and fast-growing economies of China and India, and closer integration of India with the ASEAN economies of Laos, Cambodia and Vietnam, through the land route. This would translate into greater bilateral trade, transit benefits, investments, and connectivity and development projects necessary to support these.

How would you assess the progress of the India-Myanmar-Thailand (IMT) trilateral highway?

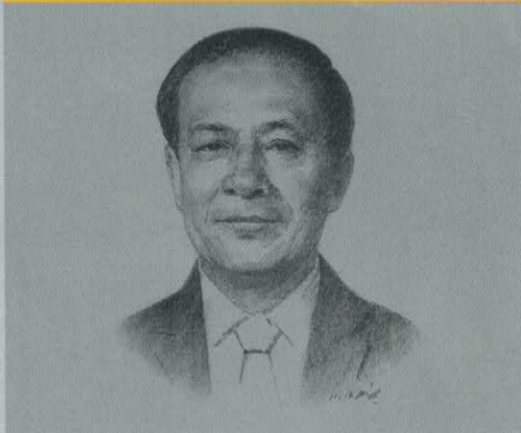
SWARAJ: A lot of progress has been made on the IMT

trilateral highway. The feasibility reports for the construction of 69 bridges on the Tamu-Kyigone-Kalewa section have already been completed. However, there has been some impact on progress due to the short working season in Myanmar. Also, the Kalewa-Yargi road that has been entrusted to India is particularly challenging, but I expect construction of this road to begin shortly. The highway is important as it will act as a catalyst for trade between India and ASEAN. By connecting India with Thailand and, through Thailand, to the Greater Mekong region the other ASEAN countries, it will provide us connectivity to the markets of South-east Asia, especially through our north-eastern states. Since the highway will also intersect with various other east-west and north-south corridors under the ASEAN Master Plan for Connectivity, our access to the ASEAN market will be considerably enhanced by the IMT.

What sectors of Myanmar's economy are Indian investors most interested in? How can bilateral investment be encouraged on a greater scale?

SWARAJ: Attracted by the government's political and economic reforms and Myanmar's rapid evolution in the recent times, Indian investors have shown interest in the oil and gas sector; power generation and transmission; infrastructure; wood, paper and small industries; mining, banking and insurance; and capacity development. Indian investment in Myanmar has grown from \$250m in the 2013 to \$727m in 2015. The qualitative change in our bilateral political, economic and commercial relations provides a good foundation for enhancing bilateral investment.

We are working to remove major roadblocks to cooperation such as the lack of adequate information about each others' economies and as potential investment partners. We are also working to address problems in the areas of banking and air connectivity, which act as obstacles to free trade and movement.



Le Luong Minh

Community spirit

OBG talks to Le Luong Minh, Secretary-General, ASEAN

What is the ASEAN Secretariat's role following ASEAN Economic Community (AEC) integration?

LE LUONG MINH: It is the role of the ASEAN Secretariat, led by the secretary-general of ASEAN, to facilitate and monitor the progress in the implementation of ASEAN agreements and decisions.

In the AEC, the ASEAN Secretariat, through the ASEAN Integration Monitoring Office, provides core support to monitor and track the implementation of ASEAN agreements and decisions, and the compliance to the commitments under the AEC Blueprint. Monitoring efforts are also complemented at the sectoral and national levels.

Post-2015, ASEAN will aim to put in place an enhanced monitoring framework that goes beyond the current compliance monitoring. This will strengthen the outcomes and the impact evaluation of the AEC Blueprint 2025.

Underscoring the importance of stakeholder awareness and active engagement to the success of the AEC, the ASEAN Secretariat will assist member states in systematically disseminating information on the implementation of the various measures under the AEC to the general public. Active consultation and engagement with the private sector and other stakeholders will also be enhanced to encourage greater and broader participation in the overall regional economic integration process.

How is the ASEAN Secretariat looking to increase private sector and community engagement in the integration process?

LE LUONG MINH: ASEAN Member States recognize the key role of the private sector in supporting ASEAN's post-2015 agenda and the need for a more inclusive and consultative process post-2015. To this end, several approaches are being considered including a more structured consultation process with the private sector. A greater role in this process

is expected to be taken on by the ASEAN Business Advisory Council.

How can ASEAN best address weaknesses highlighted by the Rohingya crisis and the ongoing South-China-Sea dispute?

LE LUONG MINH: ASEAN has always emphasised dialogue and cooperation in addressing issues affecting the region, including Rohingya and the South-China-Sea dispute. In July 2015, an emergency meeting was convened to discuss ASEAN's levels of support for emergency humanitarian and relief efforts regarding the irregular movement of persons in South-east Asia. The meeting took the decision to establish a trust fund to support humanitarian and relief efforts. The terms of reference for the trust fund are in the process of being developed.

It is ASEAN's long-standing position that the territorial disputes in the South China Sea must be settled by peaceful means and in accordance with international law, including the 1982 UN Convention on the Law of the Sea. There is a widening gap between the diplomatic track and the reality at sea where massive and rapid reclamation and construction activities are taking place, changing the status quo and going counter to the spirit of the Declaration of Conduct in the South China Sea (DOC).

In view of this significant gap, there is an even greater need for full and effective implementation of the DOC, which should be pursued in more concrete and operational terms, such as developing dos and don'ts lists to promote actions that conform to the DOC and prevent destabilising acts that violate the DOC. At the same time, incidents taking place have made it even more urgent for early conclusion of a legally binding code of conduct (COC), which should be capable of not only preventing but also managing such incidents without accepting or in any way being interpreted as legitimising the *fait accompli*.

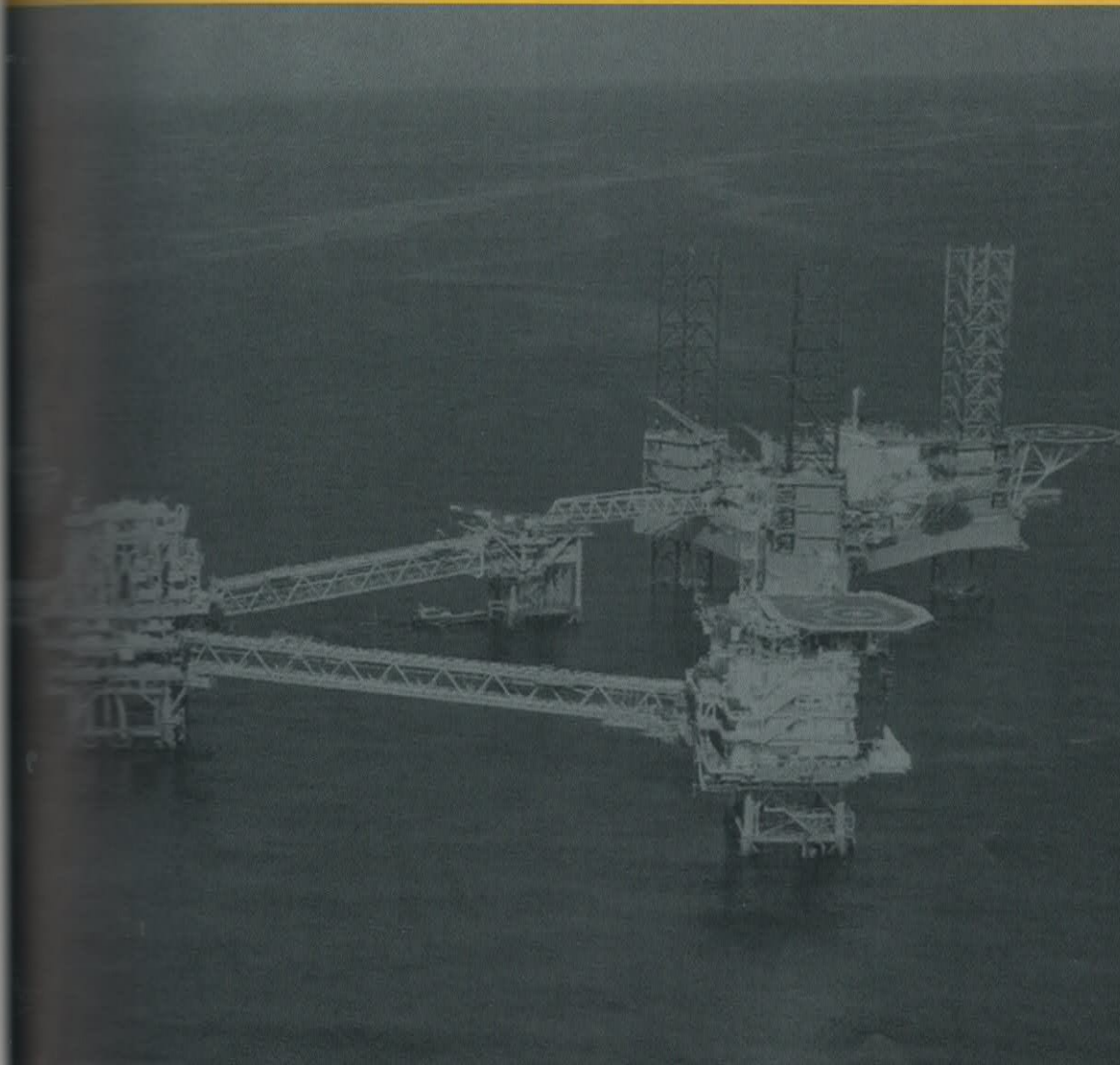
Trade & Investment

Foreign direct investment growing rapidly

New investment law expected to be ratified in 2016

Continued efforts to open up the economy and boost trade

Regional integration set to benefit the country



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CONTACT DETAILS:

TRADING OFFICE

Strand Road, No.(104-108), Ahlone Township, Myanmar.
 Tel : +951 2316304, +951 2314195
 Fax : +951 2316304
 Email : ant.intrade@gmail.com
 Web : www.aungnaingthitsar.com

CAR SHOW ROOM

Strand Road, No. (104-108), Ahlone Township, Yangon, Myanmar.
 Mobile : +95 973152907
 Tel : +951 2316304, +951 2314195
 Fax : +951 2316304
 Email : fglauto@gmail.com

SHIPPING & LOGISTIC OFFICE

Dangon Center II, Pay Road, N Room 14(C), 14th Floor, Myaynigone Town Yangon, Myanmar.

Tel : +951 2305542, +951 2306027, +951 2306028
 Fax : +951 2305543
 Email: aungzawjohn@gmail.com
 nephyu@goldenlandexpress.cc
 cs-export@goldenlandexpress.

CORPORATE OFFICE

Dangon Center II, Pyay Road, No.(268), Room 14 (E), 14th Floor, Myaynigone Township, Yangon, Myanmar.
 Tel : +951 500196, +951 534789
 Fax : +951 2305543
 Email: aungzawjohn@gmail.com
 ant.nnk@gmail.com
 ant.cmoffice@gmail.com
 Web : www.aungnaingthitsar.com

OVERSEA OFFICE

ANT Impex PTE.LTD. 21 BUKIT BATOK CRESCENT # 22-78, WCEGA TOWER, SINGAPORE 658065
 TEL : (+65)63364548,
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Foreign direct investment has quadrupled over the last three years

On point

Prioritising long-term liberalisation and growth, plus increased regional integration

With a newly elected government in power and with nearly five years of growth in foreign trade and inward investment under its belt, Myanmar is widely expected to become increasingly integrated into the regional and global economy in the coming years. In the fiscal year (FY) through to April 2015, the nation reported total foreign trade receipts of \$29.16bn, up from \$18.17bn in the same period in 2011/12. Foreign direct investment (FDI), meanwhile, quadrupled from \$1.9bn in FY 2011/12 to \$8.1bn in 2014/15.

"Liberalisation is a key word here right now," said U Aung Naing Oo, secretary of the Myanmar Investment Commission (MIC) and director-general of the Directorate of Investment and Company Administration (DICA), both of which fall under the Ministry of National Planning and Economic Development. "We have opened up rapidly in recent years, and we expect to see increased economic activity for the foreseeable future," he added.

ROOM FOR IMPROVEMENT: The nation faces considerable challenges on both the trade and investment fronts. Though the regulatory framework for investment has improved dramatically, doing business in Myanmar remains challenging, particularly for foreigners. A key hurdle here is the nascent domestic banking sector, which as of late 2015, lacked the capacity to be of much use to local and foreign corporates alike. Additionally, decades of underinvestment have left the nation's transport and electricity infrastructure and commercial real estate supply in a poor state of repair, which has contributed to the tough business environment.

The nation's exports continue to be heavily concentrated in raw materials – natural gas, gems and other minerals – and much of the incoming investment has gone to these areas in recent years, despite the government's support for value-added activities. Finally, as of late November 2015 the Myanmar kyat had lost 30% of its value against the US dollar since January,

due in large part to the nation's widening current account deficit. This has presented challenges for foreign firms operating in Myanmar.

Still, by all accounts Myanmar's trade performance and ability to attract FDI, particularly from its neighbours in East and South Asia, has been impressive. "There seems to be some impatience among outside analysts and observers about the pace of development here, particularly in terms of investment regulations," Alexander Jaggard, the Myanmar country representative at Mekong Economics, a Vietnam-based consulting firm, told OBG in late 2015. "But you have to remember that the changes we have seen over the past four years have been immense, and there is such a thing as developing too quickly."

Indeed, the country's GDP expanded by 8.5% in 2014/15, according to data from the Asian Development Bank (ADB), up from 7.8% the previous year. Forecasts by the government put 2015/16 GDP growth at 9-10%, with ADB and World Bank projections a few percentage points lower, due mainly to mid-2015 flooding, which is expected to hit agricultural exports. Meanwhile, the MIC's official forecasts for 2015/16 put FDI for the year at \$6bn, though given Myanmar's trajectory and recent history, most market observers – including some government entities – expect the country to pull in at least \$8bn, and perhaps closer to \$10bn over the course of the year.

ORIGIN STORY: Since Myanmar gained independence in 1948, the country has seen a series of dramatic changes in government policy and practice. In the early 1960s a military coup resulted in the installation of a socialist government under General Ne Win's Burma Socialist Programme Party, which promptly nationalised the economy, setting the stage for nearly 50 years of international isolation and slow growth. Over the following 25 years almost no foreign investment entered Myanmar and the country engaged in very little international trade. Widespread

GDP expanded by 8.5% in 2014/15, up from 7.8% the previous year. Government forecasts put 2015/16 GDP growth at 9-10%, with Asian Development Bank and World Bank projections a few percentage points lower, primarily due to mid-2015 flooding, which is expected to impact agricultural exports.



Foreign direct investment increased from \$4.1bn in fiscal year 2013/14 to \$8.1bn in 2014/15

pro-democracy protests in 1988 resulted in a reorganisation of the leadership of the *Tatmadaw* (the Myanmar armed forces), and a new focus on economic growth and regional connectivity.

In the years that followed, socialism was set aside and some sectors benefitted from foreign investment streams and new trade ties. Much of this activity was in the extractive industries, including the establishment of a copper mine by Ivanhoe Mines, a Canadian firm, and offshore gas field developments by a handful of foreign oil majors.

Growing concerns among the international community about Myanmar's leadership and direction during this period eventually resulted in the introduction of US government sanctions in 2007, which banned new investments in the nation by US firms. A year later the EU and Canada instituted similar rules, followed by a trade embargo, which pushed the country back into economic seclusion as most western players shuttered their Myanmar business.

Beginning in the early 2000s, however, China's booming economy and increasingly expansive outlook resulted in a raft of Chinese investments in Myanmar. A majority of this activity took place in the energy and mining industries. A variety of old initiatives were rejuvenated during this period, including the copper mining project previously launched by Ivanhoe, which was taken over by the China North Industries Corporation. Additionally, Chinese private and state-owned companies set up a substantial number of new projects. These included natural gas pipelines, developed by the China National Petroleum Company; a ferronickel mine; and a variety of hydropower and other electricity projects, including the 6000-MW Myitsone dam. The dam project, which is being jointly developed by the state-owned China Power Investment Corporation, Myanmar's Ministry of Electric Power and a Myanmar-based industrial conglomerate, was formally suspended by Myanmar's

government in 2011, though the long-term results of this action are as yet unclear (see Energy chapter).

Increased activity by China and a handful of investors from other Asian countries pushed Myanmar's FDI to \$329.6m in 2009/10. The following year a government reshuffling resulted in the beginning of the current period of political re-engagement and economic liberalisation. In terms of investment, this had an immediate and enormous impact, with DICA allowing foreign investments worth a massive \$20bn in FY 2010/11, including \$14bn in Chinese spending on mining, gas and hydropower projects.

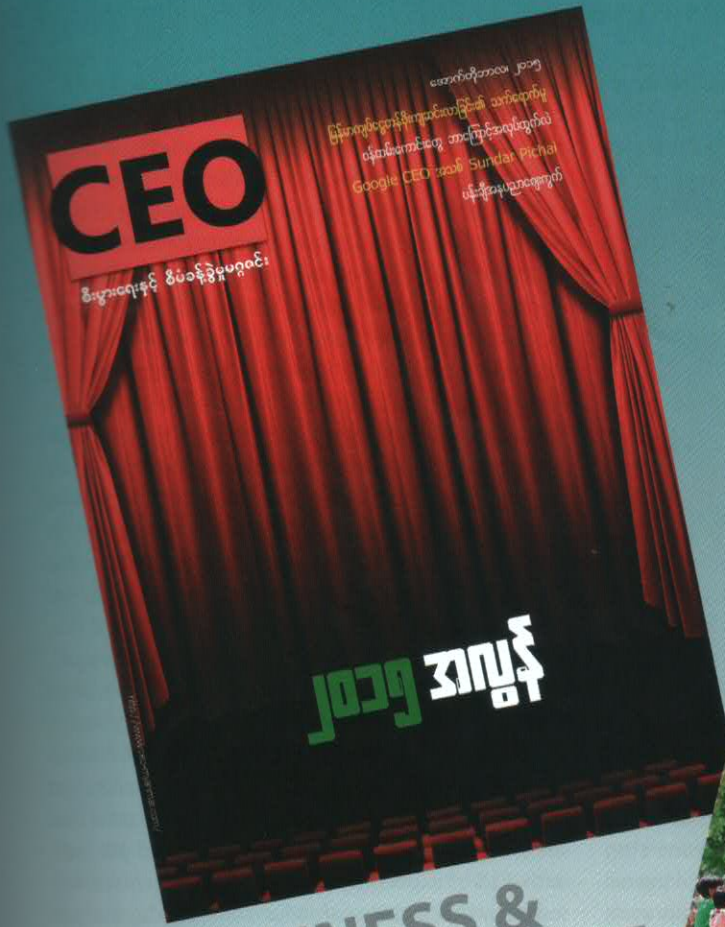
LOOSENING RESTRICTIONS: Through the first decade of the 2000s, foreign investment in Myanmar was predominantly export-oriented, with most firms striking deals with DICA and related entities to export as much as 90% of their domestic production, with the remainder given to the government. Almost all of the power and gas produced by China's hydropower and drilling projects, for example, was exported to China to meet that country's huge energy demands. With the dramatic thawing of Myanmar's political situation in 2011, however, this all began to change. Outgoing president U Thein Sein, who was elected by the nation's legislature in March 2011, has adopted a decidedly reformist stance, releasing opposite leader Daw Aung San Suu Kyi from house arrest, deregulating some media activities and halting work on the controversial Chinese-led Myitsone dam project.

A year later, in April 2012, Daw Aung San Suu Kyi's political party, the National League for Democracy (NLD), won 41 out of 44 parliamentary seats being contested in by-elections, including one for "The Lady", as she is known colloquially. Soon after, the government ended its strict capital control regime, and the kyat was allowed to trade at market value.

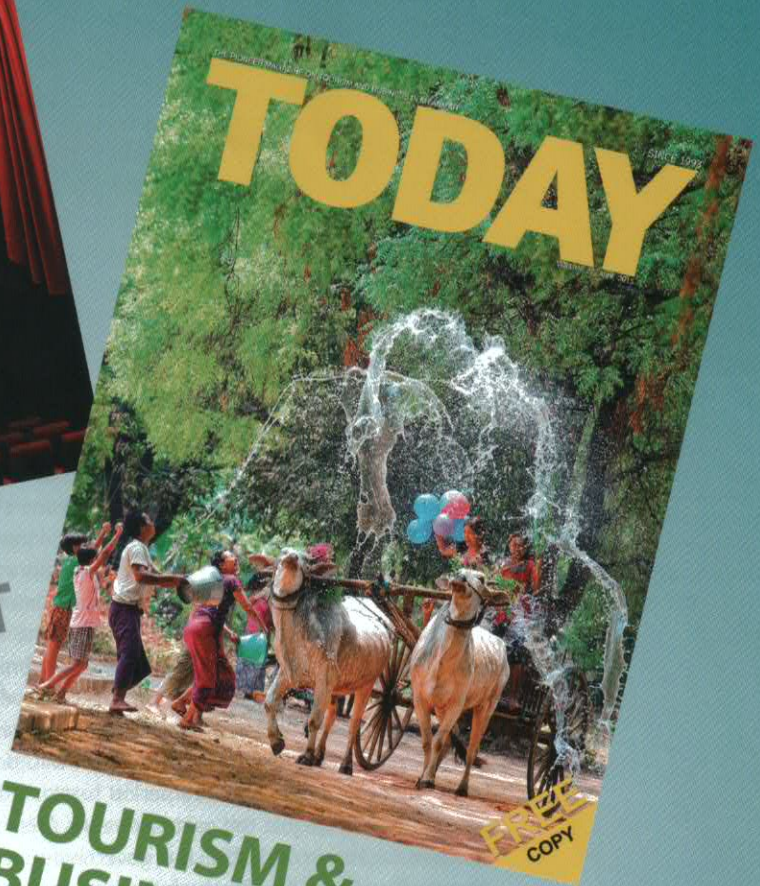
By 2013 most foreign sanctions on the country had been dropped, and interest in the country as a destination for investment and a potential trade partner was growing exponentially from Asian and western firms alike. "The economy has opened up so rapidly, and demand has been so great in recent years that there have understandably been emerging pressures on institutions of economic management," Habib Rab, a senior country economist at the World Bank's Myanmar office, told OBG. "Considering the many challenges they still face, from our perspective they have been doing a very good job."

IN FIGURES: This view is borne out by the data. In FY 2014/15 the value of Myanmar's exports reached \$12.52bn, up from \$11.2bn the previous year and \$8.98bn in 2012/13, for total export growth from 2012 through 2015 of nearly 40%, according to data from Myanmar Customs and AHK (the Delegation of German Industry and Commerce in Myanmar). Over the same period imports grew from \$9.07bn in FY 2012/13 to \$13.76bn the following year and to \$16.63bn in 2014/15, for total growth of 83% in just three years. Overall trade volume has increased dramatically in recent years, from \$18.17bn in 2011/12 to \$29.16bn in 2014/15, according to Customs and AHK

In fiscal year 2014/15 the value of exports reached \$12.5bn, up from \$11.2bn the previous year, while imports grew from \$13.8bn in 2013/14 to \$16.6bn in 2014/15.



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In fiscal year 2014/15 gas accounted for over 41% of exports by volume, followed by jade, with 8.1%, and pulses and beans, at 9.1%. Garments, which accounted for 8.2% of the total, are the only manufactured items in the top 10, with the remainder being rice, maize, seafood, sesame seeds, raw rubber and timber.

reports. As these figures suggest, Myanmar has experienced a widening current account deficit in recent years, due primarily to steadily expanding FDI-related inward capital flows. In 2014/15 the current account deficit reached 6.3% of GDP, up from 5.6% a year earlier, while the nation's trade deficit rose from 4.5% to 8.3% of GDP in the same period.

INVESTMENT PROCESS: Most FDI must be approved by the MIC, which has instituted a variety of reforms in recent years aimed at streamlining this process. Nonetheless, under the 2012 Foreign Investment Law, the commission has up to 90 days to go over investment applications. "FDI can bring both good and bad results," the MIC's U Aung Naing Oo told OBG. "We want to minimise the latter kind. We are interested in attracting high-quality investments that are environmentally and ethically responsible, in line with international best practice in terms of labour and human rights, and that do not encourage corruption." In order to meet these high standards, the MIC has been greatly empowered in recent years. In the past the commission served largely as a middleman between potential investors and the government. "We have been greatly empowered to make decisions since 2011," said U Aung Naing Oo. "We run a one-stop shop. Here investors can sort out Customs, internal revenue, labour, environmental and other approvals at the same time, and with quick turnaround times."

From FY 2011/12 through August 2015 the MIC approved total FDI in Myanmar worth \$21.1bn, as compared to a total of \$36.1bn over the preceding 23 years, since the nation first opened up to limited foreign investment in 1988, according to MIC data. More than half of the 2011-15 period total is made up of inflows from just the past two years. After FDI reached \$4.1bn in 2013/14, the government set a target of another \$4bn for the following year. Actual investment surpassed this goal after six months, and went on to reach \$8.1bn for the year.

KEY SECTORS: In terms of FDI, Myanmar has seen considerable sector diversification recently, though perhaps not as quickly as the government might like. From 1988 through 2011, more than 40% of all approved foreign investment in the nation went to power projects, and primarily large, Chinese-built hydroelectric initiatives. Another 38% went to the oil

and gas sector, while mining accounted for around 23% of the 23-year total. Rounding out the top five the manufacturing sector, with around 5%, and hotel and tourism industry, with 3%.

From 2011 through August 2015, however, the oil and gas industry and power projects have attracted 28% and 23%, respectively, of the total FDI for the period, while manufacturing received 20% and transport and communications brought in around 14%. Other sectors followed by real estate, at around 7%, and tourism hotels, at 5%, according to MIC data. Recent World Bank data confirms the country's longer-term trend. The MIC statistics for the period March 2014 through February 2015 manufacturing attracted \$1.7bn in FDI, compared to \$3.2bn for oil and gas, \$1.96bn for transport and telecommunications and \$1.05bn for hotels and tourism, for example.

In terms of trade, Myanmar remains mainly a natural resource exporter. In FY 2014/15 gas accounted for more than 41% of the nation's exports by volume, by far the single largest export item. This was followed by pulses and beans, with 9.1% of total exports, garments, which accounted for 8.2% of the total, and are the only manufactured item in the top 10. Rice, with 8.1% of exports by volume, is in fourth place, followed by rice, maize, seafood, sesame seeds, raw rubber and timber, according to Customs and AHK data. Agricultural products made up around a quarter of the country's exports in 2014/15, though the real estate sector is likely considerably higher given that an estimated 50% of Myanmar's annual rice crop is sold unrefined to China each year, according to the World Bank.

Growth in Myanmar's imports, meanwhile, has been driven by steadily increasing industrial machinery throughout the country in recent years. In 2014/15 mechanical machinery and transport equipment accounted for 25% of imports into the country, followed by refined oil (primarily vehicle fuel) at around 14% and base metals, at just over 9%. Rounding out the top-five import categories for the year were electrical machinery, with around 4% of the total, and edible oils, at 3%.

MAJOR PARTNERS: Due to the various sanctions enacted on Myanmar over the years, the country has seen a rise in economic partnerships – both in terms of trade



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to a lesser extent, investment – are heavily concentrated in South and East Asia. Nearly three-quarters of the nation's exports go to China and Thailand, for example, and a majority of imports come from China and Singapore. China is the top export destination for Myanmar products, taking 37.3% of the total in 2014/15, according to data from Myanmar Customs and AHK. Exports to China are made up primarily of natural gas, which is piped over the two nations' shared border in a number of areas.

Thailand accounted for 32.2% of Myanmar's exports in 2014/15, including natural gas and agricultural products. According to the Ministry of Energy, gas exports earn Myanmar more than \$170m per month, which is equal to around 40% of the nation's income. The bulk of this goes to China and Thailand, which together take 1.6bn cu feet of natural gas per day from Myanmar. Other top export destinations for Myanmar goods include Singapore, with 6.1% of the total, India, with 6%, and Japan, with 4.4%.

In terms of FDI, in FY 2014/15 around \$5bn came from Singapore-registered firms, which was equal to well over half of the total \$8.1bn that Myanmar attracted. The bulk of this total likely came from firms that are based outside of Singapore, however, given that nation's popularity as a registration destination for foreign firms looking to operate in ASEAN member states. Other key sources of FDI into Myanmar include China, Thailand, South Korea, the UK, Hong Kong, Japan and the Netherlands, among others. "Since sanctions were reduced in 2010 Japanese investment has been growing rapidly here," Fumikazu Gocho, a senior advisor at the Japanese government-linked Japan External Trade Organisation's Myanmar offices, told OBG. "Japanese companies and state-affiliated entities have been key investment partners in Myanmar's special economic zones, in particular."

In the year leading up to the election in November 2015, some data suggest a slight drop in Myanmar-focused investment activities from EU and US companies, though the MIC is quick to point out that a record-breaking amount of investment has been approved for the 2015/16 period.

"There is clearly a great amount of interest from Western companies at the moment," Timothy Duckett, deputy director at the Myanmar office of UK Trade & Investment, told OBG in October 2015, less than a month before the country went to the polls. "But we have observed that people are holding back on actual investments at the moment, due to uncertainty surrounding the election." Forecasts expected the NLD win to result in an uptick in economic activity by Western corporates.

OVERSIGHT & REGULATION: Beginning in 2011 the government implemented significant reforms to the country's trade and investment regulatory framework. "Under the 1988 investment law, a few sectors were opened up, while the rest were closed still," said the MIC's U Aung Naing Oo. "But the 2012 Foreign Investment Law flipped this around, so now a few sectors are closed off while all the rest are open."



Myanmar remains a primary resource exporter, with exports heavily concentrated in raw materials

One industry with relatively strict foreign investment rules is banking, plus a number of other financial services segments. The Central Bank of Myanmar has issued licences to foreign players in recent years, but they allow only for extremely limited banking activities in the country. Restrictions by other government entities have kept foreign insurance underwriters on a similarly tight leash.

Additionally, under the 2012 law, no foreign investment is allowed in the gemstone mining segment or in agricultural concerns dealing with staple crops. Other areas also closed to outsider involvement include care centres for the elderly, private specialist hospitals, traditional food production, small and medium-scale mining, arms and ammunition trade, and native-language newspapers and magazines, among others.

Under the 1989 State-Owned Economic Enterprises Law, which is still in effect today, state-owned enterprises are technically the only firms allowed to operate in a variety of sectors, including the teak industry and the cultivation of forest plantations; activities relating to natural gas and petroleum; the mining of metals; and electricity generating services. However, the MIC has the power to grant exceptions to this law, and has done so extensively in a handful of key export-oriented segments over the years.

DRAFT INVESTMENT LAW: In February 2015 the government released a draft of the Myanmar Investment Law, which has been in the works since 2014 and is expected to be ratified by Parliament in early 2016. The new law will replace the 2012 Foreign Investment Law and the Myanmar Citizens Investment Law of 2013 with comprehensive legislation aimed at bringing all investment regulations under one framework. Perhaps the key change in the new law is a partial devolution of the MIC's authority to approve foreign investment, with the body set to share this power with both state and regional governmental entities.

In fiscal year 2014/15 around \$5bn of foreign direct investment came from Singapore-registered firms – more than half of the total \$8.1bn that Myanmar attracted.

Expected to be ratified in 2016, the Investment Law of 2015 is aimed at bringing all investment regulation under one framework, with a key change being the partial devolution of the Myanmar Investment Commission's authority to approve foreign investment to state and regional governmental entities.



Efforts are under way to develop and modernise the electrical grid

The establishment of a one-stop shop for new businesses at the Myanmar Investment Commission has contributed to the country moving up the ranks of the World Bank's "Doing Business 2016" report, ranking 167th in overall ease of doing business in 2016, up 10 places from 177th in 2015.

NEW ZONING: Over the past few years a growing percentage of inward investment has gone towards Myanmar's new special economic zones (SEZs). Currently three SEZs are in development, though a number of others are planned. In September 2015 the first phase of Thilawa SEZ, which is located around 25 km south-east of Yangon, formally launched. As of the late-2015 launch date, 48 firms had signed contracts to set up operations in Thilawa, including a considerable number of companies involved in garment manufacturing. Dawei SEZ, which is situated in southern Myanmar, and Kyaukphyu SEZ, in Arakan State, are still in development, though both projects have begun to attract interest from foreign corporates.

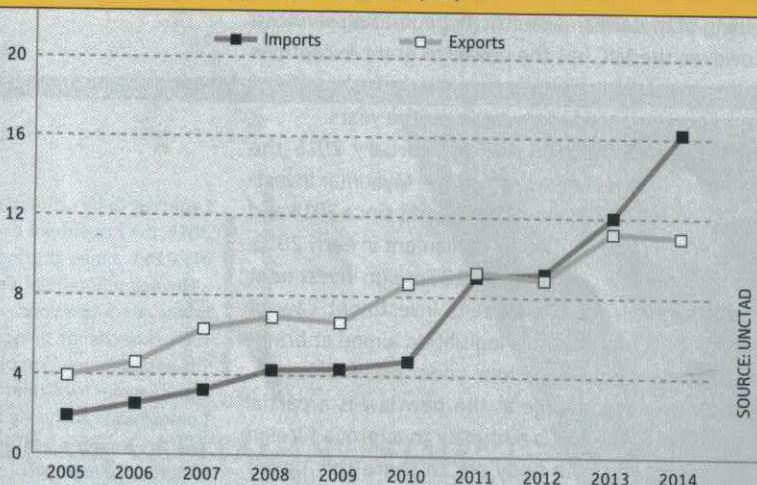
Under the Special Economic Zones Law of 2011, investors who set up shop in an SEZ apply directly to the SEZ administration, thereby circumventing the MIC altogether. SEZ investors also benefit from additional incentives, including 5-7 years of tax exemption, 75-year land leases and various Customs import duty exemptions (see Industry & Retail chapter).

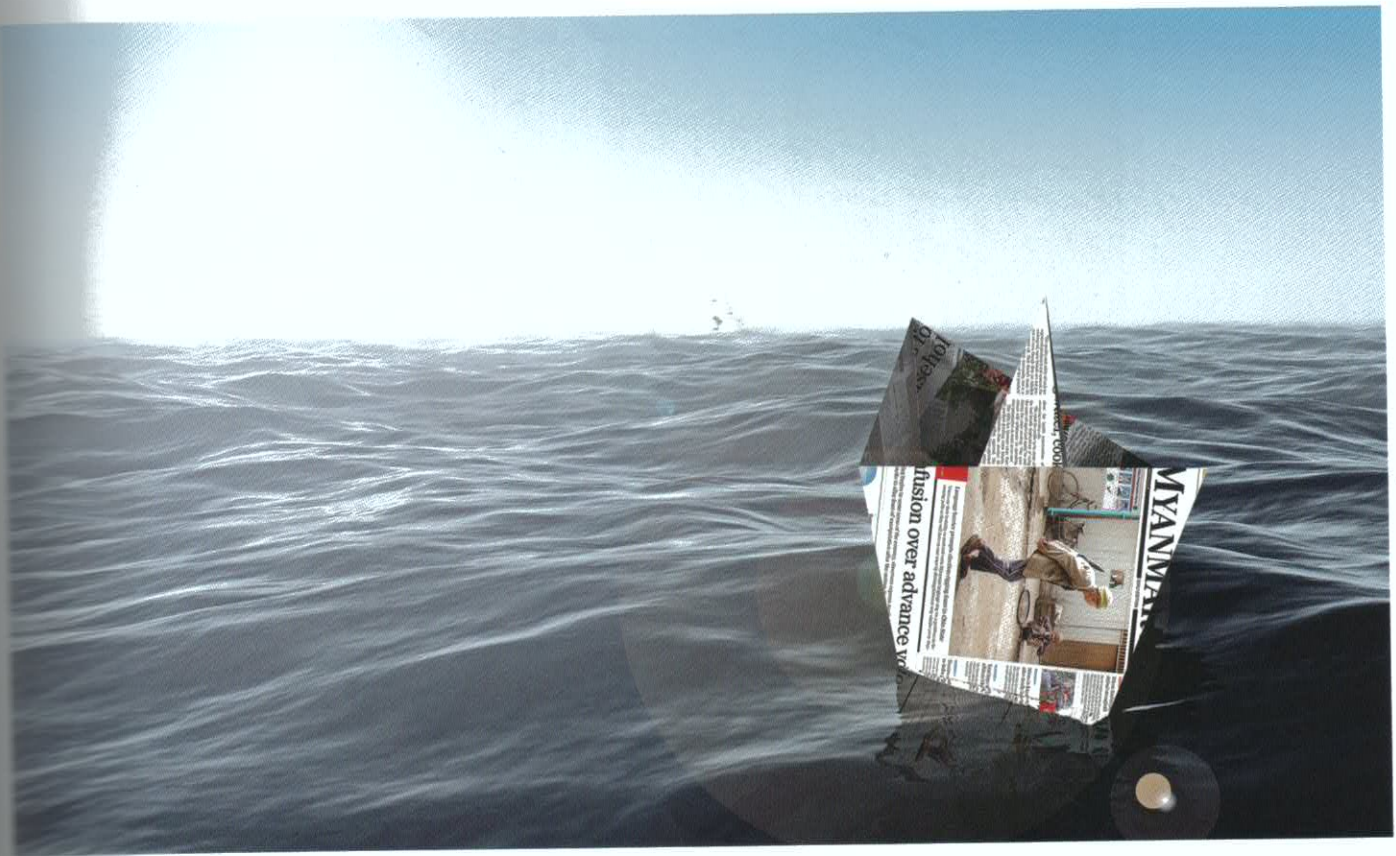
NEIGHBOURHOOD TIES: Even as a steadily increasing number of Western firms eye Myanmar, in the coming years the country's trade base is expected to remain firmly rooted in ASEAN member states plus China, Japan and South Korea, a grouping known as the ASEAN+3 nations. The formal establishment of the AEC in November 2015 has the potential to enable Myanmar to become more closely integrated with its neighbours in the coming years. The AEC, which seeks to unite ASEAN economies into a single unified market and economic area, has been on the cards since the early 1990s. Under the AEC, ASEAN countries have agreed to allow for the free flow of investment, goods, services and skilled labourers. Deloitte, among other ASEAN observers, expects that it will take at least another 15 years to fully implement the programme. Nonetheless, according to Malaysian government forecasts, ASEAN has the potential to post 5% annual GDP growth over the next decade, compared to 2% by the EU, for example (see analysis).

CHALLENGES: Despite the interest from investors, a number of issues remain to be addressed. The reforms enacted in recent years, and particularly the establishment of a one-stop shop for registering new businesses at the MIC, have helped Myanmar move up the ranks of the World Bank's "Doing Business 2016" report, which measures business regulations in 189 economies. However, the country was still given a relatively low ranking of 167th in overall ease of doing business in 2016, up 10 spots from 177th in 2015. The jump in the rankings was driven in large part by improvements to regulations, costs and procedures related to establishing a new venture. Indeed, in the 2016 report Myanmar ranked 160th in terms of starting a business, up 29 spots from 189th in 2015, due to the country's streamlining of incorporation procedures and the elimination of minimum capital requirements for local firms. In the same period the country posted improvements in terms of dealing with construction permits and getting electricity.

According to U Maung Nanda Aung, the executive director of Heritage Capital Investment, the lack of skilled labour is also a huge challenge. "Good engineers are hard to find, and the level of education is significantly lower compared to the rest of the world." **OUTLOOK:** As the country's relatively low overall ranking suggests, doing business in Myanmar remains challenging, for a whole range of reasons. As mentioned earlier, the falling value of the Myanmar kyat against the US dollar; a lack of high-quality transport and electricity infrastructure; restrictive investment and trade regulations; and a relatively underdeveloped legal framework are all real issues that will require considerable attention. However, based on the past five years of liberalisation, the country's leaders appear to be serious about continuing to open up the economy, attract increased amounts of FDI and boost trade. "We are currently working on a 20-year plan to boost investment into Myanmar," the MIC's U Aung Naing Oo told OBG. "The government's outlook is not short-sighted – quite the opposite, in fact."

International trade statistics, 2005-14 (\$ bn)





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U Zay Yar Aung

Investment opportunities

OBG talks to U Zay Yar Aung, Chairman, Myanmar Investment Commission (MIC)

In what ways is it possible for Myanmar to play a larger role in forming new connections for regional trade and investment?

ZAY YAR AUNG: Myanmar has many favourable factors to attract foreign investor attention, such as its strategic location between two economic giants – China and India – its proximity to Thailand, access to the Bay of Bengal, abundant land and water sources, young population and labour resources. Myanmar's economic transition is focusing on trade and investment within the region as it moves towards ASEAN Economic Community (AEC) integration. Myanmar is aware that the establishment of the AEC is a commitment to enable businesses to tap into the potential of the region as an integrated and single investment destination. We hope to see strong foreign direct investment in industry, services and infrastructure.

In addition, enhanced connectivity can potentially place ASEAN at the centre of growth and development for the South-east Asia region, and preserve ASEAN's central role in the evolving global architecture by reducing the costs of investment and international trade in goods and services. This could create the added benefit of narrowing development gaps among nations by redesigning existing regional supply chains. This will also lead to increased opportunities for greater investment, trade and growth in ASEAN. Major roads, including the Asian Highway, ASEAN Highway Route, India-Myanmar-Thailand Trilateral Highway and Greater Mekong Subregion Economic Corridor, pass through eastern, western, southern and central Myanmar. These will surely contribute to regional trade and investment connections.

How would you assess the appetite of foreign investors in the lead-up to the 2015 election?

ZAY YAR AUNG: In the November 2015 election, which was widely considered the country's freest and fairest polls, the National League for Democracy won

a landslide victory. This will likely result in increased interest and investment into the country by multinational companies. Moreover, in early December 2015 the US announced that it would temporarily ease trade restrictions on Myanmar by allowing all shipments to go through its ports and airports for a period of six months. In addition, now that Myanmar is also eligible for the EU's Generalised Scheme of Preference for duty-free treatment, we expect this will attract more investments from Western countries and from the rest of the world.

How can investment be utilised to promote the development of value-added industries?

ZAY YAR AUNG: Private sector investment – both domestic and foreign – when conducted in a responsible manner, can be a key driver of economic development, job creation and inclusive growth. Most developing country governments, working in collaboration with the private sector and development partners, can maximise economic value and job creation from private investment by establishing priorities and focusing scarce resources on specific industries and value chains. We have implemented many forms of public-private partnerships in infrastructure development, especially in road transportation, electricity distribution and electricity plant construction.

What were the deciding factors behind the decision to merge the Foreign Investment Law and Myanmar Citizens Investment Law?

ZAY YAR AUNG: We noticed that other ASEAN countries adopted similar legislation. The merger helps pave the way for a more holistic and non-discriminatory regime for foreign investors. This ensures more protection and easier access to investment under a unified investment law. We believe this will create a fairer and more level playing field between foreign and domestic investors in the relevant markets.



The government has worked to encourage valued-added exports

Neighbourly relations

The nation is set to benefit from increased regional integration and cooperation

In late November 2015 ASEAN signed the Kuala Lumpur Declaration, formally establishing a single market among the 10 ASEAN member states. Known as the ASEAN Economic Community (AEC), the endeavour aims to integrate the region's economies into a unified market of 620m people and with combined annual output of \$2.4trn.

Taken as a whole, the AEC's population is larger than the EU's (by more than 100m people), and also has a significant youth segment, while many European nations are home to ageing populations. Given these advantages, plus the fact that many ASEAN member states are starting from a relatively low economic base, the AEC is forecast to grow by 5% annually over the next decade. Myanmar, which has been a member of ASEAN for the past 15 years, is poised to benefit considerably from the formation of the AEC.

"In my three years here, whenever I have spoken to senior government officials or Cabinet ministers, and the conversation is on development priorities, almost all of them will mention two key aspirations," Toily Kurbanov, country director of the UN Development Programme in Myanmar, told local media in September 2015. "One is to support ASEAN economic integration, and become a full-fledged member of the AEC, and the second is to graduate from least-developed country status."

RIISING INFLUENCE: In 1967, the year ASEAN was established, the organisation invited Myanmar – then called Burma – to join, but the nation rejected the invitation on the grounds that it might interfere with the country's non-aligned foreign policy. Beginning in the early 1990s, however, overtures by a handful of ASEAN member countries – including Thailand and Malaysia – led to Myanmar achieving official ASEAN observer status in 1996 and joining the bloc as a full-fledged member a year later. In the years that followed the country benefitted from its ASEAN member status, seeing increased trade from other

member states, including Singapore and Thailand, though strict domestic investment restrictions and international sanctions meant that the nation saw only a slight uptick in overall revenues. For the same reasons, through the late 1990s and the first decade of the following century Myanmar played a relatively minor role in ASEAN activities.

When the new government of president U Thein Sein launched a raft of political and economic reforms in 2011, however, ASEAN moved to signal approval. In November 2011 the group approved Myanmar for ASEAN's 2014 chairmanship, which was seen as both recompense for 2005, when the country was barred from taking its turn as ASEAN chair, and an acknowledgement of Myanmar's burgeoning status as a regional player. By most accounts Myanmar's ASEAN chairmanship was successful, resulting in several critical political and economic agreements, including the Naypyitaw Declaration on the realisation of the AEC, which intensified efforts in preparation for the late-2015 announcement of the formal establishment of the regional economic community.

BY THE NUMBERS: Myanmar's recent economic boom is primarily the result of trade and investment from ASEAN members and other East Asian economies. Data for May 2014 through April 2015 – the most recent period available at time of publication – shows that more than 40% of Myanmar's exports went to ASEAN member states, and nearly 45% of imports came from the bloc, according to data provided by Myanmar Customs and compiled by AHK (the Delegation of German Industry and Commerce in Myanmar). These figures jump dramatically when trade with China, Japan and South Korea – which account for the additional markets in the ASEAN+3 grouping – is factored in.

During the 2014/15 period around 87% of Myanmar's exports went to ASEAN+3 countries, while around 90% of imports came from the same group.

Myanmar's recent strong economic growth is mainly the result of trade and investment from ASEAN members and other East Asian economies. More than 40% of Myanmar's exports went to ASEAN member states, and nearly 45% of imports came from the bloc between May 2014 and April 2015.



During fiscal year 2014/15 approximately 87% of Myanmar's exports went to ASEAN+3 countries

Thanks to its membership in ASEAN and, as a result, the ASEAN Free Trade Area, Myanmar benefits from the ASEAN bloc's agreements with a number of countries, including China, South Korea, Japan, India, Australia and New Zealand.

Myanmar's single largest trading partner is China, which accounted for 30.2% of imports and 37.3% of Myanmar's exports by value in 2014/15. Myanmar's second-largest trade partner is Thailand, which accounted for 10.1% of imports and 32.2% of exports in 2014/15, according to AKH data. This was followed by Singapore, with 24.9% of imports and 6.1% of exports; Japan, with 10.5% of imports and 4.4% of exports; and India – Myanmar's largest non-ASEAN+3 trade partner – with 3.6% of imports and 6% of exports. Rounding out the top-10 are Malaysia, South Korea, Indonesia, the US and Hong Kong.

Investment into Myanmar comes from a similar grouping of countries. Singapore dominated in 2014/15, with around \$5bn of the total \$8.1bn in FDI coming from the city-state. This figure is potentially misleading, however, as the majority of this sum likely originated with firms that are registered in Singapore but based elsewhere. Under the ASEAN Comprehensive Investment Agreement, which came into effect in 2012, firms operating out of an ASEAN member state are granted various investment benefits in Myanmar. Other major sources of FDI in Myanmar were China, Vietnam, South Korea and a handful of Western players including the Netherlands, the UK and Canada.

REGIONAL TRADE FRAMEWORK: According to World Bank analysis, Myanmar's trade is concentrated in South-east Asia due to the country's unique historical circumstances, and particularly the long-lasting influence of international sanctions, which continued to impact certain sectors and partners in late 2015, despite the country's rapid progress over the past half decade. Between 2009 and 2012 more than 95% of Myanmar's foreign trade was with Asia, according to data from the Asian Development Bank. In addition to its membership in ASEAN and, as a result, the ASEAN Free Trade Area, which came into effect in 1992, Myanmar benefits from the ASEAN bloc's agreements with a variety of countries. As of late

2015 the association had comprehensive economic cooperation agreements with China, South Korea and Japan, in addition to India; and a free trade agreement with Australia and New Zealand.

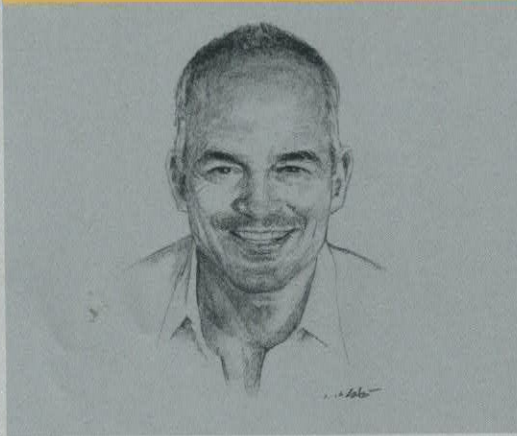
Taking into account the recent establishment of the AEC, Myanmar's trade and investment ties will likely remain heavily concentrated in ASEAN+3 and other nearby markets for the foreseeable future. "Asian investors dominate the market right now," Daw Khin Thida Maw, Myanmar country officer at the World Bank's International Finance Corporation, told OBG in October 2015. "We expect this will continue, even if, as is widely expected, an increasing number of Western investors come in after the election."

Under the AEC Blueprint, the strategy is organised into four pillars. Pillar one covers the formation of the single market and production, which includes the free flow of goods, services, investment and skilled labour; pillar two is the establishment of a competitive economic region, which includes implementing competition and consumer protection policies, plus issues relating to intellectual property rights, taxation and e-commerce; pillar three relates to equitable economic development, which focuses on the development of small- and medium-sized enterprises and ASEAN integration; and, finally, the fourth pillar is aimed at boosting ASEAN's integration into the global economy. According to recent Deloitte research, none of these pillars have been entirely implemented, with completion rates ranging from around 66-86%.

MAJOR BENEFACTOR: Myanmar will likely benefit more from the reforms than most other ASEAN nations. Aside from Cambodia, in 2014 Myanmar had the lowest GDP per capita among member states, at \$1127, according to data from the IMF, as compared to \$2862 in the Philippines, \$3524 in Indonesia and \$5896 in Thailand. From 2011 through 2014 the nation posted a compound annual GDP growth rate of 8.1%, compared to 3.6% in Thailand, 6.6% in the Philippines and 5.5% in Vietnam. The ASEAN-wide rate for the same period was 5.6%. Myanmar's relatively low level of economic development as compared to many of its neighbours, plus its competitively priced workforce and vast reserves of natural resources, mean that the country is well positioned to grow under the AEC, which is expected to make trade and investment easier and cheaper between member states.

A key challenge for Myanmar in this climate is to manage trade effectively, and to ensure that the country does not simply rely on raw natural resource exports for too long. The government has worked to encourage valued-added exports across a variety of segments, but a considerable amount of work is still required here. "Our trade situation has completely changed since 2011," U Maung Aung, an advisor to the union minister's office at the Ministry of Commerce, told OBG. "Now we have an export-led policy, which better reflects our economic situation. There are still challenges, of course, but trade has more than doubled in the past five years, and it is clear that our neighbours will continue to buy our products."

Myanmar's relatively low level of economic development, plus its competitively priced workforce and vast reserves of natural resources, mean that it is well positioned to grow under the ASEAN Economic Community, which is expected to ease trade and investment between member states.



Gavin McGillivray

A challenging transition

OBG talks to Gavin McGillivray, Head, UK Department for International Development (DFID), Myanmar

How has the private sector developed during the political and economic restructuring that has taken place in Myanmar in recent years?

McGILLIVRAY: Since 2010 Myanmar has seen striking progress, including the unification of the dual exchange rate; independence of the central bank; increased freedom of movement; an explosion of mobile connectivity; and a 10 place jump up the World Bank's "Doing Business" country rankings in terms of ease of doing business. Private enterprises are responding to this. Myanmar's economy grew 8.5% in fiscal year 2014/15 and foreign direct investment reached a record \$8bn. Oil and gas were the main drivers, but there were also large investments from Korea, Hong Kong and Singapore in the garments industry. A rush of construction is changing Yangon's skyline, and dozens of international service firms have opened offices in the city.

In terms of the number of people employed, the largest part of the private sector by far is farming, yet agriculture contributes only 31% to GDP, and a large part of any profit tends to be captured by middle men. Not many farmers would say they are fundamentally better off, and people continue to leave the land. Some factors holding back farming relate to agriculture, but other constraints are common to most businesses in Myanmar: difficulty in accessing finance; poor infrastructure; a scarcity of skilled workers to add value to basic produce; and red tape. Progress needs also to happen to end the conflict and inter-communal strife that currently thwarts healthy private enterprise, particularly in the border regions.

Despite its 10-point advance this year, Myanmar is still ranked 167th in the World Bank's rankings. Firms have been crying out for finance. Regarding access to credit, Myanmar fell in the ranks. International capital and know-how should play an important role. Myanmar is approaching this step cautiously. This partly reflects a legitimate desire to build Myanmar's reg-

ulatory and supervisory capacity before further liberalisation takes place, and may be also partly due to lobbying by Myanmar's banks.

In banking, as in transport, energy, mining and manufacturing, ownership has for decades been dominated by a few groups, many of which are associated with the military. That Myanmar's main sources of wealth have for years been controlled by the few has had ruinous consequences for the many. Without competition, the few have had no need to innovate, and the many have had no incentive to do so.

The difficulty new investors have breaking into business has held back the diversification of the economy. Myanmar still depends unduly on extractive industries which generate too little employment or stimulus to the rest of the economy. This limits the options for those wishing to move out of farming and the potential for this movement to be a driver of prosperity. In richer countries, development has been driven in large part by rural dwellers moving into more productive work outside farming.

How can reforming state enterprises act as a catalyst to private sector development?

McGILLIVRAY: State enterprises illustrate this narrative where a few firms dominate large swathes of the economy. This includes systemic sectors – banking, transport and energy – in which dynamism is vital but will not happen under public ownership. The government does not yet have the laws or the capacity in place to undertake extensive privatisation in ways that are transparent and ensure fair value. While the government builds up its capability to divest, regulate and supervise there will be opportunities to introduce transparency and competition. DFID seeks to help create an enabling environment for business and build equitable markets that foster inclusive and responsible private enterprise. We back the reform of business laws and push for greater transparency.



Julie Bishop

Friendly ties

Julie Bishop, Australian Minister for Foreign Affairs, on the launch of the Australia-ASEAN Council

The South-east Asian region is one of the fastest growing economically in the world. It is a dynamic and exciting area within the Indo-Pacific, a region which straddles the Indian and Pacific Oceans, and which is home to around half the world's population, about a third of the world's GDP, and around a third of the world's total exports. South-east Asia comprises an estimated 620 million people with a combined GDP of around A\$3.6trn (\$2.87trn), so it is an area of enormous importance to us, as well as being our neighbourhood. This is our region, it is where we live, and it is where our future lies.

Around 15% of Australia's total trade is with the 10 countries which are now ASEAN members, making it an important trading partner for our country. We do, of course, have a free trade agreement with the ASEAN nations, with trade between Australia and ASEAN amounting to around A\$100bn (\$79.48bn) in 2014. Due to the fact that most of our exports travel through South-east Asia to ASEAN countries and to the rest of the world, it is a very important region for us, and I'm hoping that with the establishment of the Australia-ASEAN Council we can engage even more closely.

Australia is a highly valued partner of the south-East Asian region. We are a liberal democracy that is deeply committed to freedoms, rule of law, human rights and democratic institutions. We are an open, export-oriented market economy, which is focused on liberalising trade and encouraging further trade and investment in our region. Therefore, Australia is a natural partner for the South-east Asian countries. This is a position that we certainly hold in high regard.

Australia will continue to grow closer to the countries of South-east Asia through work done at senior government levels and at senior business levels. Although political relationships can wax and wane and economic circumstances can ebb

and flow, our countries' engagement at a deeper level will continue to be maintained through long-term personal and institutional connections and through people-to-people links.

Indeed, some of the most successful foreign policy initiatives have been based on people-to-people links. The original Colombo Plan, for example, involved bringing people from the region to study in Australia – during the 1950s, 1960s and 1970s – to gain qualifications in our universities before returning home to help build the communities, economies and nations in the region. The alumni from the original scheme are now the political, business and community leaders of today. Their connection with Australia is cemented through their alumni status as Colombo Plan scholars.

We now want Australian students to have the same experience, and so we have provided funding for 10,000 of them to live, study and work in our region around the Indian Ocean, Asia-Pacific, and specifically in South-east Asia. These students will form personal connections, networks, friendships and relationships that will last a lifetime. They will strengthen the business, academic and personal ties between Australia and South-east Asia.

The Australia-ASEAN Council is an integral part of the Australian government's public and economic diplomatic strategy. It will assist in projecting a positive image of contemporary Australia into South-east Asia. The council's Board is chaired by Christine Holgate, managing director of the natural health company Blackmores, and comprises eminent Australians from the business, finance, media, agriculture, arts and culture sectors. The council will foster lasting partnerships across all of society, from schools and local communities to leaders and opinion shapers. It will educate Australians and increase awareness and opportunities to connect with the countries of South-east Asia.

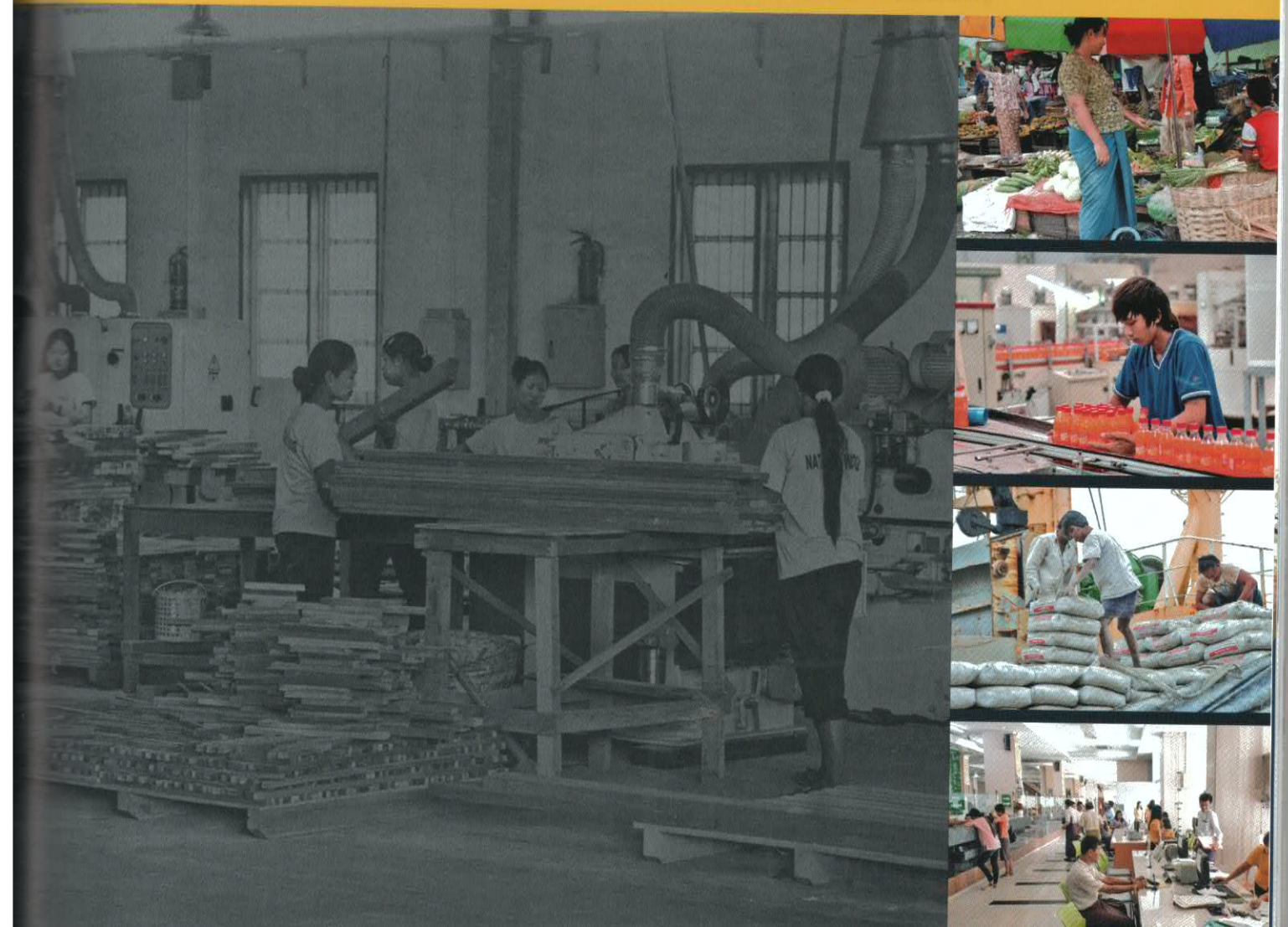
Economy

New government expected to open more doors

Central bank focused on maintaining balance

Numerous sectors provide potential for growth

Rising incomes are changing consumer habits





The government is looking to improve the business environment

Future facing

Despite some short-term challenges, the economy is poised for continued long-term growth

The country's central bank allowed the kyat to trade at its real value in 2012, and as a result the currency has rapidly depreciated, losing 30% of its value in the first 11 months of 2015.

After nearly half a century of isolation, followed by five years of reform-driven growth, Myanmar's economy is currently expanding at a record rate. As of late 2015 rising investment, growing exports and steadily increasing foreign involvement were expected to push GDP growth to 9.3% during FY 2015/16, which ends in March 2016, according to government estimates. This follows on five years of average annual GDP growth of around 7.5% since the current thaw began in 2011, which has had a positive impact on the daily lives of a large segment of the population.

The current period of economic expansion is a result of two main causes: a raft of new government liberalisation policies, which have made it much easier to do business in the country, and the fact that Myanmar started from a low development base in 2011, which has meant wide scope for growth as its economy plays catch-up.

Regardless, the nation's rapid growth is widely seen as a positive indicator of future performance and potential. "The economy has changed and expanded at an incredible pace in recent years," Daw Khin Thida Maw, the International Finance Corporation's country officer in Myanmar, told OBG. "This has created many challenges, of course, but it also has positive implications for Myanmar's future, which is clearly bright."

OVERCOMING OBSTACLES: That said, the challenges facing the country are manifold and some are pressing. Since the Central Bank of Myanmar (CBM) allowed the kyat to trade at its real value in 2012, the currency has depreciated rapidly, losing some 30% of its value in the first 11 months of 2015 alone. On a related note, rising inflation and a widening current account deficit (CAD) led the IMF to call for increased central bank controls and a tighter monetary policy in mid-2015. More fundamentally, after years of underinvestment

on the part of the government, Myanmar's power, transport and communications infrastructure is outdated and of a relatively low quality, which is a major disincentive for foreign investors that are looking to set up manufacturing operations in the country. Finally, while the nation's regulatory framework has improved dramatically in recent years, it still lags behind global best practice in a number of key areas, including investment protection, land and labour issues, and intellectual property rights, all of which have negative implications for local and foreign businesses.

GETTING BUSY: The government has worked to address these and a slew of additional issues in recent years. "There is so much to be done at the moment, it is hard to keep track of it all," Alexander Jaggard, country representative for the Vietnam-based research consultancy Mekong Economics, told OBG. "Since 2011, more than 30 laws have been enacted in total. Legislation currently under review will address a host of pertinent issues and sectors, including small and medium-sized enterprises, arbitration, trade, consumer protection, the financial sector and competition, among many others."

Much of the work of implementing these and other upcoming changes, not to mention managing the country's continued growth, will fall to the National League for Democracy (NLD), which won more than 80% of contested seats in the historic November 2015 election, and is scheduled to take charge of the government in early 2016. While the party had not yet released a detailed economic platform or official policies as of January 2016, given its strong mandate and the extent and pace of Myanmar's reforms thus far, it is widely expected to continue to push for increased economic liberalisation, international integration, political normalisation and, consequently, growth.

The National League for Democracy won 80% of contested seats in the November 2015 election and is expected to take charge in early 2016.

LONG HISTORY: Endowed with vast mineral, hydrocarbons and agricultural resources, Myanmar has historically been a major source of production and exports, as well as a key stopping-off point on the trade route between India and China. Even prior to British rule, which began in the mid-19th century, Burma, as the country was known at the time, was a regional trade centre, although agriculture and exports still played a primary role, with its key exports being gems, teak, rice and other agricultural products. In the 1880s and 1890s the British invested heavily in mining, energy and other types of extractive industries, turning Myanmar into one of the wealthiest nations in Asia.

During the Second World War, however, fierce fighting between Japanese and British troops decimated the country's economy and set Myanmar on the fast track to independence, which was achieved in 1948, three years after the end of the war. A 15-year period of intense disputes, regional infighting and political tensions followed, which further damaged the economy, wiping out nearly all of Myanmar's agricultural and mineral exports.

A 1962 coup d'état resulted in the replacement of a civilian government with an authoritarian military regime, which instituted far-reaching economic overhauls under an economic policy known as the "Burmese Way to Socialism". Reforms enacted during this period included the nationalisation of all private enterprises and the closing off of the economy to foreign influence, kicking off a long period of political, economic and physical isolation from the rest of the region and the world at large. In an effort to improve the lives of everyday citizens, the *Tatmadaw*, or the Myanmar Armed Forces, focused its efforts on developing the agriculture sector in what amounted to an anti-industrialisation policy, which proved to have devastating long-term economic effects.

CRACKING THE DOOR: This situation improved slightly in the late 1980s, when a series of protests led the military government to open up some industries, primarily energy, mining and related concerns, to foreign involvement and private investment. After an initial burst of economic activity, however, the US, EU and Canada instituted trade sanctions on Myanmar in the 1990s and early 2000s, which put a damper on inward investment from Western firms. Nonetheless, in the late 1990s and 2000s investment and trade between Myanmar and its fellow ASEAN member states, as well as the East Asian giants China, Japan and South Korea, contributed to steady growth in the country. By 2000 Myanmar's exports were valued at \$1.96bn, up from just \$498m a decade earlier, according to the UN Comtrade statistics database. The country's largest trade partners are still China, Thailand, Hong Kong and India.

Over the ensuing decade economic ties between Myanmar and the West weakened as a result of sanctions, while links with ASEAN, which Myanmar



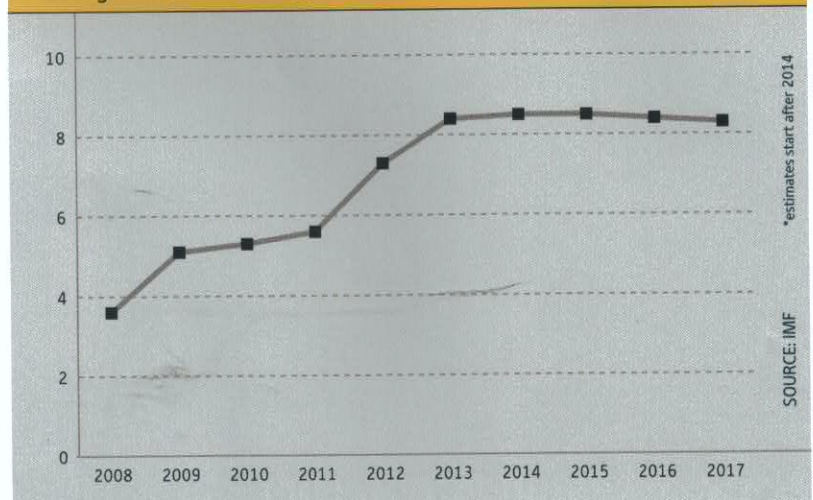
The agriculture sector is still the largest employer in the country

joined in 1997, and other East Asian countries continued to deepen, albeit at a relatively slow pace due to a continuation of relatively isolationist policies in the country. The government oversaw a complex and changing set of regulations during this period, some aimed at liberalising the economy and opening up further to foreign investment, while others were strongly protectionist. The exchange rate for the kyat, for example, was officially set at around MMK6.4:\$1 from 2003 through 2012, while the black market rate fluctuated between MMK700:\$1 and MMK1200:\$1, a discrepancy that made it difficult to legally convert kyat to foreign currency.

From 1988 through 2002 foreign direct investment (FDI) into the country went primarily to oil and gas projects, followed by manufacturing, hotels and tourism, and real estate development, according to data from Myanmar's Central Statistical Organisation. Agriculture, which was the country's largest employer at the time, as it is today,

While sanctions in the 1990s and early 2000s put a damper on inward investment from the West, trade with other Asian countries grew and by 2000 Myanmar's exports were valued at \$1.96bn.

GDP growth, 2008-17* (%)





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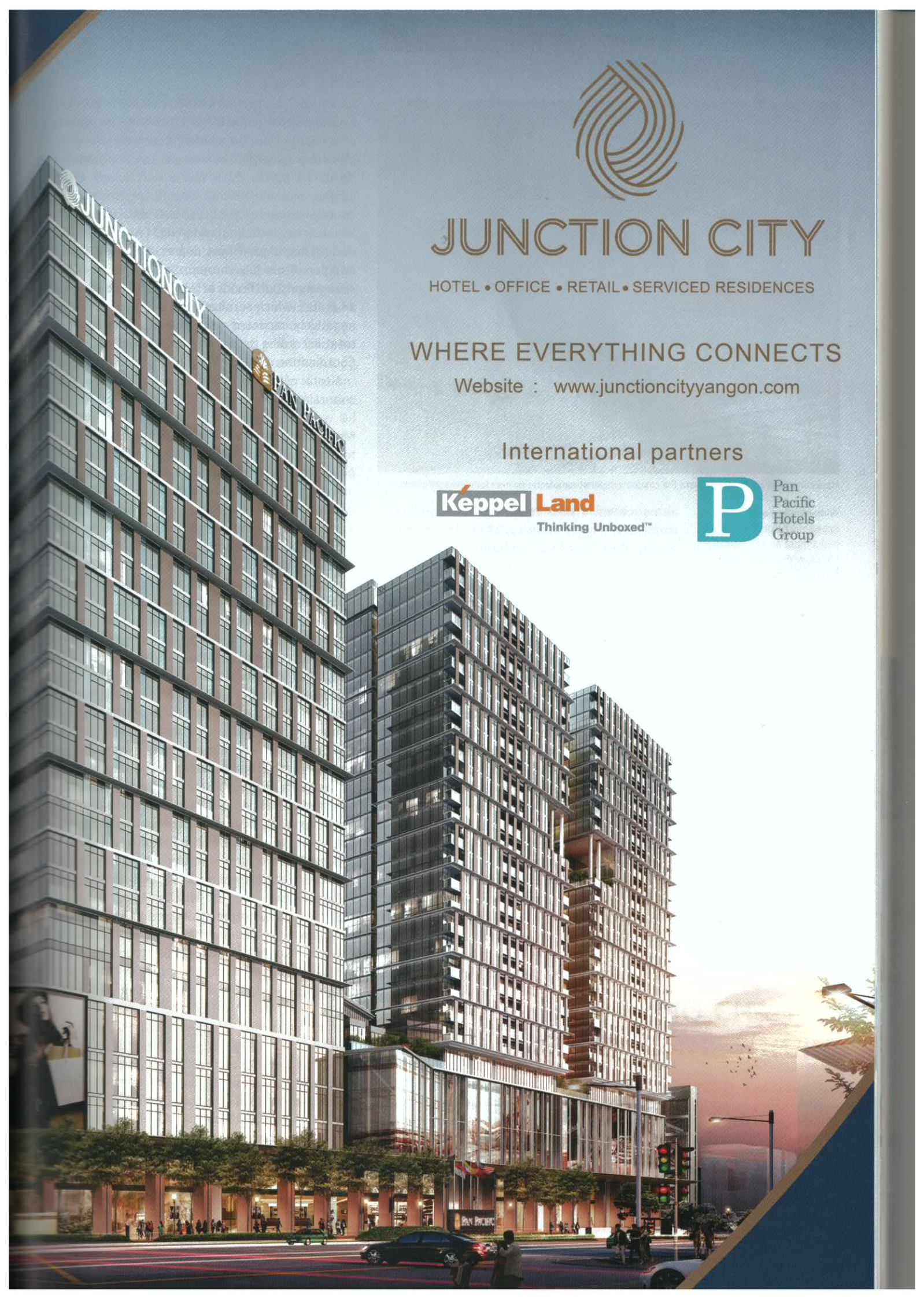
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International partners





More companies are looking to make the country a regional manufacturing base for consumer goods

Wide-ranging social and economic reforms in 2011 had almost an immediate effect, with FDI jumping over 600% from \$329.6m in FY 2009/10 to \$20bn in the following year.

also received a considerable amount of investment, both from foreign entities and domestic players alike. From 2000 through 2010 the bulk of Myanmar's trade and investment activity was with Asia, a trend that continued until quite recently. Indeed, between 2009 and 2012 some 95% of the country's foreign trade was with Asian partners, according to the Asian Development Bank's (ADB) 2014 report "Myanmar: Unlocking the Potential – Country Diagnostic Study."

A NEW ERA: Following a series of political reforms enacted by a post-junta government led by outgoing president U Thein Sein in March 2011, the country embarked on a period of economic liberalisation, privatisation and regional integration. Under the Myanmar Investment Commission (MIC) and the Directorate of Investment and Company Administration, which fall under the Ministry of National Planning and Economic Development, the country opened its doors to foreign investment and ramped up efforts to boost trade. To stabilise the kyat, the CBM instigated a managed float of the currency in 2012.

The nation's legal environment has undergone extensive changes since 2011, with new policies put in place in areas as wide ranging as taxation, anti-corruption, monetary policy, Customs duties, foreign exchange, banking, and domestic and foreign investment. The reform effort had an immediate and far-reaching impact on Myanmar's economy. From FY 2009/10 through FY 2010/11, FDI jumped more than 600% from \$329.6m to allowed investments of \$20bn. Trade has grown considerably, though pent-up demand has resulted in Myanmar running a trade deficit in recent years. The country's economy has grown substantially, with GDP growth averaging around 7-8% per year since the thaw began, and inflation has dropped considerably from the early and mid-2000s, when

Myanmar faced a number of challenges in 2015, including devastating floods that killed over 100 people, impacted another 1.15m and wiped out 526,091 ha of prime agricultural land.

it regularly topped 20%. This steadily improving economic environment has led to the emergence of a middle class population, centred in Yangon, Mandalay and other urban areas (see analysis).

YEAR TO DATE: 2015 was a particularly challenging and momentous year in Myanmar. The country struggled with various macroeconomic imbalances, including widening CAD and fiscal deficits, continued kyat depreciation and rising inflation. From July through September of 2015, severe monsoon floods affected 12 of the nation's 14 states, which resulted in over 100 deaths and negatively impacted more than 1.15m people in total, according to data from the UN Office for the Coordination of Humanitarian Affairs.

A total of 526,091 ha of Myanmar's prime agricultural land were inundated and another 278,019 ha were damaged, which is expected to have far-reaching negative effects on food security, not to mention agricultural exports for the 2015/16 period and further on in the future. Agriculture makes up almost one-third of Myanmar's GDP and one-quarter of exports, according to the World Bank. As such, the longer-term impact of the flooding includes added pressure on inflation and the CAD, plus the fact that the agriculture sector is not expected to recover for over a decade.

POLITICAL CHANGE: Landmark general elections, which were held on November 8, 2015, also had a major impact on Myanmar's economy, though the long-term repercussions had yet to play out as of early 2016. The NLD, led by chairperson Daw Aung San Suu Kyi, won a majority of contested seats, largely on the basis of its status as the opposition party. That being said, the military is likely to continue playing a major role in running the country for the foreseeable future, given that 25% of the seats in the House of Representatives are reserved for Tatmadaw-affiliated politicians under the nation's 2008 constitution. Nonetheless, when the NLD takes charge of the nation in early 2016 it is expected to continue to push for additional economic reforms and market liberalisation.

Furthermore, an NLD-led Myanmar is widely expected to be better positioned to attract, and welcome, investment from Western countries, many of which have watched the nation's development thus far with cautious optimism. "Most current and potential investors are holding back right now," U Soe Win, the managing partner of Myanmar Vigour, which has partnered with Deloitte, told OBG. "Assuming that the three-to-six-month transition period for the new NLD government progresses smoothly, I think investors will then move into the country very quickly."

GROWTH IN FIGURES: While Myanmar's economy has clearly grown substantially since 2011, conflicting numbers, a lack of reliable data collection and poor reporting standards in many sectors mean that much of the nation's economic data is of a relatively poor standard and should be read

only as a guideline to current trends. With that caveat in mind, in the 2014/15 FY Myanmar's economy grew at an estimated real rate of 8.7%, according to data provided by the government, while staff at both the World Bank estimated real GDP growth for the year at 6.5%, due to the flood in August 2015. The World Bank reported growth of 8.5%, for real GDP growth the previous year (FY 2013/14) as well, and both of these recent growth figures were similar to or above the rates of 7.3% in FY 2012/13 and 5.6% in FY 2011/12, when the economic thaw began. According to World Bank estimates, the economy has grown at an average annual rate of 7% since 2010/11, which is in line with real GDP growth of 6-10% in neighbouring countries in the five years following liberalisation.



Manufacturing and industrial output grew over 8% in 2014/15

GDP per capita growth, meanwhile, has lagged slightly behind overall economic expansion. On a per capita basis GDP fell slightly from \$1118 in 2011/12, according to IMF data, to \$1100 in 2012/13, before rising again to \$1112 in 2013/14 and to a provisional level of \$1228 in 2014/15. The IMF foresees continued per capita GDP growth in the coming years, with the fund forecasting a rate of \$1269 in 2015/16, \$1364 in 2016/17 and \$1502 in 2017/18. These figures put Myanmar at the lower end of per capita GDP in South-east and South Asia as a whole, according to the IMF. Nonetheless, a small, but growing, middle class population and changing consumer habits have become more visible in Myanmar (see analysis).

SECTOR BREAKDOWN: Myanmar's growth drivers on the demand side have shifted in recent years, as government spending on public services such as health care and education has increased. Private consumption, meanwhile, has been consistently strong since 2011 and is expected to continue growing in the coming years, driven by private sector-led construction activity in Yangon and other urban areas, as well as rapidly expanding domestic and foreign investment in the services, industrial and agriculture sectors. In FY 2014/15, for example, services accounted for 4.2 percentage points of overall GDP growth, and the services sector as a whole grew by more than 10% in total, according to World Bank data. Of this growth, the

telecommunications sector, which was liberalised in 2013, contributed 4.3 percentage points, while trade accounted for 2.9% and transportation made up 1.8%. Transport services, which include freight handling, logistics and related activities, made up one-third of total service sector growth over the past four years, due in large part to Myanmar's rapidly expanding domestic and external trade.

BRANCHING OUT: Manufacturing and industrial output grew by more than 8% in 2014/15, due in large part to continued investment in Myanmar's booming natural resources sector. From March 2014 through February 2015 the manufacturing sector attracted \$1.7bn in FDI for a total of around 150 new projects. While both the oil and gas sector and transport services brought in more FDI overall – around \$3.2bn and \$1.9bn, respectively, according to the World Bank – far more FDI-financed projects were launched in manufacturing than any other sector. A majority of this investment went towards setting up new garment factories. The garment production industry is one of the country's largest in terms of employees and number of companies involved. The segment has nearly

While per capita GDP fell slightly from \$1118 in fiscal year 2011/12 to \$1100 in 2012/13, it then increased in 2013/14 to \$1112 and in 2014/15 to \$1228.



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doubled its revenues base in recent years, from around \$900m in 2012 to \$1.56bn in 2014, according to data from the Myanmar Garment Manufacturers Association. Other key contributors to manufacturing growth include building materials, which also grew at around 8% in 2014/15, food and beverage production and, increasingly, the fast-moving consumer goods industry (see Industry and Retail chapter).

Myanmar has only recently begun to industrialise at a large scale and agriculture remains a key economic driver, not to mention a major employer, particularly in rural areas where a majority of the nation's population resides. Prior to 2011 the sector suffered years of underinvestment and, consequently, declining output. Since then, however, agricultural output has increased annually, from a slight decline of 0.7% in 2011/12 to growth of 1.7% in 2012/13, 3.6% in 2013/14 and 5.6% in 2014/15. This expansion has taken place as a result of investments targeting a wide variety of technological upgrades on farmland and improved transport networks, which have increased access to markets across the country. Rice paddies account for over 54% of Myanmar's planted farmland. Beans and pulses are also major export earners.

KEY COMPONENTS: Myanmar's energy industry was first liberalised in the late 1980s, when a handful of foreign oil majors were invited to begin exploration in the country. Since then oil and gas has become a major export earner. As of 2014, the Ministry of Energy estimated that Myanmar had the potential to extract \$4.6bn in oil from both onshore and offshore deposits and 15.48trn standard cu feet of natural gas.

Since 2011 the country's energy exploration- and development-focused state-owned energy firm, the Myanma Oil and Gas Enterprise, has carried out three international rounds of bidding for a variety of exploration blocks, both on and offshore, which have resulted in a number of oil majors moving into the country.

Given this ongoing recent activity, annual 2014 production of around 180,000 barrels of oil equivalent (90% of which is gas) is expected to jump considerably in the 2016-18 period as exploration ramps up. From FY 2011/12 through August 2015, the oil and gas sector attracted the single largest share of FDI, with around 28% of the total, according to data from the MIC. The energy sector has been a key component of Myanmar's economy for decades, though until recently only Asian companies were involved. The participation of Western oil majors points to considerable growth in this area for the future (see Energy chapter).

Historically the mining sector has been one of Myanmar's least regulated industries, to the point that, even today, there is very little reliable data about mining output. At the same time, the country is home to vast mineral wealth in the form of gems, like jade and rubies, as well as metals, ores



Rising per capita incomes have also led to changes in consumer habits, such as an uptick in auto sales

and other industrial materials, such as marble. Jade is the country's largest mining output by far, with one 2011 study estimating output at \$7.9bn. The jade segment, like the mining industry as a whole, is managed by a handful of state-owned firms, plus a handful of foreign players. In 2013 the government drew up a new mining law with the aim of increasing the sector's attractiveness to investors. After many rounds of parliamentary debate, it passed a set of amendments in December 2015, with specific regulations for these to be drafted over the next 90 days (see Mining chapter).

POWERING UP: According to the ADB, as of the end of 2015 per capita electricity consumption in Myanmar was the lowest in the region, due in large part to the fact that 70% of the nation's population had limited or no access to power. However, the government has made a concerted effort over the past decade and a half to boost electricity supply and transmission, with an eye towards improving both quality of life and the business environment for the manufacturing industry.

Beginning in the late 1990s and through the early 2000s, regional companies, particularly from China, carried out hydropower projects in Myanmar, although much of the power these generated was transmitted and consumed outside of Myanmar. According to MIC data, from FY 2011/12 through August 2015, the power segment attracted the second-largest amount of FDI after the oil and gas industry, with 23% of the total.

Improving Myanmar's power supply is expected to have a knock-on effect on manufacturing, which has been a target growth area for the government in recent years. In 2013 the OECD estimated that Myanmar was home to some 60,000 individual manufacturing firms, the majority of which had only a handful of employees. In addition to garments, which are widely regarded as

The country has only recently begun to invest in large-scale industrial development, and agriculture remains a major producer, with output increasing annually at 3.6% in 2013/14 and 5.6% in 2014/15.

With 70% of the country having limited or no access to electricity in 2015, the government has focused on investing in infrastructure, and the segment attracted 23% of total FDI from FY 2011/12 through to August 2015.



Plans for a number of SEZs should help the government to attract more investment and businesses

The banking sector was only recently liberalised, and foreign players can only lend to other foreign entities. However, banking penetration is estimated at 5%, leaving enormous potential for growth.

a key area of expansion, local and foreign manufacturers are involved in producing bottled water, energy drinks, beer, automobiles, pharmaceuticals and construction materials. The government has worked hard to encourage these activities since 2011, enacting a series of manufacturing-friendly laws and regulations, as well as moving forward with a plan to build a handful of special economic zones (SEZs) in the country.

In September 2015 the first of these zones, Thilawa SEZ, which is 25 km south-east of Yangon, was officially opened, though foreign players had been setting up shop there for more than a year prior. Thilawa SEZ, which is strongly supported by both the Myanmar and Japanese governments, as well as a raft of industrial firms from both countries, offers a variety of incentives to foreign players looking to set up shop in Myanmar, including tax exemptions, and favourable land ownership and capital repatriation frameworks. Bangkok-based daily *The Nation*, which reported on the September 2015 launch, said some 48 companies were in the process of establishing factories at Thilawa SEZ, including four domestic players. The government is also currently developing other SEZs throughout Myanmar (see Industry & Retail chapter).

ADDITIONAL CONTRIBUTORS: The liberalisation of the telecoms sector in 2013 resulted in two foreign operators setting up shop in Myanmar, namely Qatar's Ooredoo and Norway's Telenor, which were awarded licences in January 2014. Since then, both firms have invested heavily in towers, fibre optic and other communications infrastructure. This new activity has contributed to mobile penetration jumping from around 33% to nearly 55% from mid-2014 through mid-2015, according to figures from the Ministry of Communication and Information Technology. The mobile penetration figure, and the telecoms sectors economic output, are

widely expected to continue to grow for the foreseeable future (see Telecoms & IT chapter).

Finally, Myanmar's agriculture and financial services sectors are both expected to play an important economic role in the country's future. The former, which is historically one of the nation's largest industries in terms of output and workforce, has waned slightly since 2011 due to the government's focus on industrial activities and, most recently, the mid-2015 floods. Nonetheless, given Myanmar's size and large labour force, the production of rice, beans and vegetables will continue to be an important economic activity.

The banking sector, meanwhile, was only recently liberalised, with nine foreign banks, all from the Asia-Pacific region, being awarded limited licenses in October 2014, on condition that they provide investment services solely to foreign players. The entrance of foreign banks is expected to have positive long-term effects on the domestic banking industry, which has been operational since 1993 and still carries out most business without the use of computers. "The development of the banking sector is starting from a very low base," Daw Khin Thida Maw told OBG. "ATM cards are not new, but credit cards are still novel. Furthermore, even the CBM requires all local institutions to keep paper records." In mid-2015 Reuters reported overall domestic banking penetration was at just 5%, though this figure is widely expected to grow over the course of the coming decade, particularly as the financial demands of the country's nascent middle class expand (see Banking chapter).

OUTLOOK: Myanmar's economy has shown signs of overheating in 2014/15, with rising inflation and a widening CAD, according to IMF data. This, along with various other short- and medium-term challenges, including limited infrastructure and the rapidly changing legal environment, has been a topic of discussion among the local business community and foreign investors alike in recent years. While Myanmar jumped 10 spots in the World Bank's 2016 doing business index as compared to the previous year, the country still ranked relatively low overall, at 167th out of 189 economies. Continued kyat depreciation against the dollar is a serious hurdle for export-oriented firms operating in Myanmar, both domestic and foreign.

Nonetheless, interest in Myanmar as a potential destination for economic activity of all sorts has grown exponentially over the past five years. Since 2011, FDI has poured into the country, trade has grown rapidly and domestic output has increased apace on the back of continued government-led reforms and rising levels of foreign integration. "There are huge opportunities here right now," U Maung Aung, an advisor at the Ministry of Commerce, told OBG. "We have a vast amount of land, a large population and great potential for growth across a range of economic activities. We need to work to capitalise on these advantages."

The Thilawa SEZ opened in September 2015 and offers investors tax exemptions and many favourable terms; 48 companies are already in the process of establishing factories in the zone.

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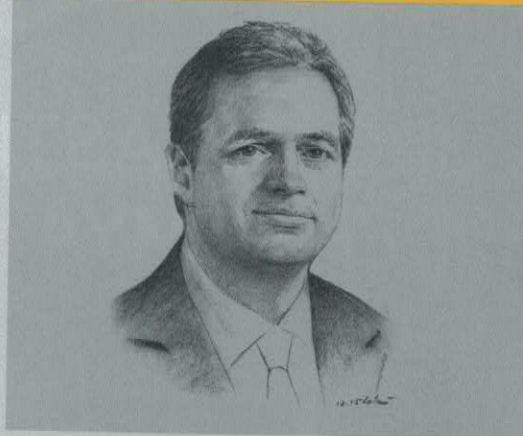
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Axel van Trotsenburg

Triple transition

OBG talks to Axel van Trotsenburg, Vice-President for East Asia and the Pacific, World Bank

How would you assess Myanmar's institutional capacity to implement its development goals?

VAN TROTSENBURG: Myanmar is going through a triple transition: from military rule to democratic governance; from conflict to peace; and from a state-oriented to a market-oriented economy. As one of the country's leading development partners, the World Bank hopes its partnership with Myanmar can help its people make this momentous transition.

Despite the numerous challenges that are common in countries at this stage of development, we are encouraged by Myanmar's progress towards its stated goal of democratic governance. The government has professed a strong commitment to creating a more effective and transparent state. It has signed on to transparency schemes like the Open Government Partnership and the Extractive Industries Transparency Initiative. It is setting up new organisations to monitor and oversee official behaviour, such as the Anti-Corruption Commission and the Rule of Law Commission in Parliament. The government has begun to clarify the functions of state institutions and develop agencies' capacity to carry out their mandates. It has also launched substantial reforms to establish mechanisms for effective management of public funds, and has begun to increase the amount of funds available for spending at state, regional, district and township levels, which will help align development projects with local needs. Such decentralisation measures, if introduced and implemented in a consultative, consensus-based manner, can play an important role in Myanmar's political stability.

What is the World Bank doing to speed up Myanmar's adoption of modern farming techniques?

VAN TROTSENBURG: The World Bank will support Myanmar's efforts to increase agricultural productivity with an integrated programme that combines improvements in irrigation and drainage, extension

services, and value-chain upgrades. The programme aims to boost crop yields and develop a competitive rural sector that offers opportunities to all rural households, with special focus on female-headed households and poor or landless farmers. Specifically, we are providing 4500 farmers with access to improved agricultural techniques so that they can boost the yields of rice crops and provide better irrigation and drainage services covering 10,000 ha by 2017. We will further support agricultural productivity enhancements by providing agro-meteorology services (e.g., weather predictions and agricultural advisories for planting, harvesting and crop selection), facilitating inland water transport for agricultural outputs, and improving the state's capacity to manage and deliver water resources to farmers.

What role will the Myanmar Country Partnership Framework (CPF) play in the reduction of poverty?

VAN TROTSENBURG: The CPF focuses on reducing poverty, providing basic services and stimulating the private sector in an inclusive way so that the poor and vulnerable share in the benefits of current reforms. The three-year CPF, Myanmar's first full country strategy since 1984, will provide up to \$1.6bn in credits, loans and grants, as well as technical assistance from the International Development Association. It will help reduce poverty in the rural areas where more than 75% of Myanmar's poor live. It will help 3.5m people gain new or better access to electricity, with another 2.5m people benefiting from improved rural infrastructure and access to public services. The CPF will improve the quality, access and delivery of essential services like health care and schools, and will help achieve the government's goal of universal health care by 2030. Last, it will stimulate job growth by building a dynamic private sector, raising the number of people and businesses that use financial services by 200,000 and thus facilitating financing of up to \$40m by 2017.



A number of macroeconomic imbalances are present in the country

In control

The central bank has moved to preserve monetary stability

In the run-up to Myanmar's historic November 2015 national elections, public opinion appeared split as to what impact the results of the contest would have on the nation's economy. "Everyone seems to think that the election is the beginning of Myanmar's problems, or that electing new leadership will inevitably lead to more growth and economic expansion," U Soe Win, the managing partner of Myanmar Vigour, which has partnered with Deloitte, told OBG. Win's concerns, which centred on the potential for short- and medium-term instability due to a handful of underlying structural challenges, have been echoed by a growing chorus of observers and local players since late 2014. **TAKING NOTE:** Among them is the IMF, which sounded a cautionary note in its September 2015 Article IV consultation for the country. "Myanmar's economic growth remains strong, but macroeconomic imbalances have increased significantly over the past year," it said. Noting various signs of economic overheating – including strong currency depreciation pressure, rapid credit expansion, a widening trade deficit, related current account deficit (CAD) growth and a rising fiscal deficit – the IMF argued that action to "tighten policies and enforce prudential measures is needed to address the underlying causes of the growing macroeconomic imbalances".

Addressing the issues brought up by the IMF in an effort to ensure macroeconomic stability is widely expected to be a key area of focus for the National League for Democracy (NLD) in the coming years. Indeed, in August 2015 Yangon-based weekly *Myanmar Times* published a series of excerpts from the NLD's in-house economic strategy, which served to underline the party's commitment to fixing structural issues currently threatening the economy. "[Myanmar's] fiscal system weakness principally comes from misallocation, unproductive expenditure and extravagant spending," stated the document. Furthermore, while the strategy calls for increased liberalisation

of the financial sector and the economy as a whole, the NLD maintains that these initiatives will not move forward without "the design and implementation of rigorous prudential supervision."

INTO ACTION: However, the development of broad plans is one thing, while implementing them effectively is quite another. In November 2015, George McLeod, a Bangkok-based adviser on Myanmar at PwC, told the *Bangkok Post*, "When it takes over the government, the NLD faces some major challenges. It lacks administrative experience; its economic policies are imprecise and there are questions whether the bureaucracy is 'on side' to put its policies into action."

In the meantime, the downside risks to stability are expected to continue to expand alongside the economy as a whole, which posted GDP growth of 8.5% in FY 2014/15, according to data from the Asian Development Bank (ADB). "To sustain economic growth at the rate experienced by Myanmar over the past five years would require continued progress on structural reforms, responsible economic and social sector policies, and follow through with implementation," Habib Rab, a senior country economist at the World Bank's Myanmar office, told OBG.

CONTRIBUTING FACTORS: Three main factors have contributed to macroeconomic imbalances in Myanmar. First is the government's expansionary fiscal policy. Since 2011, and particularly in the run-up to the 2015 elections, public sector expenditure has increased rapidly, as the state instituted large public sector wage hikes and public pension increases, big boosts to health care and education expenditure, and rises in military spending, the latter of which accounted for 27% of government spending in 2013, according to the ADB. Given Myanmar's low level of development compared to many of its neighbours in South-east Asia, this expenditure is widely regarded as necessary in the long run, despite the short-term risks of rising inflation and a steadily increasing CAD.

The National League for Democracy is expected to have a new economic game plan, as international institutions have advised prudential measures and tightened policies.

Fiscal policies have contributed to concerns over economic stability, with the government instituting large public sector wage hikes and increases to health care and education expenditure.



The devaluation of the kyat has been one of the major contributing factors to economic instability

Indeed, according to the IMF, as of May 2015 inflation was at around 8%, up from 6% a year earlier. At the same time, as of late 2015 the government was running an estimated CAD of around 6.3% of GDP. In order to reduce inflationary pressure the IMF has recommended that the country lower subsidies and tax incentives, boost tax collection and shift military spending to other sectors. "The CAD is large at the moment," said Habib Rab. "But this has been driven by capital imports for productive investment, so it will likely pay off in the long term."

LOOKING AT CREDIT: The second factor creating imbalances is that pent-up demand for imports has helped fuel rapid growth in credit and a widening of the trade deficit in recent years. In FY 2013/14 credit to the private sector grew by 53.5% year-on-year. As of March 2015 this figure had fallen slightly to 35.5%, though the IMF projected lending to grow by 45.2% in FY 2015/16. According to IMF forecasts, this dramatic increase in deployed credit over the past few years is a major factor in pushing inflation to an expected high of around 13% by the end of FY 2015/16 and widening the CAD to just under 9% of GDP in the same period. At the same time, strong import growth has resulted in a steadily increasing trade deficit, which grew from around 4.6% of GDP in FY 2013/14 to 8.2% in FY 2014/15, according to the IMF, and is projected to continue to expand to 11.6% in FY 2015/16.

CURRENCY PRESSURE: The third contributing factor to macroeconomic imbalances has been depreciation of the Myanmar kyat, especially over the course of 2015. In the first 11 months of 2015 a widening CAD contributed to the kyat's 30% slide against the US dollar. Much of this value loss took place earlier in the year, with the kyat recovering some value in the run-up to the election before starting to slide once more in late November 2015. Domestic issues, including easy credit conditions, continued strong demand for imports and steadily increasing inflation, have

been the primary drivers here, though various other factors have also contributed. The decline in the price of natural gas, which accounts for a large percentage of Myanmar's exports, has not helped, and neither has the strengthening of the US dollar over the 2014-15 period. Torrential floods, which inundated in excess of 485,000 ha of farmland in mid-2015 and wiped out a considerable percentage of agricultural exports, were another exacerbating factor.

TAKING CHARGE: The Central Bank of Myanmar (CBM) has moved to shore up the kyat. In October 2014 the institution set the CBM reference rate higher than the parallel market rate, which caused a gap between the two rates, led to a shortage of US dollars in the economy and stoked fears of instability. Then in July 2015 the CBM realigned the reference rate with the market rate, which has restored near parity between the two rates but resulted in further kyat depreciation. The disparity caused issues in the foreign exchange market, with many market players reluctant to sell US dollars, which underpin not only trade but much of the domestic economy as well. "The exchange rate fluctuation is a big challenge for foreign investors and exporters," Daw Khin Thida Maw, the International Finance Corporation's country officer in Myanmar, told OBG. "The markets are not fully developed yet to employ monetary policy instruments, such as interest rate policy and open market operations. Therefore, the CBM has faced limitations in sopping up the excess kyat liquidity in the market so as to stabilise the currency."

A NEW GAME PLAN: Nonetheless, over the past two years the CBM, Ministry of Finance, and Ministry of National Planning and Economic Development have enacted various initiatives aimed at shoring up Myanmar's monetary situation. Given that Myanmar has no secondary bond market, the CBM has held deposit auctions twice monthly since 2012 in an effort to mop up excess liquidity. On the IMF's recommendation, the CBM announced that it would increase the size of these auctions. It also increased the interest rate on auctions, offering a rate of 8%, as compared to 4-5% a year ago. The CBM has also worked to tighten its control over the banking sector, primarily in the form of a new reserve requirement ratio that requires banks to keep 5% of total deposits in cash at the CBM, in addition to the previous 10% reserve.

Given the changes, and taking into account the current political transition, many market observers are concerned about the potential for short-term monetary instability. However, at the same time, local players and foreign analysts agree that these issues are temporary and that Myanmar's long-term prospects remain bright. "We recently reduced our GDP growth forecast for 2015/16 to 6.5%, down from more than 8% previously," Habib Rab told OBG. "This was linked to preliminary estimates of the devastating floods that hit Myanmar over the summer and an expected slowdown in investment after several years of rapidly rising investments. Our medium- and long-term outlooks, however, are broadly positive."

Following the IMF's recommendations, the central bank increased interest rates for its bi-monthly deposit auctions to 8% to mop up excess liquidity.



Melvyn Pun

Transitional challenges

OBG talks to Melvyn Pun, CEO, Yoma Strategic Holdings

Where do you see the biggest risks related to property development in Myanmar, and how can those risks be mitigated by new arrivals?

PUN: It's not an easy market for new developers. As with all businesses in Myanmar, bureaucracy is not always well understood – the number of permits you need, the criteria, etc. It's still somewhat a work in progress. There are also some unwritten rules that are easy to breach. One example is the project that was shelved near the Shwedagon. Issues of height, proximity and depth were possibly overlooked or not made clear enough in advance.

Construction financing options are still fairly limited, so a lot of real estate developers use pre-sales, but when you strip the process down, you need a very good reputation for buyers to trust you. You are also impacted by other developers who need to deliver the same assurance. I predict that a lot of projects that have been pre-sold may not actually come through in the next few years. Many buildings have not been fully constructed, so people have not been able to move in. When you have big projects, you have the same problems. People start to doubt whether they should buy a pre-sell. Due to limited regulations it is hard to know where the money is being used.

I think the developers that have come in have underestimated the difficulties. You also have a lot of local developers who are actually land owners, not developers. They own the land and see the property as being a quick win, so they enter the picture with little expertise and speculate against the market. Adding to that, construction costs are much higher than in other markets. Costs are in US dollars but sell in kyats, which can leave developers short-changed. If local developers are not able to pre-sell, then it's a possibility they may run into financing issues.

Another issue hindering the market is the delay of the condominium law. I believe the supply will be quite limited in the next few years and less than what

people expect. I don't think there is a bubble per se, but having said that, prices are elevated. I think having a more transparent and efficient market would help. More regulation regarding pre-sales and permitting procedure would stabilise the market. There is also a lot of potential for mortgage financing from banks, but that is dependent on central bank regulations which are not yet in place.

What should the priorities be in terms of developing Myanmar's soft infrastructure?

PUN: The development of people and generational development in particular, is extremely important. You can conduct vocational training, which will immediately improve skills, but there are certain skills – critical thinking, decision-making, leadership, and so on – that take a whole generation to develop. Actually, there's quite a lot of focus on the education sector, but we have to accept that this is going to take 20 years to develop. In the meantime, repatriation of skilled labour back into the country, more vocational training and more international firms investing in locals can be used to bridge the skills gap.

How has the recent election impacted enthusiasm in foreign investment?

PUN: I feel that it's reasonable that some foreign investors would stay on the sidelines and watch until after the election, but the good thing is that the big foreign names here are not slowing down. They didn't see the election as a risk they needed to worry about. I also believe it's good for the enthusiasm to dampen a little bit, as there was too much hype two years ago. But not all the hype was justified. This is our last bit of breathing space to build our businesses, to develop and to generate human capital. I think the caution is actually a good thing for the country as it filters out some of the speculators. Discussions with foreign partners or potential partners are more constructive.



Dr Kan Zaw

Top priorities

OBG talks to Dr Kan Zaw, Minister of National Planning and Economic Development

How would you assess the development of infrastructure capacity since 2011? What projects are under way to ensure economic evolution?

KAN ZAW: Physical and social infrastructure is a top priority. Myanmar is strengthening its economy by constructing more roads and expanding physical infrastructure for telecommunications, electricity and airports, as well as social infrastructure such as schools, high schools, colleges, hospitals and rural health centres. All of these projects are in line with the objectives of our first five-year plan. The plan's first goals are sustaining agriculture development towards industrialisation and driving overall development, including in transport, education and health, which are basic necessities for the entire population.

In addition, priority has also been given to improved access to drinking water as well as financial inclusion. The latter is supported by the rapid increase in teledensity from some 30 telephone connections per 1000 people in 2011 to around 250 per 1000 by the end of 2014, an incredible jump. We aim to increase this to 550 by the end of 2015. With the large increase in teledensity we can also ease financial transactions and inclusion through the mobile banking system. People are also already benefitting from visible and tangible developments including road and bridges.

Three special economic zones (SEZs) are in progress. One very dynamic zone is Thilawa, which is operating under a Myanmar-Japan joint venture. The first area is already completed and sold out. The second is the Dawei SEZ, a megaproject between Thailand, Japan and Myanmar valued at \$50bn. The third one is the Kyaukphyu SEZ which is still at the negotiation stage. All three SEZs are key elements of the country's economic development plans and have made the investment climate rather favourable.

At this stage, the labour market is benefitting from construction opportunities and increased manufacturing initiatives, particularly in the garments sector.

What measures are being taken to strengthen Myanmar's bilateral economic ties with the EU?

KAN ZAW: Ties with the EU are very good and progressive; mutual understanding and international communication are improving all the time. A landmark agreement with Switzerland was signed in mid-2015, including components on trade and investment relations, technical support and transfer human resources, capacity-building, banking partnerships and cooperation on trade development. These kinds of partnerships will enable Myanmar to benefit from the EU's Generalised Scheme of Preferences tariff scheme, to which we were reinstated in 2013. We are also in the final process of signing a memorandum of understanding for investment promotion and protection, as well as a bilateral investment and trade deal with the EU, which will boost trade flows.

What can be done to ensure that Myanmar's future progress is sustainable?

KAN ZAW: The objectives of the ministry have been clearly put forward in strategic plans. Myanmar is already working on the first five-year plan, covering the 2011-16 period. We are currently in the process of implementing the fifth-year priority plan, aimed at people-centred development to be achieved by the end of March 2016. We have completed the National Comprehensive Development Plan, which was launched in 2011 and aims to achieve targets by 2031. The plan forms part of the 20-year urban development plan and has won assistance from the UN Development Programme. We are now formulating the second five-year plan, intended to strengthen our industrial sector. Development of electricity capacity will be our priority, as this is essential for industrialisation and for future initiatives. These efforts will benefit the entire country and population. If we continue at the current rate of progress, we hope to guarantee that the objectives we achieve will be sustainable.



State-led initiatives have focused on managing consumer prices

Purchasing power

Rising incomes have contributed to a burgeoning middle class and higher consumer expenditures

In July 2015 the US-based fried-chicken restaurant chain KFC opened its doors for business in downtown Yangon, becoming the first Western fast-food restaurant chain in Myanmar. At the grand opening event and for a week afterward, locals lined up out the door and around the block. The fast-food restaurant's evident popularity is just one of many recent signs that Myanmar's middle class has grown rapidly in recent years. Additional examples abound, such as the fact that by April 2014 the number of vehicles in Yangon had more than doubled from 180,000 in 2007, according to the Yangon City Development Committee, suggesting both increased levels of discretionary expenditure and a growing appetite for relatively big-ticket items. The recent development of a slew of high-end specialty coffee bars in Yangon also reflects changing appetites and consumption habits among a burgeoning, largely urban, middle-class population.

Together, these changes signal a national socioeconomic shift that is driving local and foreign businesses to look at Myanmar not just as an export-oriented economy, but also as a significant market in its own right. "Since 2011 we have seen incomes jump dramatically among a wide swathe of the population," Alexander Jaggard, Country Representative of Mekong Economics in Myanmar, told OBG. "It is clear that people are earning more money, particularly in Yangon, Mandalay and some of the larger border towns. This represents all kinds of opportunities across a range of economic sectors."

INCOME ADVANCEMENT: In July 2015 the World Bank reclassified Myanmar as a lower-middle income country, whereas previously it was a low-income nation. This upgrade is linked to Myanmar's steadily improving economic performance over the past two years, and specifically to growing income levels across the population. According to World Bank data, the nation's GNI per capita was at \$1270 in 2014, which was the latest year for which the figure was

available. This improvement pushed the nation out of the World Bank's low-income economy bracket, which includes all states with GNI per capita of \$1045 or less, and into the lower-middle-income economy bracket (\$1046-4125). Myanmar was one of just 10 countries worldwide to jump brackets in the most recent GNI per capita revision. This builds on Myanmar's exponentially expanding income base. Indeed, according to statistics from the UN and the World Bank, the nation's per capita income nearly doubled between 2010 and 2014, rising from an estimated \$800 per year to \$1200 over the four year period.

Even as top-line GNI and GDP per capita are increasing, so too has the percentage of Myanmar's population of over 51m that falls into the middle-class category. According to a 2013 report released by Boston Consulting Group (BCG), as of the end of 2013 some 5.3m people, or around 10% of the population, earned more than \$120 per month, which was the minimum bar for middle-class status in Myanmar. Assuming current growth rates persist, this figure is forecast to nearly double to 10.3m people by 2020, according to BCG estimates. The firm's report noted that around 27% of the population increased their discretionary spending over the 2012/13 period. By 2020 around 15.4% of the nation's total population was expected to be classified as low-income or poor, down significantly from 23.1% at the end of 2013.

ENABLING FRAMEWORK: Underlying Myanmar's steady march towards middle-class status over the past few years has been a raft of government-driven reforms and policies. State-led initiatives have been aimed at managing inflation and consumer prices, encouraging savings, boosting domestic involvement in the formal banking industry, ramping up education and training throughout the country, and improving national communications and transport infrastructure networks. All these have played an important role in ensuring that rising trade receipts, foreign

The rise in per capita incomes has also led to a burgeoning middle class, with the number of vehicles in Yangon doubling to 180,000 between the end of 2007 and April 2014.

The percentage of the population that falls into the middle class reached 5.3m people in 2013, or 10% of the population, and this is expected to nearly double to 10.3m by 2020.



Mobile phone penetration jumped from around 33% to nearly 55% between mid-2014 and mid-2015

While an uptick in domestic purchasing power has benefitted a number of sectors, Myanmar is still behind its neighbours in terms of consumption, with, for example, only 18% of urban consumers owning a washing machine.

direct investment and government revenues benefit not only the elite, but also the rest of the population.

According to a 2014 Asian Development Bank (ADB) report, "Myanmar: Unlocking the Potential – Country Diagnostic Study", the key to ensuring continued middle-class expansion in the coming years is the ongoing diversification of the economy, with a particular focus on the manufacturing and services sectors, both of which have thrived recently. Longer term, the ADB report noted that while Myanmar's youthful population is a key strength, "without substantial investment in human capital development... the potential demographic dividend could easily turn into a demographic curse". With this in mind, education and health care are widely considered to be priority development areas for the country moving forward. Programmes and policies in these areas will likely constitute an important component of the National League for Democracy's (NLD) plans.

DOMESTIC IMPACT: Increased domestic purchasing power bodes well for a variety of economic segments. Myanmar continues to lag well behind most of its neighbours in East Asia and among ASEAN states in terms of consumption. According to the BCG report, as of the end of 2013 just four in every 10 consumers in the country frequented restaurants and only one-quarter took a vacation. Similarly, just 18% of urban consumers owned a washing machine. Since the telecommunications sector was liberalised in 2013, it has been a key indicator of the potential of domestic consumption. Yangon-based weekly *Myanmar Times* reported in June 2015 that from mid-2014 through mid-2015 mobile phone penetration jumped from around 33% of the population to nearly 55%, according to data from the Ministry of Communication and Information Technology. Two of the country's three mobile network operators report that smartphones account for more than 80% of all devices that access their mobile networks, which

suggests a tech-savvy user base with rising purchasing power.

The retail market has also benefitted from the jump in consumer spending associated with Myanmar's burgeoning middle class in recent years. According to data reported by the Myanmar Retailers Association, during the period 2012-14 the nation's retail sector posted growth of between 7% and 15%, depending on the product line in question. Key segments in this market include fast-moving consumer goods, food and beverage products, and vehicles, among others (see Industry & Retail chapter).

NEW FACES: A range of consumer-facing foreign multinationals have set up shop in Myanmar in recent years, in an effort to tap into rising levels of discretionary spending among the general population. In addition to KFC, both Lotteria, a South Korean fast-food chain, and Japanese fast-food brand Freshness Burger have set up shop in the country in the past two years. Coca-Cola, the US beverages giant, and a variety of foreign brewers have recently launched manufacturing operations in Myanmar, with the primary aim of serving the domestic market, but also eventually exporting to elsewhere in the region. Indeed, the relatively competitive cost of labour in Myanmar has made it a popular site for export-oriented manufacturing since 2011. In the automobile segment, in May 2014 German manufacturer Daimler opened a Mercedes-Benz showroom. Other car companies that opened showrooms in recent years include BMW, Jaguar Land Rover and Toyota, among others.

CHALLENGES: Rising income levels present a variety of challenges. "As people have earned more money in recent years, income inequality has jumped, which has the potential to create various social pressures," Jaggard told OBG. "And this has happened at a break-neck pace, which has only exacerbated these issues."

Indeed, it is important to note that despite attracting a considerable amount of press, as of late 2015 Myanmar's middle class was still quite a small percentage of the overall population. Most of the country's citizens are still low-wage workers, primarily employed in agriculture. According to the 2013 census – the first national census in 30 years – just 0.5% of Myanmar's population had all modern communication amenities in their homes – including a radio, television, landline and/or mobile phone, computer and internet – and 30.3% of the population had none of these items. Similarly, census data showed that only 3.1% of the population owned an automobile, while nearly 39% owned a motorcycle or moped.

Ensuring that the bulk of the country's large, low-income population benefits from Myanmar's ongoing economic and political development will likely be a key focus for the new NLD government in 2016. "There are huge opportunities in terms of developing the economy and providing a higher quality of life to the population," U Maung Aung, an advisor at the Ministry of Commerce, told OBG. "The new government will have to work to take advantage of our many assets, including the large, young population, for example."

The relatively low cost of labour in Myanmar makes it an attractive location for export-oriented manufacturing for food and beverage companies, among other segments.



Adam McCarty

Growing pains

OBG talks to Adam McCarty, Chief Economist, Mekong Economics

What role do you expect transnational economic corridors to play in the Mekong Region?

MCCARTY: The corridors connecting Myanmar to China, Thailand and Singapore will be fundamental to the country's rapid economic development. Increased connectivity is already sparking the rise of regional production centres, and it will bring further economic integration, with ASEAN countries producing intermediary products that China will consume or export as final goods. Yet there are many other fundamental requirements for economic success, such as investing in education, finding solutions to ethnic and religious tensions, strengthening the rule of law, and opening the economy to foreign competition. There is some concern as to whether the corridor connecting India, China and Bangladesh will have a major economic impact in Myanmar, given that the routes would be in the far north of the country. Improved transnational economic links may also heighten tensions in border regions controlled by non-government state actors.

How will the establishment of special economic zones (SEZs) assist Myanmar with income equality and social stability initiatives?

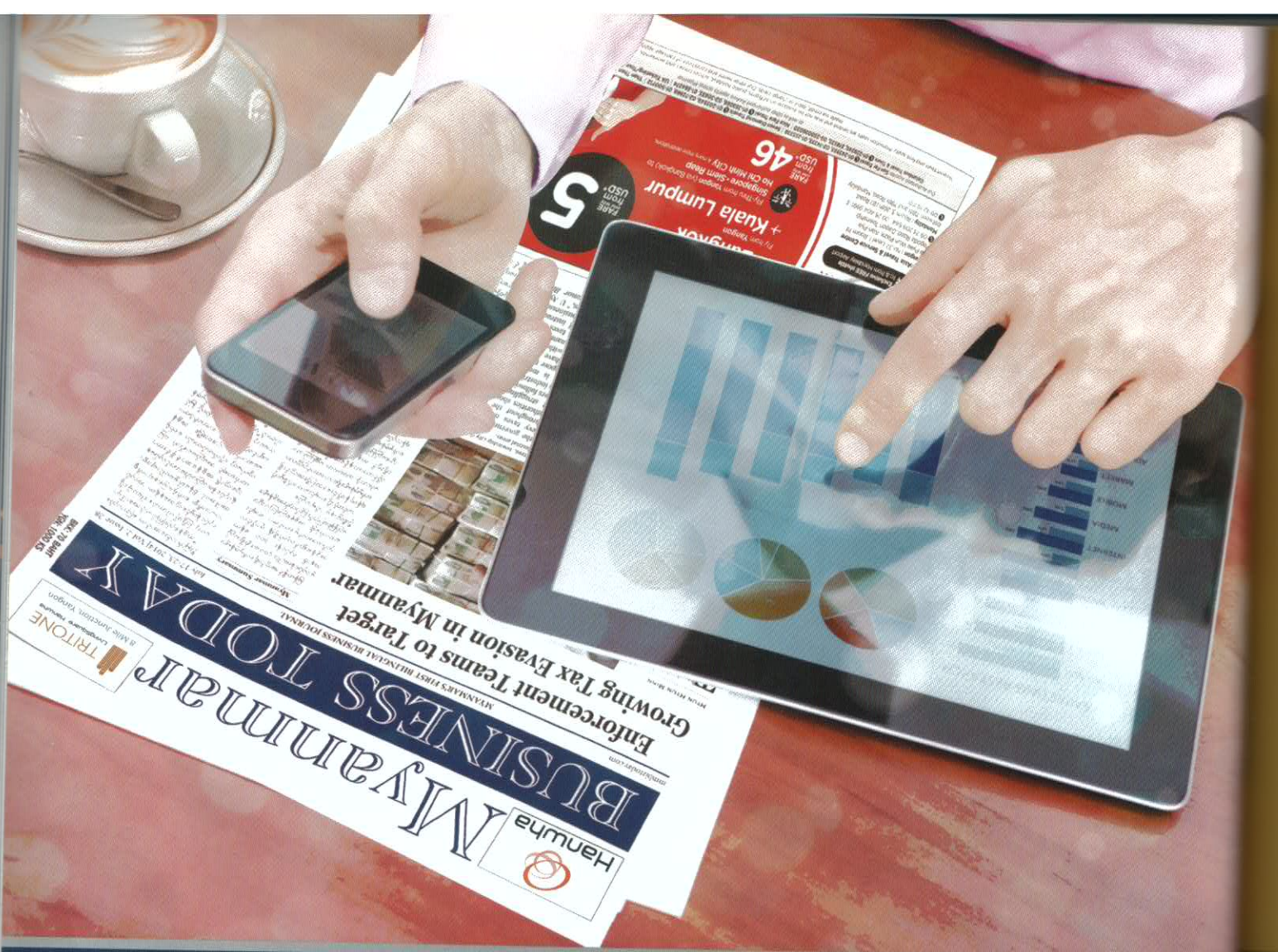
MCCARTY: Myanmar is at an early stage of industrialisation. The first stage of development is "moving from village to factory", and getting SEZs operating that can employ hundreds of thousands of workers is a top priority. The government should not expect anything more from SEZs. The policies employed within SEZs should be carefully designed to attract as many companies – and therefore jobs – as possible. Myanmar needs highly attractive sites for factories to attract back all the workers who have informally migrated to Thailand. These sites also need to have high-quality physical infrastructure like transport connections and a consistent electricity supply, something that industrial zones across the country currently lack. Providing stable, well-paid employment

opportunities through SEZs would be an excellent first step towards improving living standards, but SEZs alone cannot provide improved economic conditions across the whole country.

What policies will help Myanmar achieve rapid growth with equity? What policies should they adopt from other East Asian countries?

MCCARTY: All Asian success stories of "growth with equity" begin with land redistribution. Farmers must own the land they work on and be able to use that to get loans. Most farmers have reasonably secure land ownership in Myanmar, but their titles need to be better formalised and protected. However, there are also many landless rural workers for whom factory jobs must be created. As the landless move increasingly into urban factories, fewer workers remain in rural areas, which pushes up their salaries and promotes mechanisation. So while cities grow, rural areas are not left too far behind and their labour productivity increases. This is what happened in Vietnam.

Another key challenge is resisting the temptation to be protectionist. Myanmar is undeveloped compared to other East Asian countries, but that is a reason to open up to trade and investment even more than in richer countries – that is how you catch up. Being open means rapid change, which is not always good for local businesses, but it is essential. Growth is the result of a continual process of the closing of many businesses and the opening of many new ones. Other priorities include a meaningful federalist solution to ethnic tensions; establishing an independent anti-corruption commission; fully joining up to the natural resources transparency initiative; and systematically strengthening the tax system. These would increase stability, market Myanmar as a safe country for investment and increase government revenues. These issues are being addressed, but you cannot expect such big changes to occur overnight.



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Financial Services

More reforms and a new banking law in the works

Development of capital markets will improve liquidity

Capitalisation requirements may lead to consolidation

Foreign institutional access to the country is improving

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Additional regulations are expected, including an updated banking law

Overnight transformation

Local financial institutions are beginning to regain their footing and explore the market

A series of reforms to the banking and financial services sector promise to assist in nationwide development efforts, while new regulations are being created.

Since the political reforms of 2011, a number of significant steps towards liberalisation have been taken in the banking sector. The Central Bank of Myanmar (CBM) has been given much needed autonomy and ATMs are now allowed in the country. Further aiding accessibility, mobile banking services have been introduced. New private banks are being set up and foreign banks have been granted licences to open branches (see analysis). After years of stop-and-go liberalisation, a critical mass of changes has been instituted that promises to improve sector performance and greatly contribute to the development of the country. Additional regulations are in the works, such as an updated banking law, and more openings are expected as the authorities get comfortable with what has been implemented so far.

LONG ROAD TO REFORM: Banking in Myanmar started slowly at first, with domestic institutions not forming until very recently in the country's history. In 1861 the Indian Presidency Banks of Bengal opened a branch in Yangon, and the government took over the right to print currency under the Paper Currency Act of 1861 and began issuing British India notes. The Indian Presidency Banks were merged into the Imperial Bank of India in 1921, which was the de facto central bank and handled cheque clearing.

The Reserve Bank of India was formed in 1935 and its Yangon branch was newly independent Myanmar's first central bank. Foreign banks were also very active in the country from an early period. The Chartered Bank of India, Australia and China, now Standard Chartered Bank, arrived in 1862, while Hong Kong and Shanghai Banking Corporation (HSBC), founding member and now subsidiary of the HSBC Group, was in Myanmar by 1891. Other foreign banks in the country included National City Bank of New York (now Citibank), Yokohama Specie Bank (now the Bank of Tokyo-Mitsubishi), Lloyds Bank, the Overseas-Chinese Banking Corporation and the Bank of China.

NEW PAGE: Upon independence in 1948, the Indian rupee was replaced by the Burmese rupee. The Burma Currency Board was formed in 1947 and was then superseded by the Union Bank of Burma in 1952. All banks were nationalised in 1963. At the time, 24 banks were operating in the country, 14 of them foreign. They were taken over by the state and renamed People's Bank No. 1 through People's Bank No. 24, with military officers becoming bank managers. Chartered Bank became People's Bank No. 2; HSBC, People's Bank No. 9; and the State Bank of India, People's Bank No. 8. In 1967 the People's Bank of the Union of Burma Act combined all the existing banks into a single unified entity.

In the 1970s, a new period of reform began. The monolithic bank was dismantled and four banks emerged: Union of Burma Bank, Myanmar Economic Bank (MEB), Myanmar Foreign Trade Bank and Myanma Agriculture Bank. In the 1990s the CBM Law and the Banks and Financial Institutions of Myanmar Law were passed, along with the Financial Institutions of Myanmar Rules. A total of 20 banks were established between 1992 and 1997, and five joint venture banks were proposed. However, after the 1997 Asian financial crisis, the country closed in on itself and began to slow or reverse previous advances in liberalisation. Private banks had their foreign exchange licences revoked, and all proposed joint ventures with foreign institutions were called off.

This was followed a few years later by a domestic crisis. In 2002 and 2003 – when a number of informal financial institutions ran into trouble – rumours about re-denomination spread and accusations of money laundering were made. Three of the 20 private banks had their licences revoked. Automated payment systems were shut down, including ATMs.

AFTER 2011: Some observers argue that the ghost of 2003 haunted the banking sector for many years, and as a result people are now suspicious

of financial institutions. Nevertheless, reforms are being undertaken at a quick pace and the sector is developing rapidly. The first major post-2011 reform was the licensing of private banks to conduct foreign exchange transactions in October 2011, and the licensing of foreign exchange dealers in November 2011. ATMs have also been allowed again since 2011. An interbank market for foreign exchange was established in 2013 and a mobile money directive was issued the same year. Also in 2013 the new Central Bank Law was approved, which superseded the CBM Law of 1990. The most important feature of the law is that it makes the institution autonomous under the Ministry of Finance and Revenue.

NEW MECHANISMS: The law also allows the CBM to utilise more indirect and sophisticated tools in the management of interest rates. Significant work has also been accomplished in terms of payments systems. The CBM has made their development a priority as the country became cash dependent after numerous currency re-denominations, financial crashes and bank runs in the past. In 2011 the Myanmar Payment Union was formed as a consortium between the state and private banks to facilitate card transactions and network interoperability.

Also after liberalisation, 14 banks received permission to engage in international banking services. It is prohibited to use kyat in cross-border payments, and, for a time, fund transfers were denominated in euros due to the sanctions – although the US Treasury has lifted the restrictions on the use of the dollar. The CBM said a real-time gross settlement system will be in place by the end of 2015. Japan's NTT Data assisted in the development of the platform.

SIZEABLE SECTOR: These days Myanmar's banking system has four state banks. MEB was formed in 1976, then re-established in 1990 under the Financial Institutions Law. MEB undertakes a significant amount of policy lending to state institutions and provides Treasury services to the government. Myanmar Foreign Trade Bank was formed in 1990 and until the recent reforms had a monopoly on foreign currency transactions. Myanmar Investment and Commercial Bank was spun off from MEB in 1990, while the Myanmar Agricultural Development Bank provides credit to local farmers. It was formed under different legislation: the Myanmar Agricultural and Rural Development Bank Law of 1990.

Of the private banks, nine are semi-governmental, according to the Asian Development Bank (ADB). Myawaddy Bank is owned by a company run by military officials. The Small and Medium Industrial Development Bank, which was founded to develop industrial zones, is run by government officials. Myanmar Citizens Bank is under the Ministry of Commerce (MoC), according to the ADB, while Cooperative Bank is under the Ministry of Cooperatives. Global Treasure Bank is run by livestock and fisheries associations. Yangon City Bank is under the Yangon City Development Committee. Innwa Bank is owned by the Myanmar Economic Corporation. The ADB lists two other



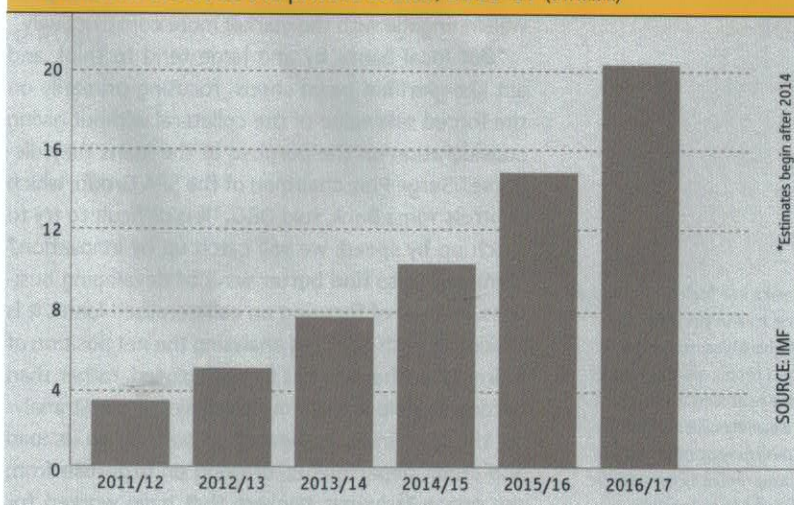
ATMs have only recently been permitted back into the country

government-controlled banks as well: Yadanabon Bank and Rural Development Bank.

The other 14 private banks are private enterprises. The largest private bank in the country is Kanbawza Bank (KBZ Bank). It was founded in 1994, and while it suffered a social media-fuelled bank run in 2012, it recovered quickly and is doing well, according to the ADB report. Yoma Bank was founded in 1993 and was the second largest private bank at the time of the 2003 financial crisis. Subsequently, Yoma Bank license was severely restricted to domestic remittances only, a directive many considered to be politically motivated. It received its full banking license back again only in 2012 under the present government's reforms. It is one of the more innovative and professional banks in the country, and is majority owned by the First Myanmar Investment Company, widely regarded as one of the best-managed companies in Myanmar. Asia Green Development Bank was formed in 2010 and is a member of the Htoo Group. Myanmar Oriental Bank focuses on the Chinese community and is considered

As of April 2015 there were nine semi-governmental banks in the country, each with specialised ownership structures or unique niche focus areas.

Domestic credit to the private sector, 2011-17 (trn MMK)





As competition between banks heats up, investment in technology is becoming an area of focus

one of the most transparent local institutions. Other private banks include Ayeyarwady Bank (AYA Bank), United Amara Bank, Myanma Apex Bank and the Asia Yangon Bank. The most recent additions to the market are Naypyitaw Sibin Bank (2013), Myanmar Microfinance Bank (2013), Construction and Housing Development Bank (2013), and Shwe Rural and Urban Development Bank (2014).

COMPETITION & INNOVATION: With so many institutions and so much opportunity, banks are starting to become more competitive. Technology investment is one area of focus. In August 2015 AYA Bank created an online payment system for settlement of bills with the Yangon City Development Committee. The platform is powered by ConnectNPay. It allows customers to pay bills at branches, over the internet and via mobile devices, a first for Myanmar.

In April 2015 the bank started using an integrated ATM and point-of-sale system from CR2, an Ireland-based company. Yoma Bank has also been an active purchaser of technology solutions. It was the first to use Misys banking software in Myanmar. Banks are also starting to innovate on product offerings, as well as engage with the market more constructively.

"Our local banks by and large tend to think and act like glorified pawn shops, focusing primarily on the forced sale value of the collateral without giving consideration on the purpose of the loans they disburse," Serge Pun, chairman of the SPA Group, which controls Yoma Bank, told OBG. "It is difficult to try to catch up by speed; we will catch up by innovation." Yoma hopes to find better ways of developing business. Instead of focusing on collateralised loans, it is looking at cash flow and analysing the net position of a firm after the loan has been deployed, rather than before. To help it carry out this level of credit analysis, the bank invested heavily on building up its loan and credit departments, drawing on expertise from repatriate Myanmar bankers that have worked for

Banks are facing challenges due to the peculiarities of the Myanmar market: loan terms are capped at one year and loans must be collateralised, but the government plans to lift some restrictions which should ease lending.

international banks overseas and from expatriates with much experience in this area of expertise.

REGULATION: Existing regulations make it difficult for banks to operate effectively and profitably. Loan terms cannot be longer than one year in duration, and loans must be collateralised. Moreover, banks must work within tight interest rate guidelines, with lending rates capped at 13% and deposits required to pay at least 8%. Furthermore, banks are only allowed to lend 70-80% of deposits. When the costs of operations and reserves are added to the cost of money, lenders barely have a margin to work with. However, *The Myanmar Times* reported that the MoC was planning to lift limits on kyat-based loans, but CBM officials also said that little can be done until the country has a market for Treasury bills.

Liberalisation of rates is widely perceived as being good for the financial sector and the country. With increased margin rates and the ability to lend without collateral, banks will lend more to small and medium-sized enterprises. Currently, this market is dominated by informal lenders, which typically charge rates of 40% or more. If margins widen, banks can make more loans, take more risk and commit more funds to their operations. "It all comes down to the interest rate," said Joe Barker-Bennett, consultant for Tun Foundation Bank. "If we could make more money, we could invest more in the business."

A new Banks and Financial Institutions of Myanmar Law is in the works, having been drafted with the help of the World Bank in 2013. It is a best practices document that, if passed, would bring the sector up to par with international standards. It introduces non-bank financial institutions, e-banking and credit bureaux; sets out capital and reserve requirements; and discusses provisioning, related parties, money laundering and solvency. The Foreign Exchange Management Law (FEML) is also in the process of being amended. The new amendments are expected to enforce the repatriation of exports via the banking sector. The FEML will



Banks are starting to become more competitive through technology



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State banks tend to attract the majority of deposits, as they are perceived as being the most stable

As of May 2015 government institutions only accept payments in kyat and there is a limit on dollar-denominated withdrawals from banks of \$10,000 per week.

have a serious impact on the foreign exchange structure and reserves management in Myanmar.

A new reserve requirement is also being established. Currently, banks must keep 10% of their deposits in reserves. A quarter of that can be kept on hand and 75% in bonds at the CBM. The reserve requirement will be lowered to 5%, but all of it will be required to be kept with the central bank and cannot be invested in bonds. And while related-party transactions have always required board approval, under the new law two-thirds of the board must vote in favour of making a loan to a related party, thus helping to prevent directors from using banks to support their own companies. Introduction of the law has been delayed, however.

CAPITAL CRUNCH: The increase in capital is seen as potentially problematic. Minimum capital levels have been set in the past by the CBM, but they have usually been quite flexible and not always clear. The country's newest bank, Shwe Rural and Urban Development, was approved for business in 2014 with MMK10bn (\$9m) of capital. But some private banks are believed to have only about MMK2bn (\$1.8m). The central bank said almost a third of private banks will have to raise their capital levels in order to meet the new MMK20bn (\$18m) minimum set out in the draft financial institutions law. According to local news reports, the largest private banks are in good shape. KBZ Bank has stated it had MMK130bn (\$117m) as of January 2015, while AYA Bank said it had MMK62bn (\$55.8m). AYA Bank has benefitted from its reputation as one of the more innovative banks in the country due to its implementation of modern technology in its online banking system and structure.

Minimum requirements for new branches have been abolished. Overall, however, the sector does not have the capital it needs to grow. "It is an undercapitalised market; forget Basel III, it is not yet Basel II," Azeem M Azimuddin, CFO at AYA Bank, told OBG.

There is some concern about the condition and position of state banks. Because they are government owned, they tend to be perceived as being more stable than banks in the private sector. As a result, state banks continue to attract most of the deposits. At the same time, they are exempt from many of the regulatory requirements that private banks have to meet and tend to be less efficient and loss making. MEB, for example, has always made a loss and these losses have to be covered by the government. Some possible options for improving their performance include mergers with other banks, or reform of currently existing management structures.

Unfortunately, current regulations and a newly proposed law do not allow for foreign equity nor subordinated bank loans. This has the effect of significantly limiting their access to new capital for growth and investments. Given the lack of margins this could exacerbate the already existing capital adequacy problems in the country.

FOREIGN EXCHANGE: The central bank has been working to keep the value of the kyat from weakening too much or too fast against the dollar. Its efforts have not been particularly successful to date, with the currency continuing to weaken and the mispricing of the kyat leading to a dollar shortage within the country. According to CNBC, local banks have even had to enter the black market in order to have enough dollars on hand to operate.

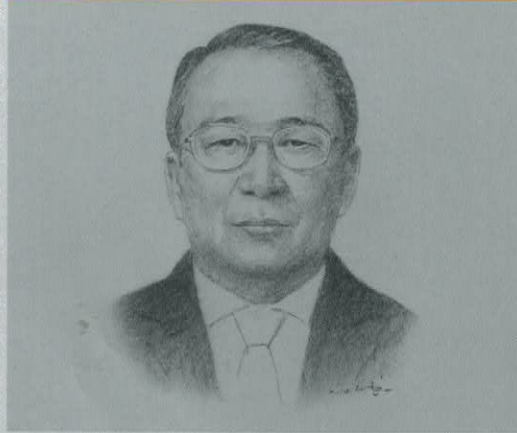
In May 2015 two directives were published. One called for government institutions to only accept payments in local currency and the other to limit withdrawals from banks in dollars to \$10,000 per week. In October 2015 the central bank revoked the foreign exchange licences of a wide range of moneychangers. The list included tour operators, airlines, hotels, hospitals, freight forwarders, supermarkets, duty free shops and souvenir shops.

Since 2012, businesses had been able to buy and sell currencies, but the law was amended as the authorities fought dollarisation. Banks and authorised foreign exchange dealers will still be able to conduct transactions as in the past. The interventions have been expensive and costly and represent a step back for liberalisation.

OUTLOOK: Myanmar's banking sector is set for further liberalisation and reform. It is likely that the new banking law will be passed soon and other regulations will be issued by the CBM, helping the sector to move further towards international standards and best practices. Some of the rules and regulations may be resisted and though liberalisation may not be as fast as some participants may want, others have been encouraging a steady approach.

"We suggested the central bank go slowly," said Pun. The sense is that the opening should be done at a reasonable pace so as not to cause volatility and to allow local banks to become stronger and better able to compete. Achieving a balance without creating instability will be an important task for the government as it opens up the sector in the coming years.

The central bank expects that about one-third of the nation's private banks will need to raise their capital levels to meet the \$18m minimum set in draft financial legislation.



U Kyaw Kyaw Maung

Credit where due

OBG talks to U Kyaw Kyaw Maung, Governor of the Central Bank of Myanmar (CBM)

When will the credit rating bureau be established, and how will it strengthen Myanmar's financial sector and consumer discipline?

KYAW KYAW MAUNG: Section 75 of the CBM Law, enacted in 2013, established the Credit Bureau and the credit referencing system (CRS) in Myanmar. With the assistance of the International Finance Corporation, regulations for the CRS are being drafted and are set to be issued in FY 2015/16.

Based on the regulatory framework and the establishment of the credit bureau, credit reporting service providers will make information related to the economic and financial obligations of a customer, including guarantees, payment history and publicly available information on credit decisions, available to financial supervisory authorities. This information assists in supervision and improves the soundness of Myanmar's financial system. To strengthen consumer discipline, consumer rights and consumer rights procedures are proposed in the regulations of the CRS. The Myanmar Banks Association and NSP Holdings of Singapore have signed a memorandum of understanding to set up a credit bureau, which will be the first such institution in the country.

Credit bureaux will enable lenders to access borrowers' credit histories and benefit consumers and small and medium-sized enterprises (SMEs) by making financing more available. They will also strengthen financial stability throughout the country by reducing instances of multiple borrowing and by limiting over-indebtedness. The scheme will hopefully allow banks to offer more loans, which will extend coverage for set-up capital for local industry.

Establishing a credit bureau is essential for the banks to operate autonomously. As the economy grows, the size of projects in various sectors are also growing at unprecedented rates. The CBM aims to facilitate the growth of new large-scale investments that are vital for sustainable economic development.

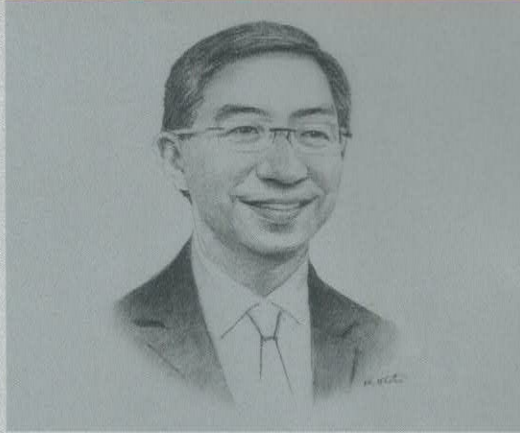
How will sharing credit information improve consumer and SME lending?

KYAW KYAW MAUNG: Governments around the world have formed credit bureaux to review the backgrounds of small enterprises. The establishment of a credit bureau will improve the ability to measure financial capabilities of SME and will encourage companies to keep more consistent records of their transactions. In the regulations for the CRS, consumer rights and procedures are described. Also, the CRS extends its credit information to all participants and stakeholders. This information may affect SME lending and the credit decision making of financial supervisory authorities.

One of the biggest problems limiting the ability of SMEs around the world to obtain adequate external financing for productive activities is information asymmetry. Creditors assess the creditworthiness of credit or loan applicants based on two criteria: their financial capacity to repay a loan, and their willingness to repay the loan. Credit reporting is extremely valuable to creditors in making enhanced, fact-based credit risk assessments, and in this sense it is a tool to facilitate SMEs' access to financing.

What measures is the CBM taking to further strengthen Myanmar's banking infrastructure?

KYAW KYAW MAUNG: The CBM's approach is to gradually build a sound and sustainable foundation for the banking sector. In the first phase, the CBM will focus on finalising the legal and regulatory framework for the banking system; introducing modern payment and settlement systems; strengthening the CBM's capacity for supervision; and preparing for the establishment of other financial infrastructure. The second phase will involve deepening the banking sector by enabling a wider range of financial markets, instruments and services, and implementing the ASEAN banking integration framework.



Linus Goh

Grounds for optimism

OBG talks to Linus Goh, Head of Global Commercial Banking and Executive Vice-President, Oversea-Chinese Banking Corporation

In recent years Myanmar's economy has undergone significant restructuring. How would you assess its financial sector reform so far?

GOH: By all accounts, there is much reason to be optimistic. Given the daunting task of liberalising the economy after decades of isolation, the progress achieved by the government in bringing about the reform has so far been very promising.

While the agenda ahead remains sizeable, important steps have been taken to address critical building blocks for a sound financial sector supportive of the opening up of the economy. I would point to the gradual liberalisation of the kyat, with the shift from the official peg to a floating rate mechanism, which paves the way for developing the formal foreign exchange market. The central bank has also been granted additional powers and has introduced foreign banks as part of its reform of the banking sector, with this set to facilitate foreign investments into the country.

Of course, there is still work to be done on foreign direct investment regulations, which are expected to give foreign investors and banks a greater sense of clarity as they participate in the building of the economy.

To what extent will the arrival of foreign banks act as a buffer for international firms looking to expand their operations in Myanmar?

GOH: There is a significant wave of interest from foreign firms, given the opportunities to build infrastructure and capabilities across many sectors like energy, telecoms and transportation.

The local banking sector remains limited in its ability to fully serve the requirements of international companies, and the foreign banks are expected to play a significant role, especially in large-scale project financing and foreign-related ventures. As much as 60-70% of the

materials needed for infrastructure developments are imported, so dollar-based financing solutions from the foreign banks will be important.

Foreign banks are conscious of the need to partner with local banks in serving customer needs and also to build the capacity of the overall system so that it can sustainably support economic growth over the long term.

What strategies need to be prioritised to develop the financial services industry?

GOH: The financial services industry continues to offer short-term financing at high costs. The sector should move towards a broader set of financing capabilities to assist infrastructure projects and mortgage financing for end buyers. Over the next decade, we can expect to see a dynamic interplay between the kyat and foreign currency, so foreign exchange management and related hedging and financing options will need to be developed further. The development of capital markets will offer alternative access to funding for companies in the form of debt capital.

The establishment of the Yangon Stock Exchange will eventually offer equity-related or quasi-debt financing options, although its initial opening will be more symbolic than substantive in terms of offering a channel for Myanmar-based companies. Following its establishment, new regulations should be enforced to attract investors.

Moreover, the development of the interbank systems for foreign exchange – as well as money markets to keep the whole engine of assets and liabilities moving within the banking system – will be critical to the funding base for local and foreign banks alike. Lastly, payment and settlement systems should be upgraded, and an interbank settlement will be needed in order to improve the capabilities of the local banks.



Nine branch licences were issued to foreign banks in Myanmar in 2015

A key move

Cooperation with international players will benefit both banks and customers

In 2015 foreign banks started operating in Myanmar for the first time since 1963. A total of nine branch licences were issued. The licences will be highly restrictive at first, and the banks will only be able to do business in foreign currencies, they will be limited to one branch and they will not be able to serve retail clients. The step is a key move towards liberalisation for the country, as it will bring capital to a growing economy that needs funding and introduce controlled competition, technology transfer and best practices. **HERE FOR YEARS:** Myanmar has a long history with foreign banks. Before 1963, 14 such institutions operated in the country. After the reforms of 1990, Myanmar started to allow representative offices. It even toyed with the idea of joint venture banks, although that plan was put on hold after the 1997 Asian financial crisis (see overview). Singapore's DBS Bank has had a representative office in Myanmar since 1994 and Malaysian-headquartered CIMB has been in the market since 2008. However, most banks established representative offices following liberalisation in 2012, including Siam Commercial Bank and Maruhan Japan Bank in 2012, and Standard Chartered Bank in 2013. In total, 48 such licences have been issued and 25 of the banks have commenced operations.

Since the country announced in 2014 that it would allow foreign banks to set up branches in the country, a total of 30 institutions have expressed interest, of which 25 eventually filed applications. Banks from 12 countries were on the list, including four from Japan, four from Malaysia, three from Singapore, three from South Korea, three from Taiwan, four from Thailand and one from China. Unexpectedly Standard Chartered did not apply, and the only Western bank to file an application was the Australia and New Zealand Banking Group (ANZ Bank). **NEW LICENCES:** In October 2014 nine licences were issued. The banks that received permission included: Japan's Bank of Tokyo Mitsubishi (BTMU), the

Sumitomo Mitsui Banking Corporation (SMBC) and Mizuho Bank; Australia-based ANZ Bank; Singapore's Overseas-Chinese Bank (OCBC) and United Overseas Bank; Malaysia's Maybank; the Industrial and Commercial Bank of China; and Thailand's Bangkok Bank. The first to open its doors was BTMU, which started business on April 2015. OCBC was next in August 2015, and ANZ Bank opened in October 2015.

On January 5, 2016 invitations were sent out to banks for the "second round" of licences. Expressions of interest were submitted on January 9, 2016. Industry analysts expect Korean, Taiwanese and Vietnamese banks will express significant interest.

Some institutions are demonstrating their commitment to the market. Foreign banks are required to fund their operations with at least \$75m, but BTMU has already committed \$100m. SMBC said it has come with \$200m in capital, as did Bangkok Bank.

JUMPING IN: Despite the restrictions, new financial institutions are hoping to get very involved in the country, offering a wide range of services and targeting growth areas of the economy. Maybank has said it will be doing project finance and lending for corporations. It will be focused on infrastructure investments, such as those related to power, oil and gas, telecoms and transport.

Foreign banks can partner with local institutions. BTMU, for example, will offer technical support to Cooperative Bank, and SMBC is working with Kanbawza Bank (KBZ Bank). Domestic banks can also be used as a conduit to reach the local currency market. Despite the restrictions they face, foreign banks will be able to lend to their local counterparts. This will bring them exposure to Myanmar's kyat market. The presence of foreign banks could also lead to consolidation. SMBC has said that it would be interested in a stake in KBZ Bank – 15-20% of the equity. This would require regulatory changes, as the central bank does not currently allow foreign investment in local banks.

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Banks from 12 countries have applied to set up branches, including Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand and China.



Listing rules issued in August 2015 are comprehensive and strict

The stock answer

New developments in the country's financial history are unfolding as the bourse opens for business

The country's new stock market, which has been in development since 2008, has been designed to approach or meet international standards in terms of listing rules, intermediation, market infrastructure and supervision. It will be well supported and promoted and will likely make a significant difference in Myanmar. The new bourse will allow for companies in the fast-growing economy to raise capital more easily, and it is seen as contributing to transparency, accountability, efficiency and liquidity. Bond trading is evolving as well, and progress on the debt side is expected to follow achievements in equity markets.

MARKET HISTORY: Equity trading in Myanmar began in the 1930s on the Rangoon Stock Exchange, a secondary over-the-counter (OTC) market that focused on shares listed overseas. The market shut down during the Second World War and was revived in the late 1950s to trade the shares of nine joint venture companies the government formed with private partners. However, this iteration of the market lasted only until 1962, when the listed firms were nationalised.

The country would have to wait three decades before another market was launched. The Myanmar Securities Exchange Centre (MSEC) was established in 1996 as a 50:50 joint venture between Japan's Daiwa Securities Group and Myanmar Economic Bank (MEB), a commercial bank with a history dating back to 1954. About 60 companies in the country also engage in OTC trading outside of the MSEC.

However, the MSEC has not flourished. The exchange has just two listed equities, Myanmar Citizens Bank and Forest Products Joint Venture Corporation. It also hosts two-, three- and five-year government bonds. Trading hours are between 9.30am and 3.00pm. At the time of the purchase, buyers must put down a 10% deposit and pay a 0.3% stamp duty, and settlement is within one week. Commissions range from a flat MMK200 (\$0.18) fee for orders less than MMK10,000 (\$9) to 1% of transactions in excess

of MMK1m (\$900). Work on improving the stock market began just before the democratic reforms in 2011. A roadmap was published in 2008 that called for the development of a trading floor by 2015.

The Central Bank of Myanmar (CBM), the Tokyo Stock Exchange and the Daiwa Institute of Research Group signed a memorandum of understanding (MoU) in 2012 to form a stock exchange, while the CBM and the Policy Research Institute, which is under Japan's Ministry of Finance, started to develop supporting legislation that same year. The Securities and Exchange Law (SEL) was published in 2013, and the Ministry of Finance and Revenue signed an MoU with Japan's Financial Services Agency in 2014 for the development of market infrastructure.

BROKERS & UNDERWRITERS: The Yangon Stock Exchange (YSE) is 51% owned by MEB and 30.25% owned by Daiwa Securities, with the rest held by the Japan Exchange Group. It will be located at Myawaddy Bank's former headquarters in Yangon. The SEL is vital to the success of the new exchange. According to a report put out by Singapore-based law firm Duane Morris & Selvam, the existing market failed to gain volume because it lacked a solid regulatory underpinning. The new law fills in many of the gaps by establishing the Securities and Exchange Commission (SEC), setting out the classes of licences that are available (dealing, brokerage, underwriting, investment advisory and company representative), discussing how the stock exchange should be established and listing prohibited acts. The SEL also covers OTC trading and the depository and clearing businesses.

Work on the exchange continued in 2015 ahead of the launch target, and considerable progress has been made. At least 57 companies expressed interest in being involved as intermediaries or service providers – 20 as underwriters, seven as stockbrokers, and 30 as advisory and consultancy firms. In October 2015 eight companies received conditional underwriting

More than 57 companies expressed interest in being involved in the stock exchange as intermediaries or service providers: 20 as underwriters, seven as stockbrokers, and 30 as advisory and consultancy firms.

licences, with two additional licences reportedly awarded in December. A list of the 10 was leaked early that month, but as of mid-December only KBZ Stirling Coleman Securities, a joint venture between KBZ Group and Singapore's Stirling Coleman Capital, had been officially endorsed. Underwriters will need MMK15bn (\$13.5m) in paid-up capital, direct traders MMK10bn (\$9m) and brokers MMK7bn (\$6.3m).

THE COMMISSION: The SEC was formed in October 2014 and will be under the Ministry of Finance and Revenue for at least five years. Its first task is to develop securities rules for the new market. Kanbawza Bank (KBZ Bank) has been chosen as the settlement and clearing bank for the new exchange. It won the appointment from among five banks. The planned platform will be a modern one, with the system operating on a delivery-versus-payment basis, where cash and securities move together. In the event of a default on the part of a broker, the bank can step in and make sure the transaction is settled. For KBZ Bank this is a new business and it may seek assistance from Sumitomo Mitsubishi, one of its foreign partners. On the cash side, the CBM will handle payments on a real-time gross settlement basis, though this capability may not be available in 2015 given the lack of IT infrastructure.

Listing rules were issued in August 2015 and are comprehensive and strict, although the rules recognise that many companies in the country do not yet have highly sophisticated accounting and governance practices in place. Prospective firms will need two years of profit history, paid-up capital of MMK500m (\$450,000) and a system that prevents insider trading, among other things. The directors, owners and company itself cannot be on any black-lists. Businesses must also be tax-compliant and have a minimum of 100 shareholders in order to list.

Despite these regulations, there are areas of concern. One is the lack of a minimum float requirement, in terms of percentage of total shares outstanding. Without this, a few large shareholders could have undue influence on prices. Other concerns include the lack of disclosure and governance requirements.

Forms for initial public offerings (IPOs) were made available in late September 2015, and it seems that some transparency concerns may have been addressed in the offering process. Companies wanting to list will have to issue a prospectus, in which they will be required to provide considerable information. The document must detail the history of the company, its plan to raise money, its business structure, market risks and its position in the market. The authorities may also request additional information. Once the prospectus is approved, it must be advertised in the press.

POTENTIAL IPOs: One of the first candidates for listing will be First Myanmar Investment (FMI), a company known for its high levels of disclosure and transparency. The shares of the diversified conglomerate, with interests in banking, real estate, health care and retail, are already being traded OTC at one of the company's subsidiaries, FMI Trading Centre. Other possible



It is expected that a total of 10 underwriting licences will be issued, with eight extended in October 2015

candidates are Asia Green Development Bank (AGD Bank) and the Myanmar Agribusiness Public Corporation. A number of other candidates have said they want to wait until the market is up and running before they commit to an IPO. It has also been suggested that larger conglomerates within the country may prefer to list on foreign exchanges, such as in Singapore.

ECONOMIC IMPACT: The authorities are optimistic that founding the exchange will be significant for the economy and allow firms to raise funds without going through the banking system. They also see the exchange itself as increasing employment and creating economic activity of its own after it is opened. Once the YSE is operational, Brunei Darussalam will be the only country in the ASEAN without an exchange. U Maung Maung Thein, deputy finance minister and chair of the SEC, told local press, "YSE will be a good turning point for our economy, as it will change the style of fund-raising for most companies here."

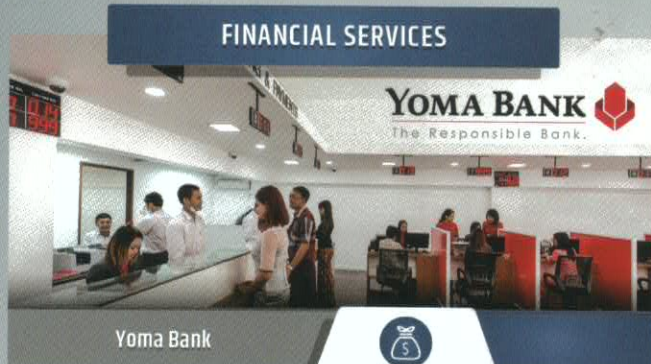
TROUBLE ALONG THE WAY: The project has run into some trouble along the way, however. The deadline has repeatedly changed, and it was finally decided that the market would be launched in December 2015. In the months ahead of its opening, questions were raised about whether it would be ready in time and what will happen once it is up and running. Human resources are one major issue. Daiwa Securities has said it has been difficult to train and keep qualified staff, as local officials brought in to develop the exchange prefer government work and tend to leave the YSE for public positions. The securities company has also said it has been difficult to develop a computer system for the bourse. The Duane Morris & Selvam report questioned how ready Myanmar is for a stock exchange, as it does not have the capacity and resources to properly oversee an equities market.

The exchange officially opened on December 9, 2015. The first six public companies are: FMI, First Private Bank, Myanmar Citizens Bank, Myanmar

Prospective firms need two years of profit history, paid-up capital of \$450,000 and a system that prevents insider trading in order to list on the exchange.

Forms for IPOs were made available in September 2015. Companies wanting to list have to issue a prospectus and provide considerable information to the authorities.

Myanmar's Most Exciting Sectors One Company



FINANCIAL SERVICES



Yoma Bank



US \$1B+

Total assets with a growing loan book

- » IFC's first investment in Myanmar
- » Digital payment network partnership with Telenor
- » Established in 1993 - now with 2,500 employees

60

Branches across 25 key cities



REAL ESTATE

Star City | KrisPlaza | Landmark



1,600

Units currently under construction

10M+

Total square feet of land bank

- » Developer of the first gated community in Myanmar
- » Strong partnerships with ADB, Mitsubishi & others
- » More than 4,000 families living in our developments



HEALTHCARE



Pun Hlaing Siloam Hospitals



10

Hospitals across Myanmar by 2023

- » First ISO accredited hospital in Myanmar
- » State-of-the-art equipment and systems
- » Experienced and highly qualified management team

24/7

On duty hospital and emergency care



PORTFOLIO INVESTMENTS

Aviation | Retail | Tourism | SEZ



400

Hectares at Thilawa under development

- » Investment in FMI Air, a leading local airline
- » Retail joint venture with Malaysia's Parkson
- » Investment in tourism through Balloons Over Bagan

74

Weekly departures on FMI Air

6,800+

Shareholders



US \$400M+

Market Cap

First Myanmar Investment Co., Ltd.

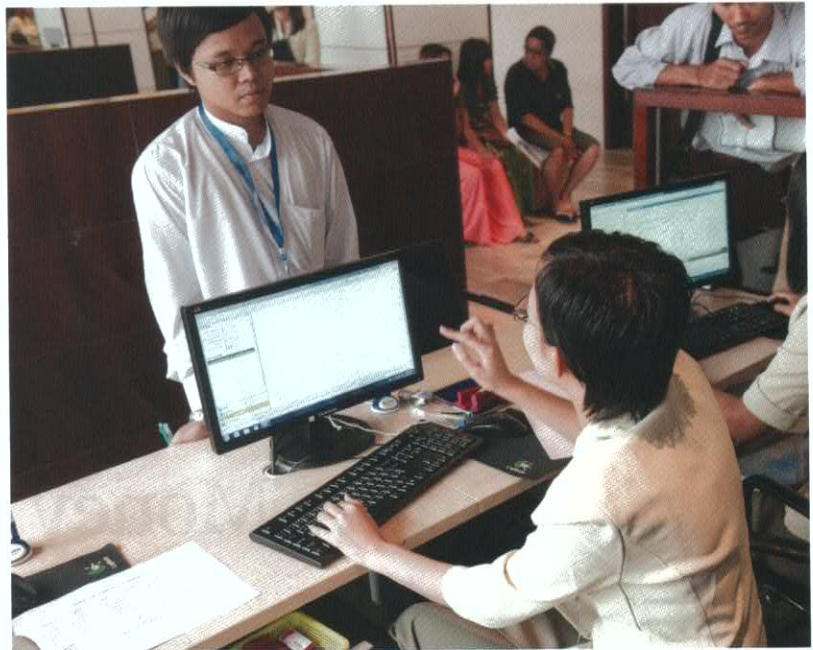
Thilawa SEZ Holdings Public, Myanmar Agribusiness Public Corporation and Golden Land Public. Trading is expected to commence in March 2016.

Once the exchange is operational, it is not clear who will list. Daiwa Securities worries that companies will prefer to stay private as a listing requires the publication of disclosures. It also noted that the exchanges in Laos and Cambodia have only succeeded in listing a few companies after being open for a number of years. Some concerns have also been raised about the role of Daiwa Securities in the exchange. While the Japanese company has committed many years to the development of the local capital markets and has made a significant contribution, it is so involved in the value chain that the potential for conflict of interest does exist. It is both an underwriter and the owner of the exchange. Daiwa, however, defended its position in a statement to *The Myanmar Times* in March 2015, saying it is only a minority shareholder in the exchange, with the majority owned by local interests.

LEGAL CONCERNS: Legal observers also have questions about the SEL, stating that the law itself is not enough. Implementing regulations are needed and related laws must be amended so they do not conflict with the operations of the exchange. A 2013 legal update on the law from the Swiss-Thai Chamber of Commerce stated, "While this is encouraging, implementing regulations are also required, as are an update of the Myanmar Company Law and robust regulatory and reporting framework which will withstand the scrutiny of domestic and international investors." According to the Duane Morris & Selvam report, the greatest legal bottleneck may be the Myanmar Companies Act, a 100-year-old law restricting the ownership of shares to local citizens. Similar restrictions on foreign ownership have slowed growth of other exchanges, like in Vietnam. A draft law is in the works that could provide more flexibility. Under the old law, a company would only be considered local if it were 100% Myanmar owned. Under a new draft of the law, the determination would be made by setting percentage ownership limits.

Another common concern is whether the YSE could be used for money laundering. In March 2015 U Soe Thein, executive director of AGD Bank, told *The Myanmar Times*, "[Preventing money laundering] will be much more difficult on the stock exchange, as cash can change hands every minute or second, much more than happens in banks." While banks are currently required to report any transaction above MMK100m (\$90,000), enforcement has been weak and Myanmar remains of concern to the Financial Action Task Force. The worry is that many new intermediaries will be involved that are less qualified to check transactions and that their speed and frequency may create opportunities to wash money.

BOND MARKET: The local bond market has been developing over time as well. For many years, it was not much of a market, although reforms started about the same time as the authorities began to address the deficiencies of the equity markets. In



Restrictions on foreign ownership of shares have limited the growth of the market, but these are set to change

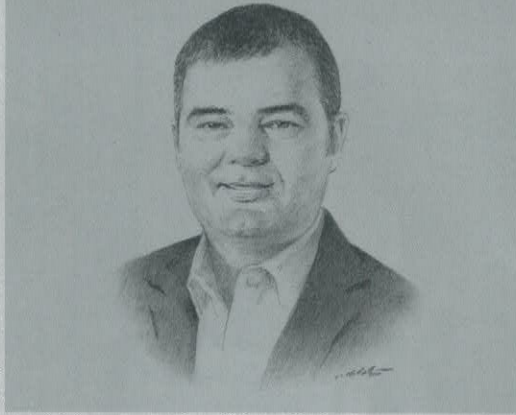
2010 the government began issuing two-year bonds and started allowing the MSEC and MEB to be sales agents for government securities. Secondary market trading has been permitted since April 2013. The authorities received significant technical assistance from donor partners, including Japan and ASEAN.

Still, the government bond market has remained illiquid, and the country has no corporate bond market. Major liberalisation reform came in 2015 when Myanmar began government bond auctions through a public bidding system. This was a major change from the existing system whereby securities were basically transferred to state institutions at a fixed price. But in the first sale, only about half of the MMK50bn (\$45m) worth of securities offered were purchased.

Derivatives have also been discussed, but they will only be allowed only after stock and bond products are available. Trading in Myanmar will likely remain "plain vanilla" for quite some time, both by necessity and design. Pilot programmes in commodity futures have also been tested, but the authorities are showing little interest in allowing a free-for-all to develop. In May 2015 local online commodity exchange MICEX was informed by the Ministry of Commerce that it was not permitted to operate. The exchange said the Ministry of National Planning and Economic Development issued it a permit in 2013, but added that it was still in discussions with regulators about the business.

NEEDY ECONOMY: The markets in Myanmar are undergoing sudden and dramatic development. While the new stock market is sure to face difficulties ahead, the authorities are making great efforts to structure it in the best possible manner. Myanmar is in need of considerable capital to support upcoming projects. The key will be the participation of foreign investors. Creating market infrastructure strong enough to handle inflows and credible enough to be acceptable to international funds will be essential, as will legal clarity regarding foreign ownership of stock.

The government started issuing two-year bonds in 2010 and has allowed secondary market trading since 2013, with the support of Japan and ASEAN members.



Brad Jones

Mobile Money

Brad Jones, CEO, Wave Money, on how mobile financial services can benefit the country

The government of Myanmar has an ambitious target for financial inclusion, with a goal of bringing financial services to 40% of people by 2020, and having 15% of the population using more than one financial product within the same timeframe. There is a very low base of financial inclusion today, with only 6% of the population having access to more than one product, and these products often do not match customer requirements. These goals will require financial service providers to greatly expand their reach across Myanmar. Starting with technology – particularly mobile telephony, as well as agent cash-in and cash-out services – this can provide a significant accelerator to the government's development goals.

Mobile operators that partner with banks are well placed to expand the reach of financial services in the country by leveraging the significant distribution networks that they already have in place. Microfinance institutions will also play a critical role, and through partnerships with mobile-money businesses, they will be in a position to develop innovative credit and savings products that will reduce transaction costs and give the financially excluded masses access to a broad range of products and services for the first time. Examples of these initiatives can be found in Kenya, where banks are now seeing significant deposit mobilisation through partnership with mobile operators. This example emphasises that partnerships will be essential to the future of mobile money in Myanmar.

Once these mobile money networks are in place, there will be substantial benefits to the people and government of Myanmar. It will enable the government and NGOs to pay salaries, social benefits, conditional cash transfers and pensions efficiently. Research in other markets indicates that when electronic channels are used for these payments there are considerable improvements in transparency and a substantial reduction in leakage, resulting in 100% of the benefit reaching the recipient every time.

Financial inclusion will help individuals cope better with poverty, especially the challenges of irregular income and occasionally large bills. It can also help to pull them out of poverty through improved education and health care schemes. The ability for the Myanmar diaspora in neighbouring countries to easily transfer funds to family through mobile-based international remittances will formalise the way these funds enter the country, and lower the cost of transfer.

For micro-enterprises, financial inclusion can provide funds for setting up and expanding businesses. Removing traditional barriers by leveraging technology can improve access to credit and boost economic growth. Financial inclusion will draw more firms into the formal sector, raising tax revenues and making workers eligible for better protection and benefits.

Research has estimated that financial inclusion driven by mobile services in developing markets may increase GDP by up to 5% within five to seven years. This GDP growth is stimulated by increased employment as a result of the development of mobile financial services; increased access to credit, which prompts new business creation; and the benefits of formal remittances and increased savings.

As Myanmar continues its transition, it is critical that financial inclusion remains a top priority and that industry-wide collaboration takes place, in order to foster the development of business models that will be sustainable and beneficial to those who remain financially excluded. By ensuring that the right regulatory model is put in place, the government is playing an important role in allowing mobile operators and subsidiaries to provide the right services. Myanmar was recently reported as the third-fastest-growing mobile market in the world, after India and China. Similarly, there is an opportunity for the country to be celebrated as a global leader in the acceleration of financial inclusion, and we are excited about the opportunity we have to contribute to that vision.



The insurance penetration rate is one of the lowest in the world

Opening up

Despite the challenges ahead, the insurance sector is moving forward with confidence

For most of the last half century Myanmar's insurance sector was closed and monopolised, but it is now opening up to both domestic and international competition. The transformation has been rapid and across the board. A dozen domestic private insurers have been formed since 2013, while a raft of foreign companies have opened representative offices in the country in that time. Three international insurers have even been allowed to conduct business domestically, although they are limited to the Thilawa Special Economic Zone (SEZ). The market remains imbalanced and highly controlled, with state-owned Myanma Insurance the dominant player. True competition is not yet allowed, and foreign firms are being kept at a distance. But the first, crucial steps have been taken, and conditions are right for rapid development.

50 YEARS: Insurance has been sold in Myanmar since the middle of the 19th century, but for the first 100 years the sector was controlled by foreign companies. At one point, an estimated 80-100 insurers were active in the market. With independence in 1948, the role of foreign firms started to decline quickly. In 1950 the Burma National Insurance Company was nationalised under the Union Insurance Board Act and eventually became Myanma Insurance. From there, foreign and private firms were slowly but steadily pushed out or shut down. Under the 1959 Life Prohibition Act, life insurers were forbidden from taking new business. In 1961 the Compulsory Reinsurance Act required a 30% cession of non-life business to the Union Insurance Board. Finally, in 1963 foreign insurers were nationalised – some 78 firms were active in the country at the time. The 1989 State-Owned Economic Enterprises Law made insurance officially a state monopoly.

The legislation underpinning the sector today is relatively light and somewhat dated. In 1963 third-party liability motor insurance became compulsory. The Myanmar Insurance Law of 1993 pertains to the state-owned insurer and outlines the coverage it can offer.

This was followed by the Insurance Business Law of 1996 and the Insurance Business Rules of 1997. These regulations cover supervision, investment, accounting practices and consumer protection, in addition to other subjects related to the sector. Significantly, the 1996 law established the Insurance Business Supervisory Board (IBSB), a body under the Ministry of Finance and Revenue. Technically, foreign insurers can operate in Myanmar under the 1996 law, but no full licences have been granted in the 20 years since it was signed into law. Legal observers have considered the sector closed for all practical purposes. The laws are silent on non-admitted insurance.

IN CONTROL: Myanma Insurance has for many years operated as the monopoly provider of insurance, although at some times and in some ways foreign and private participation has been allowed.

For example, in 1997 Malaysia's Jerneh Insurance established a joint venture with Myanmar International Insurance Corporation, which is related to the Myanmar Economic Corporation, and wrote local policies. It did so with some success, as its underwriting was quick and non-bureaucratic, but it later left the market in 2002. Foreign companies have been able to write policies offshore and have them fronted via Myanma Insurance for a 15% commission, or 7% in the case of aviation policies.

Myanma Insurance is somewhat of an oddity in the insurance world, operating more as an extension of the government than an insurer per se. Historically, all premiums have gone to the state and the state has paid all claims. Observers have long believed it has operated without technical reserves, though the company now publishes reserve figures. As a result of the direct connection to the state, the entity has the greatest financial strength possible in the country.

LIBERALISATION: The market has opened quickly, with 12 insurers being licensed in 2012 and five beginning operations by 2013. Almost all were operating

At one point just after independence, there were between 80 and 100 insurers operating in the market, most of them foreign companies.



The Insurance Business Supervisory Board, the sector regulator, was established by law in 1996

by 2015. The licensed firms included: First National Insurance, IKBZ Insurance, Young Insurance Global, Grand Guardian Insurance, Global World Insurance, Excellent Fortune Insurance, Aung Thitsar Oo Insurance, Pillar of Truth Insurance, Ayeyar Myanmar Insurance, Capital Life Insurance, Citizen Business Insurance Public and Aung Myint Moh Min Insurance.

Minimum capital requirements have been set for private companies. Life insurers must have MMK6bn (\$5.4m) of paid up capital, non-life MMK40bn (\$36m) and composite insurers MMK46bn (\$41.4m). Of that, 10% must be deposited at Myanmar Economic Bank and 30% must be used to buy government securities. The companies may offer a number of products. On the non-life side, the list includes: motor, fire, cash in safe, cash in transit, fidelity insurance and travel insurance. In addition, companies can also sell term life, sportsman and snake bite insurance.

RESTRICTIONS: Despite being liberalised, the insurance sector is dominated by Myanma Insurance. Companies must cede premiums beyond a certain level to an insurance pool commanded by the state insurer. For fire, the level is anything beyond MMK500m (\$450,000). The IBSB places significant restrictions on the sector and insurers have complained about the limitations under which they must operate. The regulator permits firms to cover certain risks and at predetermined prices, which underwriters say makes it difficult to compete and offer insurance. Premiums, they add, are calculated in ways that do not reflect the reality on the ground. Firms are also required to use government-mandated forms and these are often dated. "We have 12 insurance companies now, but they are very young so they cannot retain 100%," U Sein Min, general manager of Myanma Insurance, told OBG. "If capacity is enough, they can retain 100%."

Still, the sector is new and lacks experience. Other than Myanma Insurance, no firm has the ability or capacity to handle large risks. The country does not

currently have actuaries. It therefore makes sense to keep business highly controlled, to avoid dumping and ensure players do not price coverage too low. "I think it is good that they restrict the premium amount. If they allowed us to set our own premium amounts, there would be a price war," Daw Khin Saw Win, general manager of First National Insurance, told OBG.

FOREIGN PLAYERS: Many players that left in the 1990s have been returning. Willis opened an office in March 2014, Jardine Lloyd Thompson in September 2015 and MetLife in June 2015. Other insurers establishing themselves in the country in recent years include Taiyo Life Insurance, Poe-Ma Insurance, American International Assurance, the Great Eastern Life Assurance, Prudential Holdings, ACE INA International Holdings, Pana Harrison (Asia) and Manulife Financial Life Insurance. In total, 14 foreign insurers are reported to have set up a presence in the country.

Since 2014 foreign insurers have been eligible to apply to underwrite policies within the Thilawa SEZ, and three Japanese companies have been granted operating licences for the SEZ: Sampo Japan Nipponkoa, Tokio Marine and Mitsui Sumitomo Insurance. All three received approval in 2015. To conduct business within the Thilawa SEZ, companies need a three-year track record in the country through a representative office and must pay \$30,000 a year for the licence.

SOFT TOUCH: Insurers are new and need time to develop so they can withstand competition. Liberalisation will thus be a delicate process that balances opening up the market enough to bring in the capital, expertise and capacity of international companies without overwhelming local players. More freedom in terms of policy design and premium pricing will have to be undertaken in such a way as to avoid price wars and substandard coverage. And while the privatisation of Myanma Insurance would likely result in efficiencies and operational improvements, it would need to be done without damaging Myanmar's most experienced and best-backed insurance firm.



In 1963 third-party motor liability insurance became compulsory

There were a total of 14 foreign insurance providers operating in the country as of the end of 2015, with more working to gain access.



Daw Kim Chawsu

Expanding opportunities

OBG talks to Daw Kim Chawsu, Head of International Banking, Kanbawza Bank

How can unsecured lending be promoted to assist the development of small and medium-sized enterprises (SMEs) in Myanmar?

KIM CHAWSU: The SME sector has always been very interesting, considering the diverse players in the market. The government has been trying quite hard in the last two years to make sure that this sector becomes more developed. Both the government and the Central Bank of Myanmar (CBM) have undertaken many initiatives, such as training SMEs. Local banks are cooperating with agencies such as GIZ in giving financial literacy classes to the employees of SMEs. We hope that in the future we can tap further into unsecured lending, but that depends more on the government and CBM regulations. Right now, unsecured lending is very difficult. At the same time there are concerns about an asset bubble, with too much dependency on the land. The positive aspect is that the CBM is already starting a credit bureau, and they have been visiting other emerging countries such as Cambodia to try and learn from the model that they have in place there.

Without these institutions in place, the establishment of credit cards and unsecured lending is rather difficult. Until certain regulations are in place, only microfinance institutions will be able to offer unsecured lending, and because of the nature of their business they have a limited reach. To promote the development of SMEs or start-ups, it is vital that their access to affordable capital is improved. In order to achieve this we need to assist with the development of the credit bureau, which will require local banks to share information, a process that has traditionally been an issue in Myanmar.

What measures are local financial institutions taking to increase banking penetration in rural areas?

KIM CHAWSU: Market data shows that approximately 90% of the Myanmar population is unbanked.

Some local banks have opted to open up branches in rural areas to increase banking penetration, and many banks now offer mobile technology to help with mobile banking services.

Most of these initiatives will go live in 2016, once the telecoms operators have mapped out the majority of the country. Local banks are also working alongside different agencies such as the UN to assist in the opening of bank accounts across Myanmar. There is, of course, a challenge in educating people about the importance of having a bank account. It will take a concerted effort to give people – particularly those in rural areas – confidence in the banking system, and an understanding that the money they deposit will still be there tomorrow. This can only be achieved by working closely with the customer. I think to gain the trust of the people, it is important to have a bricks-and-mortar branch rather than just mobile solutions.

What potential exists for the establishment of hedging mechanisms to effectively manage exchange rate risk in Myanmar?

KIM CHAWSU: As far as exchange rate management is concerned, hedging is of course something that we need to have in place in the future. There are various mechanisms employed globally that we could one day adopt. It is something that local and foreign banks are trying to work with the central bank to improve.

The CBM has taken certain initiatives to reduce the dollarisation problem, including reducing cash withdrawal limits from \$10,000 a day to two withdrawals of \$5000 per week, and making sure payments are made in local currencies even at government agencies. A recent initiative was the withdrawal of foreign exchange licences from non-financial institutions such as hotels, airlines and restaurants. The CBM wants less reliance on the dollar within the local market, and they want the kyat to be a lot more dominant. These key factors will assist in currency stability.



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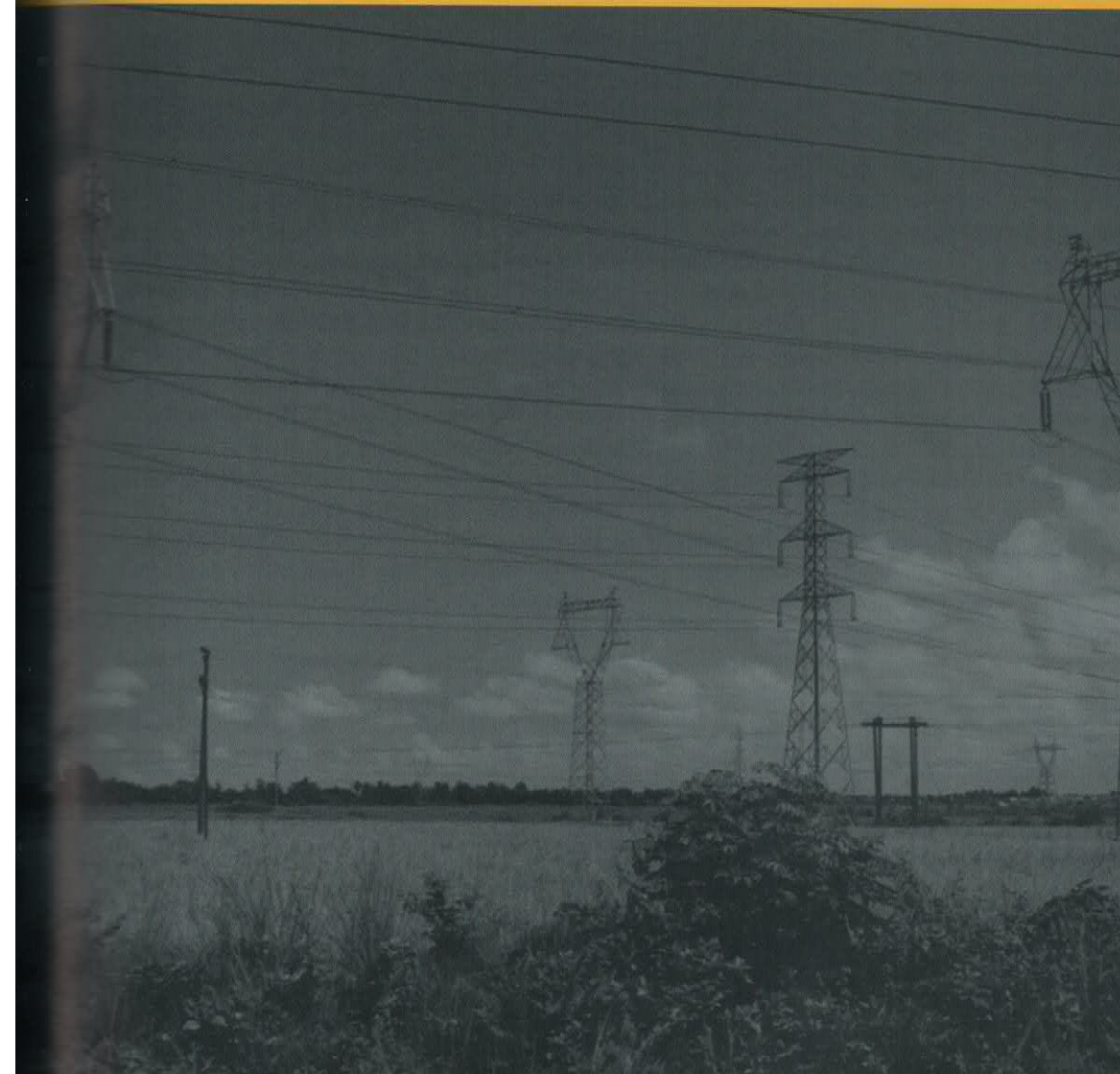
Energy

Economic growth fuels a sharp rise in electricity demand

Coal identified as a viable source for new energy needs

Transparency and environmental protection are priorities

China remains an important player in local projects





Myanmar aims to add another 20 GW of electricity to the grid by 2030

Balanced rollout

Meeting the demand for power must go hand-in-hand with adapting to the new political environment

With an estimated 800 power plants and a total capacity of 4840 MW, the country has set out to meet growing local demand by adding renewables to its energy mix.

Although it has one of the lowest electrification rates in the world, currently at about 30%, Myanmar is targeting total coverage by 2030. Despite the significant progress needed, the goal is seen as reachable, with Myanmar holding abundant hydro and solar resources, and considerable hydrocarbons potential. The country is also likely to be able to attract the capital to build the much needed capacity. Since liberalisation began in 2011 Myanmar has transformed itself into an attractive investment destination for some of the world's largest and most competitive players in the sector (see analysis). While much still needs to be done in terms of legislation and implementation, and transparency is still a work in progress, the country has established a good foundation on which to deliver another 20 GW of electricity by 2030.

IN PROGRESS: The challenge is expected to be in balancing interests. Hydropower is proving controversial, as it has a significant impact on the environment and local populations. The authorities must work cooperatively with those potentially affected and, importantly, they must ensure that international investors and relevant NGOs are satisfied that the efforts on the power side meet global standards. Coal power, also controversial, must be added, as the country has major energy needs, though this must be done in tandem with strengthening environmental protection. Tariffs will have to be adjusted upward without causing social instability, while the right mix must be achieved in terms of energy exports versus energy sold domestically, as the country needs to use electricity for both local growth and raising funds for the national budget. In addition to boosting installed capacity, Myanmar needs to develop an integrated plan that satisfies local interests, addresses the concerns of international organisations and utilises new technologies.

INSTALLED BASE: Despite the low levels of electrification, the country has been active in the sector for

years and has built a sizeable installed base. As of January 2015 Myanmar had an estimated total capacity of 4456 MW, according to the Ministry of Electric Power. While local demand for power was once low, economic liberalisation has seen demand accelerate, bringing a new challenge to the country. "Before, the electricity situation was not so bad because we had no industry," said U Win Kyaing, a member of the Energy Development Committee. "But now our development is quick, so it is difficult."

The government, along with its donor partners, is working to increase output, close the gaps and make the whole sector more sustainable. At the time of publication, most of the country's generation capacity comes from 39 power plants, including 25 hydro, 13 gas-fired and one coal. Hydro generates 65% of the total electricity produced (down from 71% in 2011), gas 33% and coal 2%. By 2020 the goal is for hydro to account for 54%, with gas and coal each providing 22%, and renewables 2% (up from zero presently). By 2030 the mix is expected to be even more diverse, with hydro at 38%, gas 20%, coal 33% and other renewables at 9%.

"The key issues for electricity generation are capital investment and technology," U Thet San, managing director at Alpha Power Engineering, a local operator, told OBG. "The ageing transmission lines cannot load all electricity generated from power stations. Myanmar needs to install transmission lines, but at the same time we are developing new generation plants," he added.

EXPANSION PLANS: A number of plans and programmes have been initiated to meet these ends. Under the National Electricity Master Plan, which was prepared by the Japan International Cooperation Agency (JICA), the country will add 23,594 MW of installed capacity and build 41 new power plants. Meanwhile, the National Electrification Plan, which was developed with the help of the World Bank and

The National Electrification Plan sets out the upgrade, expansion and overhaul of the current system, and has been designed with assistance from the World Bank and the UN.

the UN, lays out a comprehensive upgrade, expansion and overhaul of the system. It is being rolled out in two phases: an immediate phase which targets "quick wins", and a second phase to tackle long-term targets and capacity building. The World Bank's role commenced in 2013, with \$400m in financing approved in 2015 for 32 years at 0% interest. The first phase is taking place from 2015 to 2019.

The programme has a number of components. The grid extension involves a transformation of the transmission system with the support of \$300m in funding. It will involve the expansion of existing medium-volt substations and the building of new medium-volt substations; the installation of another 20,761 km of new low-voltage lines; and the addition of 11,600 community connections, 750,000 household connections and 132,000 public lights. The responsibility for financing will be split between international donors and local utilities, with the former financing materials and goods, and the latter providing logistics support.

INCLUSIVE: The programme also has an off-the-grid component, which will receive \$80m in international funding. Communities that are unlikely to be brought onto the power network within a decade are targeted. Areas that have been the site of conflict, or which have lingering ethnic tensions, will be especially of interest. Included in the programme will be photo-voltaic solar, mini-hydro, wind and diesel. Mini-grids will be developed. Other components of the programme include \$20m for project management and technical assistance.

An upgrade of the national grid is seen as politically important. Not only will it help to unify the country, but it will also encourage inclusive development. At present, the cost of electricity is much higher for people off the grid, as they have to use small generators which are far less efficient than power plants. The improvement of generation is also vital to economic stability and foreign direct investment. Without consistent power and without widespread accessibility, it will be hard to maintain economic growth and it will be difficult to attract international capital, as factories and offices require a predictable and steady supply.

REGULATION: The regulatory environment has been improving quickly. Myanmar passed a new Electricity Law in 2014, replacing the previous law of 1984, which was designed for a more centralised system that did not consider private participation. The new law, which was drafted with assistance from the Asian Development Bank (ADB) and supported by an \$850,000 grant from Norway, is written to international standards and allows for a private sector role. The law has been in the works since 2006, while ADB assistance was requested in 2011.

Significantly, the new electricity law establishes the Electricity Regulatory Commission (ERC), which has some power to regulate the sector and control rates in the event of a local monopoly in the sector. The Ministry of Electric Power (MOEP) and local governments are given the authority to grant



Increased power generation is key to attracting international capital

licences, with the ministry retaining responsibility for all projects above 30 MW and state and regional authorities approving projects that are between 10 and 30 MW and not connected to the national grid. Foreigners are permitted to invest, but generally only for projects over 10 MW – smaller projects may be considered on a joint-venture (JV) basis.

The situation with hydro power and coal is not altogether clear. Notification No. 1 published in 2013, outlined that projects of this type must be built on a JV basis. Technically, Notification No. 1 was repealed in 2014, but there is some ambiguity remaining and legal groups advise caution. Nevertheless, the law was seen as a landmark for the sector as it ended the state monopoly on electricity, specifically by permitting foreign investment. Likewise, it deals with the contentious issue of pricing.

IN THE WORKS: Some privatisation has already been taken place. In 2010, most state-owned petrol filling stations were sold, as the sector was opened up to private players. Following on this, the government has decided to transform Myanmar Petroleum Products Enterprise (MPPE) – which imports and sells gas and diesel – into a private company. Japanese, Swiss and Thai interests have been considered as possible investors. Given that Myanmar lacks refining capacity, it must import most hydrocarbons, which exacerbates the country's trade imbalance. It

A new electricity law was passed in 2014 that spells out a greater role for the private sector and the establishment of the Electricity Regulatory Commission.

Projected energy demand by sector, 2009-30 (m tonnes of oil equivalent)

	2009	2012	2015	2018	2021	2024	2027	2030
Residential (rural)	7.18	7.31	7.4	7.52	7.58	7.54	7.5	7.77
Industry	0.59	0.7	1.15	1.69	2.38	3.25	4.34	5.7
Transportation	1.22	1.44	1.81	1.95	2.14	2.4	2.71	3.07
Commercial	1.54	1.59	1.65	1.74	1.84	1.95	2.09	2.25
Residential (urban)	1.01	1.08	1.09	1.13	1.17	1.19	1.23	1.31
Agricultural	0.19	0.25	0.34	0.43	0.52	0.6	0.62	0.63

SOURCE: ADB



Power purchase agreements are negotiated on a case-by-case basis

While reforms in 2014 targeted an increase in the cost of electricity based on usage per month, some voices are calling for a further rise.

is hoped that the new enterprise will bring capital and technology to the sector.

One point of contention is the price of electricity. In order to pay for an effective and modern grid, utility players are going to have to charge a market price for power. In 2013 the authorities attempted to raise the price per unit above 100 KWh a month from MMK35 (\$0.03) to MMK50 (\$0.05), but held back due to concerns about social instability.

The government has indicated that it currently loses MMK185bn (\$170m) a year on electricity, with the ADB and World Bank both advising a price increase. Reform was achieved in April 2014 when those using more than 100 KWh per month were required to pay MMK40 (\$0.04) per KWh and those using more than 200 KWh per month started to pay MMK50 (\$0.05) per KWh. However, some view this increase as too modest and are calling for a bigger hike. "Our price should be at least MMK100 (\$0.09),"

said U Win Kyaing, a member of the Energy Development Committee. "It is too cheap."

POWER PURCHASE: Power purchase agreements (PPAs) in Myanmar are not standardised, according to Northon Rose Fulbright, a global law firm. Myanmar Electric Power Enterprise (MEPE) negotiates directly with each project, resulting in a wide range of PPAs. Despite the lack of a standard PPA model, legal observers are noting progress on this front. In 2014, lawyers at London-headquartered Latham & Watkins said that recent PPAs address some of the weaknesses of pre-2012 agreements and bring PPAs largely in line with international standards. PPAs are now generally seen as "bankable", i.e. that they are reliable enough to justify taking out long-term debt based on the expected revenues.

Most agreements include a few common elements, such as a take-or-pay clause and under-supply penalties. Most agreements also have a *force majeure* clause, protection against a change in the law and a termination provision built in. While the agreements are usually covered by Myanmar law, foreign arbitration is permitted. Experts note that due to the country's legal history, and its Common Law foundations, many of the basic forms of security that exist are familiar to foreign investors. An independent power producer (IPP), for example, can offer a mortgage over land as a form of security to lenders.

TARIFFS: One of the biggest sticking points is tariff adjustments. Pre-2012 PPAs relied on fairly simple benchmarks such as local inflation rates and renegotiation, albeit creating risks for both Myanmar and the investor. While newer PPAs employ more sophisticated structures, such as tariff escalation ceilings and established harmonised tariffs across the country, in the process reducing the potential for disagreement and increasing transparency, the lack of a model PPA suggests some investment risk and requires careful evaluation of the agreement.

In early 2015, Singapore's Sembcorp Industries reached an agreement to build and operate a

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225-MW gas-fired plant at Myingyan in Mandalay Region. The project was awarded after an international tender was conducted with advice from the International Finance Corporation. A 22-year PPA was concluded with the MOEP as the absolute guarantor. The project, which is due to be completed by 2018, is expected to cost \$300m and will be the largest gas-fired independent power station in the country. In addition to the considerable size of the deal, it was also significant given that the winner was chosen by open tender and that the transaction was conducted in a transparent manner.

According to the World Bank, however, the process still had space for improvement. Official tender regulations had not been published, although international best practice was followed. Furthermore, while Myanmar is a signatory to the New York Arbitration Convention, it is not yet supported by domestic legislation.

GOING GREEN: Despite the country's economic troubles since the late 1990s, renewables have been growing faster than in almost any other part of the world. As a percentage of total power generated, hydropower went from 23% in 1998 to 72% in 2012, according to World Bank figures. Perhaps not unsurprisingly, this has not been without controversy. Complaints about environmental damage, displacement and the mistreatment of Chinese labour led to the cancellation of the Myitsone dam in 2011. In 2013, two more hydropower projects, Htamanthi and Shwezaye, were dropped for similar reasons. The projects were to be financed by India, which would have received 80% of energy output.

Myanmar has set a renewables target of 15-20% by 2020, and according to the ADB, the country has huge renewables potential. An estimated 60% of the country is well-suited for solar electricity generation, with an average direct normal irradiation level of about 1400 kWh per sq metre per year. However, no major projects have been undertaken to date, though three pilot projects are being developed: the Solar Photo-voltaic Battery Charging Community Enterprise; Demonstrative Research on a Photo-voltaic Power Generation System in Myanmar; and the Solar Power Village Electrification Scheme.

"There is a lack of understanding about solar power in the country and, because of the traditional way of thinking, it is difficult to get the necessary financing locally. Fortunately there are international agencies that are supporting renewable energy initiatives in the country," Benjamin Frederick, head of operations at Myanmar Eco Solutions, told OBG. Major projects in the pipeline include a collaborative venture by Thailand's Green Earth Power and the US's Black & Veatch to build a 220-MW solar plant in Minbu in Magway Region. This has been reported as South-east Asia's largest solar power plant, and construction is set to commence in early 2016. In October 2015, Sunlabob Renewable Energy, a Laos-based company, said it had been awarded a contract for 11 solar micro-grids in remote communities, funded by



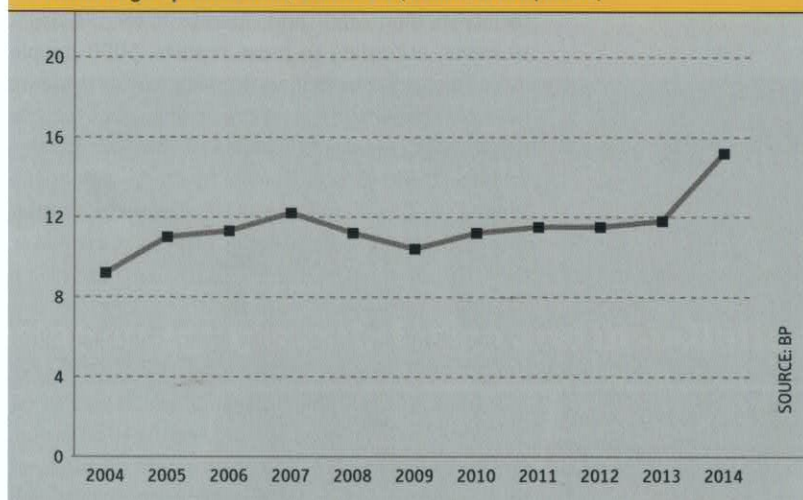
Wind power has less potential in Myanmar than solar energy

the Japanese International Cooperation System. The sites will be in the Shan and Chin States. Furthermore, in March 2015, ABB, a power and automation technologies group, signed a deal with American NGO Pact to bring solar power to 3500 people in rural areas near Mandalay.

WIND & BIOMASS: With a theoretical potential capacity of 33 GW, wind resources could also be promising. However, much of the country is not windy enough to support turbines, with average wind speeds of less than 6 metres per second. Furthermore, given the limitations of the electrical grid, the ADB estimates the segment's technical potential to be between 86 MW and 343 MW. In addition to solar and wind, biomass development is another area of interest. The country already gets most of its energy from burning solid fuels such as firewood, coconut leaves and bamboo, and many of the agricultural products could be better utilised and transformed into cleaner and more efficient fuels. Myanmar has been intensely pursuing biomass projects since 1980,

Renewables are key to the country's long-term energy strategy, with a target of 15-20% in place for 2020. Solar and, to a lesser extent, wind power are an important focus of the strategy.

Natural gas production, 2004-14 (m tonnes of oil equivalent)





Coal power plants are viewed as a cheap way to boost electricity supply, but this has been controversial

with more than 1000 projects initiated. More than 200 are still in operation.

Despite no incentives specifically targeting renewables, foreign investors can still have general incentives applied to renewable projects. According to the ADB, these include: five-year tax holidays; tax reductions of up to 50% for exports; research and development expense reductions; and exemptions from Customs duties for certain imports. Significantly, Myanmar has no feed-in tariff. **COAL:** While the burning of coal is seen by the authorities as an inexpensive way to boost electricity generation, it is very controversial. In 2010, a total of 11 coal-fired plant deals were signed by the MOEP. However, the projects have faced stiff opposition that has led to protests and civil unrest. As of late 2015, the government had stopped meeting with coal developers. Of the projects, four are in Yangon Region, three in Tanintharyi Region, one each in Shan and Mon States, and one each in Ayeyarwady and Sagaing Regions, according to *The Myanmar Times*.

In April 2015, Toyo-Thai signed an agreement with the Ministry of Power to build a 1280-MW coal-fired facility in Mon State and operate it for 30 years. However, according to press reports, 5000 people in Ye Township challenged the plan. Local residents have been against the agreement since negotiations began, with complaints centred on the environmental impact and effects to local health as well as the project's transparency. It has also been argued that the land compensation being offered is far lower than the material and cultural losses that will be experienced by members of the community.

One plant in Yangon has been cancelled altogether, according to *The Myanmar Times*. The 279-MW plant in Htantabin Township, which was to be developed by Huaneng Lancang and the Htoo Group, was cancelled in 2015. The government decided not to proceed with the plant due to port problems, and

under the terms of the memorandum of understanding (MoU), if progress is not made within 30 months of the signing, the MoU automatically expires. Two other coal-fired plants in Yangon (Kungyangon and Kyauktan Townships) were signed later and are still on schedule. The Mon and Shan State projects (the latter being a 500-MW plant) are the only two of the original 11 that have moved beyond the MoU stage.

Coal plants on the board in the country include: a 500-MW plant being developed by Orange Powergen of India, Global Adviser of Singapore and Diamond Palace Services of Myanmar in Kyauktan Township, Yangon; a 300-MW plant by Virtue Land, a subsidiary of Myanmar's Asia World Group, in Kwan Chan Gone, Yangon; a 2460-MW plant in Myeik being built by RATCH and Blue Energy and Environment, both of Thailand, and Vantage and Kyaw Kyaw Phy, both of Myanmar; a 500-MW plant in Boat Pyin by Cwave Global and 24 Hours Mining & Industry, both of Myanmar; a 600-MW plant at Nganyoutkaung Township, Ayeyarwady Region by India's Tata Power; and a 270-MW plant in the Sagaing Region by ISDN of Singapore and Tun Thwin Mining of Myanmar.

The government has been arguing vigorously in favour of coal, saying that it is the only way to meet the country's energy needs in a practical way. Although renewables have significant potential within the country, the lack of consistent power from renewables means that they can never account for more than 10% of the total. The private sector is therefore pushing for coal, as it does not see any other way for the country to meet its growing energy deficit. "There is no more gas unless there is a new discovery," U Kyaw Kyaw Oo, a director at Barons & Fujikura EPC Co., a local power construction firm, told OBG. "The only solution for the country in terms of power is coal."

OIL & GAS: Myanmar was one of the world's first oil-producing countries. It started exporting oil in 1853, and a well from 1887 is still operating today (Ychaugyaung field). From 1886 to 1963, the sector was dominated by Burmah Oil Company, a Scottish firm which was the first foreign enterprise to drill for oil in the country. Standard Oil arrived in 1901.

After the nationalisation of the sector, MOGE was formed. Foreigners were kept out for 25 years, but were finally permitted to enter the market in 1988. Chevron and Total participated, but most of the others investing were regional (from Russia, China, Korea, Vietnam, Malaysia, Indonesia and Singapore). The Yadana gas field was discovered in 1982 and Total signed a contract for the field with MOGE in 1992. It is a venture between Total, Unocal, PTTEP of Thailand and MOGE, and the vast majority of production goes to Thailand. In 1993 the Yetagun gas field was discovered, and it is operated by a venture between Petronas, Nippon Oil Exploration, PTTEP and MOGE.

Since the economic and political reforms of 2011, a number of bidding rounds have been held. The first was in 2011, with 18 onshore blocks being made available and half of them being taken by foreign investors. Interest was light due to the remaining

Oil was first exported from the country in 1853. After the sector's nationalisation, foreign enterprises were allowed to enter the market in 1988.

international sanctions. Another set of onshore blocks was offered in 2013. While the sanctions had eased, interest was still limited.

In the next round, also in 2013, international majors did inevitably rush in, as blocks were available offshore and local JV partners were not required for the deepwater blocks. Winners included Royal Dutch Shell, Total E&P, Statoil, ConocoPhillips and Eni. The country has a total of 104 blocks, 53 onshore and 51 offshore. Of these, 16 onshore and 19 offshore blocks are in operation, according to a report published by *The Myanmar Times*.

MEETING DEMAND: PSCs for hydrocarbons projects are being negotiated to consider Myanmar's future needs. When the country's economy stalled and foreign investment was sparse, it made sense to export as much as possible. However, the priority is now on domestic development, which will require fuel. Newly negotiated contracts are starting to reflect new priorities and focus on ensuring that the country is guaranteed fuel for its growth, and at a discount to the market price. PSCs also include training budgets and a social responsibility component.

The recently completed deepwater PSCs allow for a three-year exploration period, with one two-year extension permitted and a 20-year development period. For deepwater wells, the state's share currently ranges from 70% to 90%. For shallow water wells, it stands at 60% to 90%. "According to the PSCs, the first to benefit is the domestic market," said U Aung Ye Soe, managing director at the Machinery and Solutions Company, a local group.

In 2014, the country produced a total of 21,000 barrels per day (bpd) of liquid fuels, according to the Energy Information Administration. As Myanmar consumes 29,000 bpd and also lacks refining capacity, it is currently a net importer of oil. The country also produces around 463 bn cu ft (bcf) of natural gas per year. Historically, natural gas demand has been far lower than production, and most output has been exported to Thailand.

The lion's share of gas exported to Thailand (304 bcf per year) comes from the Yadana and Yetagan fields. A third field, Zawtika, came on-stream in the second half of 2014 and produces about 100 bcf per year. In 2013, Myanmar started exporting natural gas

to China under the Shwe natural gas project. A total of 108 bcf was sold to Myanmar's northern neighbour in 2014, with peak production from phase I of the project expected to hit 193 bcf per year.

In January 2015, the Myanmar-China Oil Pipeline commenced operations. It runs from Madaya Island in Kyaukphyu, Rakhine State to Ruili, Yunnan Province, and has a 22m-tonne annual capacity. The line was constructed so that China could import oil from the Middle East without having to pass through the Straits of Malacca.

According to Interfax Natural Gas Daily, in 2014 the gas pipeline was carrying only 20% of its full capacity and questions have been raised whether the pipeline was necessary given China's cutback on refining capacity and its slowing growth. Locals have also protested developments in the area, saying that their lands were taken in an unlawful manner and that the project threatens the environment and well-being of the local population.

OUTLOOK: Given the events that have taken place since 2011, the outlook for energy in Myanmar is promising. The country has become more open, which has led to considerable foreign investment from large companies and fast development in the sector. Offshore blocks will be explored and ultimately exploited and plants will be built, and all in a competitive environment that should ensure good pricing and the use of the best technologies.

A number of challenges do remain. Myanmar is going from a country with little domestic economic activity to one that is starting to grow rapidly. Deals will need to be structured carefully, taking into account domestic demand without ignoring the need for hard currency that exports provide. The country is also dealing with serious legacy issues with respect to deals done during the waning days of the old establishment.

The managing of these deals will be central to the sector's outlook, as some of them are needed, but the terms and conditions must be updated to account for political change. While Myanmar needs to balance capacity challenges with transparency and environmental protection, it may be forced to make some strategic compromises in order for output to be increased on schedule and efficiently.

The country has a total of 104 oil and gas blocks, which are comprised of 53 onshore and 51 offshore blocks. Of those in operation, 16 are onshore and 19 are offshore.



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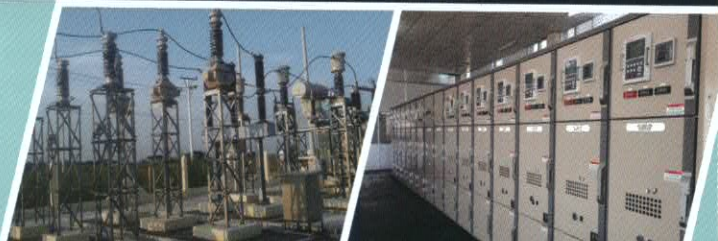
No. 15, Yoedayar Street, 9th Mile, 5 Ward, Mayangone Township
Yangon, Myanmar - PO: 11061

Phone: (95-1) 664727, 665203, 660828 | Fax: (95-1) 665203

Email: sales@alphapowerengineering.com; contact@alphapowerengineering.com

www.alphapowerengineering.com

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Ken Tun



Olivier de Langavant

Offshore potential

OBG talks to Ken Tun, CEO, Parami Energy Group; and Olivier de Langavant, Senior Vice-President Asia Pacific, Total E&P

Myanmar's deepwater acreage is expected to hold significant gas potential. Given recent oil prices, how would you assess the investment climate for large-scale energy projects?

TUN: Firstly, a recent US Energy Information Administration report suggested that the current oil price decline is not sustainable, and the government should not use this current price as a guideline for its energy master plan. Secondly, less than 30% of Myanmar's offshore acreage has been explored, and there are a lot of stakeholders who are very optimistic about new and very big discoveries given the history of the region. The third thing is that Myanmar is located very close to the energy-hungry economies of Asia. We currently supply 30% of Thailand's energy needs, as well as supplying energy to China, and we can potentially supply energy to India and Bangladesh provided there is a significant discovery with the new bidding round. So definitely, from an investor perspective, the oil and gas industry is still very attractive, despite the recent dip in the price of oil.

DE LANGAVANT: Everybody would agree that the investment climate for major oil and gas projects will be very tough for the coming months, or even years. Given the sharp decrease in oil prices, investors will need to assess the robustness of each project with stronger criteria, and severe arbitration will be unavoidable. The key challenge for operators will be demonstrating their ability to apply cost reductions everywhere and to adopt a "fit for purpose" long-term attitude. Therefore, we strongly believe that technological advantages will become even more crucial to a project's economic viability. Since the beginning of 2000, deep-water operations have come to symbolise the sector's capacity for innovation and project management. With each new project, solutions have been invented to overcome increasingly stringent constraints.

What challenges does Myanmar face in developing its upstream oil and gas sector, and what incentives exist for investors?

DE LANGAVANT: Myanmar is just at the beginning of a new step in the development of its oil and gas sector. Until recently there were only a few companies, and even fewer international oil companies, operating in the country, especially on the offshore acreages. In 2013 the government launched a hotly contested bid round which has led to the signature of 20 new production sharing contracts (PSCs) with various companies, including a significant number of international oil and gas companies, Total being one of them.

The expectations are high, since offshore acreages in Myanmar have been notoriously under-explored during the last decades. The challenge for the authorities and for the regulator, Myanmar Oil and Gas Enterprise (MOGE), will be to manage such a big number of different contracts with significant work programmes, which could lead to delays in the approval process, and ultimately deferral of production. Total, as a historical operator in the country, has always maintained excellent relations with MOGE. The new economic environment – linked to a sharp decrease of oil and gas prices in the region – could become an issue for the launch of future development projects: the contractual terms of the PSCs in Myanmar are rather tough for contractors compared to those of other countries, and some flexibility might be required.

TUN: Myanmar has the oldest producing oil field in the world. The golf course near the oil field has reciprocal membership with St. Andrews in the UK, so that gives you an idea of how old the oil and gas history is here. In terms of the experience, the government has instituted more than 100 production sharing contracts (PSCs). Having said that, there are some challenges because Myanmar

was ignored by the world for more than 30 years and we are now open for business – there are a lot of improvements to be made to infrastructure. For the investor, regardless of which industry they belong to, logistics are a challenge, making Myanmar 1.8 times more expensive than the typical oil-producing country.

Another challenge to be expected from an emerging country is human resource development. We have a limited pool of talent in the energy sector, but that can be overcome by smart operators who can link up with universities for vocational training. Government regulation and clarity of permits present a further obstacle, with numerous ministries involved in every permit. As the oil industry is crucial to the economy, the sector can benefit from having a one-stop shop run by the government. The government is very pro-active in solving these challenges; evidence of which can be seen in Myanmar's better placing in the World Bank's ease of doing business ranking.

How important will partnerships between national and international companies be in accelerating the country's oil and gas development?

TUN: We need to add value: the only way to do this is through partnerships which bring technology, know-how and project management skills to bridge the gap that was created from many years of market isolation. There should be more facilitation of these partnerships, which can improve the sustainability and the capability of the sector. The local private sector benefits from increased revenue and exposure to more market share, while those coming in to form a partnership do not need to spend time learning the market, as local experts can provide the intelligence.

In the upstream segment we have a long established national oil company, MOGE. In the

downstream segment we have Myanmar Petrochemical Enterprise, while on the distribution side we have Myanmar Petroleum Products Enterprise.

We need to find a way to empower these national entities so they become guiding lights for local companies. We would encourage MOGE to participate on a greater scale by looking into areas such as liquefied natural gas and floating platforms, following the model successfully adopted by Petronas and PTT Exploration and Production. We must strive to realise fruitful partnerships between government, the local private sector and international companies.

DE LANGAVANT: Exploring and producing oil and gas is both risky and costly. Not just capital costs, but societal, environmental, local licensing and permit issues all weigh heavily. Good partnering can significantly mitigate these burdens by combining knowledge and experience for the mutual benefit of all stakeholders and for the country, while continuing to respect the social and natural environment in which a company operates.

International operators have contributed to promote the local skills and to develop the local oil and gas industry, both directly through their own operations and indirectly through the use of numerous national contractors. The commitment to energy solutions means addressing all the issues faced by the country together.

On block A-6, in the Bay of Bengal, for instance, we are in partnership with Woodside and with MPRL, a national company which already has a strong track record. We have recognised this company for its professionalism and experience in the local upstream sector of the industry. In the current context, such partnerships between national and international companies are likely to prove essential to successfully developing energy projects in a timely, cost-efficient and safe manner.



Deepwater blocks have been more appealing to oil majors

Building blocks

Major oil and gas companies await the next round of bidding

Since international barriers began to be taken down in 2011, a total of three rounds of bidding have taken place for the country's oil and gas blocks.

For decades, the Myanmar oil and gas story was fairly simple. The country had well-established onshore fields, with some regional participation, and a few offshore fields, with regional participation and some legacy participation by international majors. Production was significant given the isolation of the country, and oil and gas was vital to Myanmar as a source of hard currency. Due to economic sanctions, however, development remained far below potential as major international players were all but excluded. Participation by global oil companies was limited to Total and Chevron, which were grandfathered in by an executive order.

The situation started to change after the reforms of 2011 and the subsequent lifting of international sanctions. Activity picked up and transnational firms became more engaged, slowly at first and then in a rush. However, the bidding rounds for the country's oil and gas assets have been complicated by a number of issues. The first round came before major Western companies could participate, while the second round lacked incentives for energy majors. There have also been delays. Follow through has been complicated and it has taken time to firm up the transactions. Most of all, the bidding rounds have taken place as oil prices have been falling, with some blocks being abandoned for the lack of viability.

UNDERDEVELOPED: The oil and gas market in Myanmar is largely underdeveloped owing to several years of insufficient investment and minimal competition. As of early 2015, the country had 104 oil and gas blocks, of those 53 are onshore and 51 are offshore. However, only 16 onshore and 19 offshore are currently in operation. Since barriers began to be taken down in 2011, three rounds of bidding have been conducted and the results have generally been good, with the government being proactive and positive. The rounds have been conducted transparently and relatively in line with international best practice. Favourable terms have also been offered to encourage

participation in deepwater blocks. The international majors, meanwhile, have been bidding enthusiastically on the attractive blocks and demonstrating a real, long-term interest in the assets. Goodwill exists on both sides, and early indications are that the sector could be transformed over the next few decades.

OPENING UP: Momentum was slow to develop, and at first it was not clear whether the bidding programme would be a success. The first round, in July 2011, was somewhat limited in scope and appeal, as sanctions had not yet been fully lifted. While relations with Western countries started to improve significantly in 2011, it was not until 2012 that material changes were made. That year, the US sent an ambassador to the country, the first in more than two decades, and started lifting sanctions.

However, in 2011, most multinationals were still highly restricted in what they could do in Myanmar. Nevertheless, the first round was significant. It was conducted after liberalisation began and was conducted in the spirit of transparency and openness. An attempt was made to follow and implement international standards, with a formal invitation to bid being sent out calling for qualified companies.

In the round, a total of 18 onshore blocks were put out for bidding. The response was good. Letters of interest were received from 55 companies, of which 39 were shortlisted. Ultimately, six companies received licences for eight blocks.

Yet, as in the previous years, the bidding was not particularly competitive. Interest was primarily from Asia and a number of blocks received no bids. Those bids received were only from countries that did not apply sanctions and from firms without a major presence in countries that were enforcing the restrictions. International companies that ultimately received blocks in the round were: Thailand's PTTEP, Malaysia's Petronas, Geopetrol International of Switzerland, Russia's CIS Nobel and Jubilant Energy of the Netherlands.

In January 2013, bids were invited for another 18 onshore blocks, but the round was also lacking in participation from major international oil companies, despite the lifting of major sanctions by the West. While a total of 59 companies pre-qualified, the majors were absent from the list. The minister of energy told the press that this had nothing to do with investment restrictions on Myanmar. It was not sanction related.

He argued that international giants were absent due to a requirement that foreign companies partner with local companies for onshore blocks, and that they would prefer to avoid forced tie-ups with local entities. Also, onshore is not as technically difficult as deep offshore, meaning that the work would attract lower-cost entrants and not be as potentially profitable.

Among the blocks being made available was one that had been relinquished by China National Offshore Oil Corporation in August 2012 and two that had been pre-awarded. The bidding was delayed twice. Of the companies that were pre-qualified, 23 were shortlisted. Ultimately, 11 bidders received 16 of the onshore blocks in October 2013.

A KEY MOMENT: The next round, in 2013, seemed to indicate that the failure of the two previous rounds to attract major international interest was a matter of timing and the assets offered, and not a lack of interest by global players. Myanmar offered attractive assets at a time when international companies could participate, and the result was heavy bidding from major players. In the offshore licensing round, 11 shallow and 19 deepwater blocks were offered. Those winning shallow-water licences must work with a local partner, while foreign companies operating deepwater blocks can do so without local shareholders due to the technical difficulty of such projects and the lack of relevant experience locally. A total of 61 companies were shortlisted, including a number of oil majors, and of those 20 submitted bids.

A total of 20 licences were issued for 13 companies to operate in shallow and deepwater blocks. Winners in the shallow-water category included: the UK's BG Group; Woodside Energy, Transcontinental Group and Roc Oil of Australia; Reliance Industries, Oil India, Mecator Petroleum and Oilmax Energy, all of India; the US's Chevron; Thailand's, Top Oil; and Berlanga Holding of the Netherlands. In the deepwater category, the winners were: UK-headquartered Ophir Energy and BG Group; Woodside Energy of Australia; Shell, from the Netherlands; Japan's Mitsui Oil Exploration; Norway's Statoil; the US's ConocoPhillips; Italy's ENI and France's Total.

FUTURE ROUNDS: Despite the success of the second 2013 bidding round, it is not clear when future assets will be offered. In May 2015, Myanma Oil and Gas Enterprise told the local press that it would not be making more blocks available until at least 2016, as it was still in the process of digesting the three previous rounds. The process of negotiating the product-sharing contracts and dealing with other formalities has taken time and capacity. Other sources quoted in the press said it could be as late as 2017 before more



Falling international oil prices have affected the timing of future bidding rounds for hydrocarbons blocks

blocks are made available. There is some uncertainty on the matter, for its part, Ministry of Energy says it is taking a wait-and-see approach as it works its way through negotiating and implementing the three rounds so far, while some officials say that the next round will take place in 2016.

One question mark for the sector is the price of oil. The lower prices are already in part to blame for the lack of further bidding rounds and there are indications that the declines are leading some companies to rethink their Myanmar strategies. For example, although a discovery was made in Block M3 in the Gulf of Moattama, PTTEP, which owns 80% of the block, has indicated that it is considering terminating work in the area. PTTEP has said that it will continue its evaluations of the block, but that it would also be keeping an eye on the price of oil. It is hoped that oil majors will remain engaged, and possibly pick up some slack, as they are less sensitive to short-term movements.

"Even though oil prices are currently depressed, the number of participants in the most recent bidding round is testament to the potential of Myanmar's deepwater acreage," U Aung Kyaw Kyaw, managing director at Alliance Logistics, a Mumbai-headquartered group with global operations, told OBG. "International operators are excited about the prospects about the country's vastly unexplored potential", he added. Others express more caution. "Even though the government just awarded blocks, the price of oil is going down," said U Aung Ye So, managing director at Machinery and Solutions Company, a local enterprise. "This will impact company's investment decisions."

The offshore situation had also been affected by a maritime border dispute with neighbouring Bangladesh. The two countries had been at odds over a 150,000-sq-km area in the Bay of Bengal. The UN's International Tribunal for the Law of the Sea helped to resolve the dispute, which has since brought to attention blocks which were previously under question.

International companies operating in shallow-water blocks must work with a local partner, while those in deepwater blocks can do so independently.



U Myint Zaw

Drafting the blueprint

OBG talks to U Myint Zaw, Deputy Minister for Energy

In light of the impending formation of the ASEAN Economic Community (AEC), what role will Myanmar play in the energy security of the region?

MYINT ZAW: As an ASEAN member state, we are trying to align with the ultimate goal of establishing the ASEAN Free Trade Area by 2015 under the umbrella of the AEC. We realise that energy security is essential to the long-term development of the AEC. The collective efforts of all members are needed to ensure the region's energy security. Currently, we are supporting this goal through our participation in the Trans-ASEAN Gas Pipeline and the ASEAN Power Grid. In the meantime, we are encouraging and accelerating our oil and gas exploration activities by cooperating with local and international companies. The new National Electricity Master Plan can further help to ensure the development of power projects. Therefore, with the rapid development of our energy sector, we believe Myanmar is well positioned to support the energy security of the region.

What priorities has the National Energy Management Committee (NEMC) identified in formulating the Energy Master Plan (EMP)?

MYINT ZAW: Under the technical assistance programme supported by the Asian Development Bank, the NEMC is preparing the long-term EMP in cooperation with national and international energy sector experts. We are preparing a comprehensive development plan with the aim of supporting the country's economic growth and enabling affordable universal energy access throughout its diverse landscape by providing energy in a sustainable way. There are many challenges we will need to address if we are to achieve our targets, but if we can increase our energy security then our goals will be attainable.

The planning process is still in progress, but in order to achieve the objectives of the long-term plan, we will need public and private stakeholder

participation. The NEMC will play a vital role by strengthening cooperation among stakeholders.

How would you assess current production agreements with international firms and governments?

MYINT ZAW: The production-sharing contract (PSC) is a typical contract for bilateral and multi-lateral cooperation, and we firmly believe that our PSC is beneficial to both government and investors. Recently, we have been inviting parties to conduct oil and gas exploration and production through international bidding, and many leading global oil and gas companies have participated. This proves that our PSC contract is recognised globally by many investors.

Is the volatility in oil prices making investors in advanced oil extraction more cautious?

MYINT ZAW: The global oil price is going down, but this has had less of an impact on the investment flow than one might expect. During recent years, we called three international bidding rounds – two for onshore blocks and one for offshore. Most of the awarded companies have signed the PSC with the Ministry of Energy and will perform activities accordingly.

What measures are being taken to improve the quality of human capital available to the industry?

MYINT ZAW: In initialising the corporatisation process, we realise that human resources development is critically important. With this in mind, we are conducting capacity development activities by cooperating with local companies, international governments and multinational corporations. We also adopted rules and regulations requiring that international investors cooperate with a local company under a joint venture agreement and that they employ local people in oil and gas exploration as well as production activities. This will help to ensure capacity development and technical transfer into our talent pool.



The government is weighing the costs and benefits of coal power

Much to think about

Coal power is an enticing option due to its low cost and ability to rapidly bring generating capacity on-line

In 2010, a total of 11 coal-fired plant deals were signed by the Ministry of Electric Power. However, due to opposition for a variety of reasons, very little capacity has been built. From an economic standpoint, there is the position that the country is so in need of electricity that it must make compromises and accept a certain level of pollution and population displacement to close the gap. Nonetheless, the calculation is a delicate one, and the authorities are going to have to be careful in the compromises that are made. While the country no doubt needs more power, the level of public engagement now is such that it will not be easy to pile on the plants so quickly without dealing with questions about the coal plants and whether they are necessary.

POWER UP: The country has an estimated 11trn cu ft of gas reserves, with a dozen gas-fired plants in the pipeline to produce a total of 1.26 GW, and an additional 2.71 GW worth of plants in the planning stages. However, coal is seen as a more viable alternative as it can add greater capacity at a faster rate. At present, the country only has two coal-fired plants, with a total generating capacity of 128 MW. However, a total of 10.09 GW of additional capacity has been agreed upon between the government and developers, while another 8.71 GW is in the planning stages, according to Interfax. To reach its goal of 100% electrification, Myanmar is going to have to follow through on many of the planned coal projects.

Coal, however, remains controversial. Residents affected, as well as interested international parties, have been challenging many of the projects. In early May 2015, an estimated 600 villagers near the town of Ye in Mon State protested plans by Thailand's Toyo-Thai to build two 640-MW coal-fired plants in the area, for a total investment of \$2.8bn. Local residents led by civil society groups and monks said that the process had not been transparent

and that some land had been acquired unfairly. A month later, residents of Kyaukpyu Township in Rakhine State sent a letter of protest to challenge the building of a 1320-MW plant by Daewoo. The chief minister of the state said that he would halt the \$2.5bn project if it received enough opposition.

A MIXED BAG: The international community is calling for a balance, with the Asian Development Bank saying that while coal is an important part of the energy mix in the region, the best technology should be utilised to reduce the impact on the environment. Officials from Japan International Cooperation Agency have stated publicly that Myanmar needs to be open to coal, while the World Bank does not rule out the burning of coal. It acknowledges the reality that to meet the growing demand, a significant amount of coal will have to be used.

Myanmar has very little of its own coal, and what it has is considered low quality. The country therefore plans to buy the fuel off the international markets. While this will not be hard, given the abundance of low-cost coal and the strategic position of Myanmar on international coal routes, utilising the resource will require building significant port infrastructure.

The Renewable Energy Association Myanmar argues that the use of coal violates the country's National Energy Policy. According to the group, Myanmar is obligated to source energy locally and develop a sustainable plan. However, coal must be imported and will always have to be brought in from elsewhere. The group also objects that electricity from some of these plants will be exported. As of early 2015, the plants were officially on hold as the government took into account the arguments being made, while it also put forward its case for the benefits of coal power. In late 2015, press reports indicated that the government had stopped meeting with developers altogether.

While the country holds an estimated 11 trn cu ft of gas reserves and is planning to build 12 gas-fired power plants, coal is seen as a more practical alternative to meet the high demand for electricity.

Due to a lack of significant domestic reserves, Myanmar would need to purchase coal from international markets, which also requires building new port infrastructure.



China has been a major player in Myanmar's energy sector

Chinese role

With competition growing and expectations rising, Beijing has begun to re-evaluate its position in Myanmar

With China's demand for energy and resources falling, and Western interest in Myanmar rising, Beijing's bargaining position has changed considerably.

China has long been a significant player in Myanmar's energy sector. Before recent political reforms, Western sanctions made the country of particular interest to China, which was willing to finance and build projects that companies of the West and Japan could not. Chinese companies also saw Myanmar as an attractive investment, owing to its rich and diverse natural resources, geopolitical importance and potential as a source of electricity. As China boomed and the West isolated Myanmar, heavy participation in the energy sector of its southern neighbour made sense for China.

The situation has changed considerably, and some of the conditions that attracted China earlier may no longer hold. With the sanctions lifted, the market is now far more competitive, leaving China in a less-favourable bargaining position. More importantly, the reforms have changed the way Myanmar does business. As transparency increases and the public becomes more engaged, China is not finding it as easy to pen new deals, or to complete those already signed. Its companies are being asked to justify their projects, especially on environmental and social grounds, and the government is under pressure to cancel deals that do not meet minimum standards. Last, as the Chinese economy slows, it simply does not need the energy and resources it did just a few years ago.

DEEP HISTORY: Before the reforms of 2011, China was more heavily involved in Myanmar's energy sector. According to EarthRights International, an environmental research group, as of September 2008 some 69 Chinese companies had investments in power and mining projects in the country. China today continues to be active, with a clutch of deals negotiated before 2011 still in the works, and some new deals being negotiated.

Still, it is unclear how many of these will reach completion, as many are being shelved,

re-negotiated or cancelled. In 2010, Huaneng Lancang (part of China Huaneng, a state-owned utility) and the Htoo Group signed a memorandum of understanding (MoU) to build a 279-MW coal-fired plant in Htantabin Township, Yangon. However, that project lapsed as the MoU was not implemented within the 30-month deadline. Another project, the 600-MW Kelawa Power Station, is being constructed by China Guodian and a local partner. When finished, its output will supply the Monywa Copper project, which is also Chinese-led. The mine has been controversial, following clashes with local residents who claimed to have lost their land and been impacted by environmental degradation caused by the project.

HYDROELECTRICITY: China has also been a major investor and builder of hydroelectricity projects in Myanmar. According to EarthRights International, Chinese companies were involved in 63 hydro projects as of 2008. In 2007, China Power Investment Corporation signed a deal with the Myanmar Ministry of Electric Power to build seven dams with a capacity of 17,259 MW. The investment would have been about \$3.6bn. Several of these projects have been successfully completed, such as the 280-MW Lower Paunglaung dam, in 2005, and the 600-MW Shweli I dam in Shan State, in 2006. A group of Chinese companies supported by the Exim Bank of China subsequently wrapped up a 790-MW project south of Mandalay in 2010, while the Dapein 1 hydropower project started up in 2011 and the Upper Paunglaung dam did so in 2014.

CHALLENGES: Despite the successes, some projects are in political limbo. The 7000-MW Mong Ton hydropower project, for example, which will be situated on the Salween River, has been in discussion for some time, and it is unclear where it stands. There has been considerable concern about the project, which would be the largest hydropower

A number of projects have been funded by China over the years, particularly in hydro and mining. While several others are in the pipeline, concerns around the environment and land issues have slowed progress.

plant in all of South-east Asia and has been the target of civic action and protests. Its opponents say that the basin to be flooded – an area of 640 sq km according to some sources – would damage culturally and ecologically important areas, and that 90% of the power will be exported to Thailand and China. They are also worried about existing conflicts escalating as the Myanmar military presence increases with the building of the dam.

Another development mired in uncertainty is the Myitsone dam. The project was stopped following the reforms brought about after President U Thein Sein came to power in 2011. Like many other major hydroelectric projects in Myanmar, the dam would have exported most of its energy outside the country, mostly to China. In addition, threats to the environment and biodiversity, and potential resettlement of the local population, sparked civil unrest.

However, there are some indications that the project may be restarted. The Chinese company behind the project says the dam may not have been well understood back in 2011, as under the old regime investors could not engage the population: all communications were government to government. This time around, the Chinese are beginning to directly speak to those concerned and may yet make headway in convincing local residents that the dam's benefits outweigh its costs.

REFINERIES: China is also active in the refinery subsector. At present Myanmar has only about 50,000 barrels a day of capacity, with a utilisation rate below 40%. However, China's Guangdong Zhenrong Energy Company is planning to build a \$3bn refinery in the Dawei Special Economic Zone, and applied for approvals in early 2015. The refinery is expected to have a capacity of 5m tonnes a year, but this project has also faced local resistance. In 2014, around 500 villagers from the area held a protest, saying the social and environmental



Past completions and legacy projects in the works mean China still has notable momentum in Myanmar

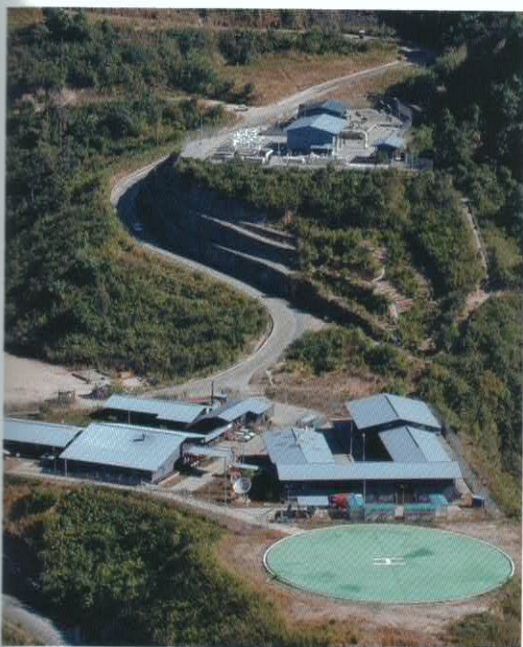
damage would be considerable and that a large number of people would have to be relocated.

MOMENTUM PLAY: Despite such problems, China continues to be a major player in Myanmar, partly from sheer momentum, with legacy deals and projects still in the works, and partly from the raw opportunities its neighbour continues to hold in terms of resources and building electricity infrastructure. China is also adjusting to economic and political realities. It is now more careful in how it conducts itself in Myanmar, engaging in more corporate social responsibility (CSR) work to give projects a better chance of surviving political and public scrutiny. In many ways, Chinese companies are adapting and beginning to conduct themselves similar to other multinationals in the country.


Observers of Myanmar note that Chinese efforts to engage the local population are not merely CSR-type initiatives. Chinese businesses are also becoming more sophisticated, they say, and are beginning to understand that convincing residents to accept their projects is not simply a matter of building a school or two; rather, it is a significant challenge, as China's reputation in the country, especially in the energy sector, is particularly poor given its close ties to previous governments. All of this has spurred new efforts.

At the same time, Myanmar is starting to become more realistic in what it expects from China. It needs to increase its electricity generation capacity and to develop its energy sector. While many people in Myanmar have a negative image of China, and some projects may be environmentally troubling, the country has taken promising steps, and some of the envisioned projects can constructively add to its energy mix. It is therefore not hard to imagine that some deals currently on the table could eventually be built, albeit with modifications and after public concerns have been addressed.

A \$3bn refinery project by a Chinese company is expected to have a capacity of 5m tonnes a year, though it faced local resistance in 2014 on grounds of its social and environmental impacts.




Chinese efforts to engage the local population have increased

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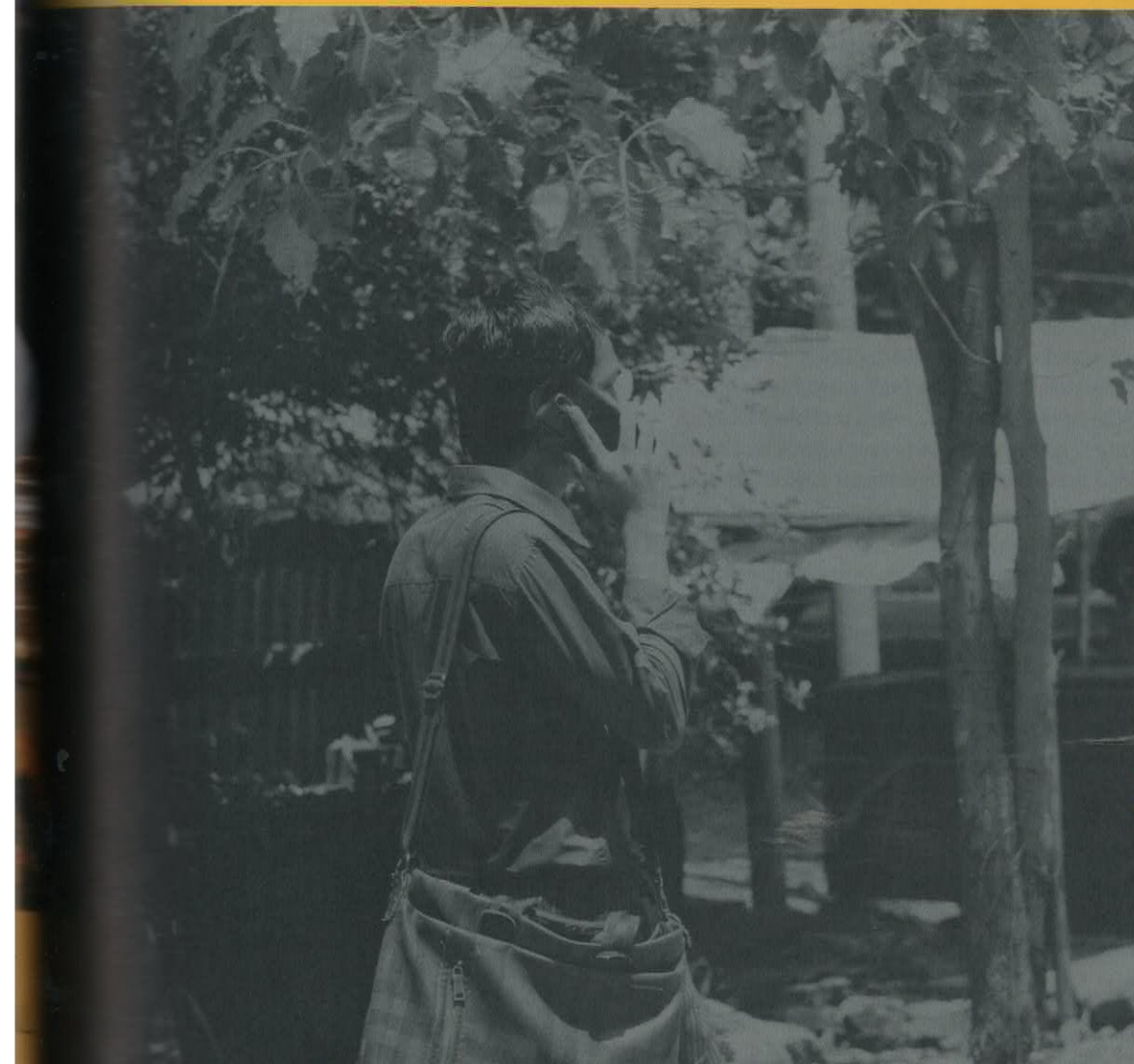
Mobile penetration increases as demand grows

Necessary infrastructure enhancements planned

Increased data price competition benefits consumers

New cable connections set to improve internet capacity

Human capital and IT security remain high priorities





Increased demand for 3G data services is driving growth in the sector

Powering ahead

Myanmar is witnessing a massive increase in demand for mobile communications

Hailed as the last true telecoms greenfield in Asia, Myanmar's communications sector has radically evolved in recent years. An impressive number of international companies – a total of 91 – competed for two operating licences in 2013.

Myanmar's telecoms sector is in the midst of an energetic expansion, which is reshaping the economic and social composition of the country. The arrival of international mobile network operators (MNOs) in the autumn of 2014 is expanding the ICT market well beyond its former capacities, with an array of new technologies that are dramatically changing the landscape of the country.

RAPID GROWTH: Hailed as the last true telecoms greenfield in Asia, Myanmar's communications sector has radically evolved in recent years. An impressive number of international companies – a total of 91 – competed for two operating licenses in 2013, which were eventually awarded to Norway's Telenor and Qatar-based Ooredoo. They joined the market, which was previously monopolised by Myanmar Post and Telecommunications (MPT), and by mid-2015 there were approximately 30m SIM cards sold between them, which represents a 518% increase since 2012, when there were only 5.4m mobile phone users, approximately 10% of the total population. A fourth service provider, MecTel, operates under a separate licensing agreement (see below) and had a further 3.8m customers registered by mid-2015.

Myanmar ranked as the third-fastest-growing mobile base in the world in Q1 2015, behind neighbouring China and Thailand. Yet it has not taken long for investment to boom. According to the Myanmar Investment Commission (MIC), telecoms accounted for 31% of total foreign direct investment (FDI) in the first five months of the 2014/15 fiscal year. Through 2014 and 2015 total foreign investment in telecommunications reached \$2.8bn.

Local industry experts expect the market to evolve much further in the future. "The sector is still in a transition phase and we can still expect some adjustments to the legal framework that will suit a more competitive environment," U Thaung Htike, CEO of Myanmar Interactive Telecom, told OBG. "Myanmar

is quickly moving out of the infancy stage in terms of ICT development. Foreign investment and technology is enabling us to leapfrog ahead," he added.

Growth has been impressive, but operating in Myanmar remains complicated a complicated undertaking. While the entrance of international MNOs has greatly improved the ease of doing business, their roll-out targets have not been achieved without difficulties. Limited infrastructure has delayed the import of equipment, while an unstable supply of electricity means that mobile towers must run at a high cost and often rely on a solar or diesel alternative. In addition to these issues, there is a scarce supply of local ICT experts which has made staffing and retention challenging.

TUG OF WAR: In an effort to narrow the knowledge and financial gap between MPT and its wealthier competitors, the former monopoly entered into a joint venture with KDDI Summit Global Myanmar (KSGM), a collaboration between Japanese giants KDDI and Sumitomo. So far the 10-year deal, valued at \$2bn, is paying off. Out of the three national telecoms license (NTL) holders, MPT is leading the subscription race, crossing the 16m user mark in August 2015. Telenor is next in line, selling more than 10m SIM cards by July 2015 and approximately \$70m in top-up cards by June 2015. In contrast, Ooredoo remains the biggest telecoms investor with \$1.4bn spent by October 2015. By the end of June 2015, the Qatari company had sold approximately \$49.3m in top ups and 4.3m SIM cards.

Total in-country revenue generated by the Norwegian firm in H1 2015 amounted to an impressive \$140m, whilst Ooredoo had generated \$75m. As subscription numbers continue to grow, average revenue per user (ARPU) is dropping as more rural users come onboard. ARPU for Ooredoo went from \$7 in Q1 to \$6.5 in Q2 2015. Similarly, Telenor ARPU dropped from \$6.7 to \$5.7 over the same period.

Limited infrastructure has delayed the import of equipment, while an unstable supply of electricity means that mobile towers must run at a high cost and often rely on a solar or diesel alternative.

The arrival of new MNOs has created opportunities and challenges for local enterprises. Daw Phyu Phyu Win, CEO of ABC Telecom, told OBG that, "the arrival of Telenor and Ooredoo has increased the amount of projects available for local companies, but it has also resulted in a decrease in the availability of skilled labour and an increase in the cost of land, which has impacted tower construction".

NEW OPERATORS: While local and international media often refer to the arrival of a fourth operator, there already is one, MecTel. The often over-looked service provider is owned by the military-run Myanmar Economic Corporation (MEC). While the firm does not have an NTL, it does have a mobile virtual network operator license, issued by the central government, which has allowed the firm to sign up 3.8m customers by mid-2015. Since its commercial launch in April 2013, the firm has expanded its 800 MHz network across a number of regions with a concentration in the Ayeyarwady Region. MecTel is attracting a lot of attention, as it has been suggested that it has plans to leverage off of its military backing. However, the company may struggle to compete with the other main operators as the market matures.

A fourth NTL is expected to be issued in 2016. Announced in early 2015, the tender was only opened to local companies. 17 proposals had been received by the Ministry of Communications and Information Technology (MCIT) by the deadline in August 2015. The invitation stated that only local firms with registered capital of at least MMK3bn (\$2.7m) may apply. Candidates also had to agree to pay their share of foreign consultation fees. By late December 2015 no official announcement had been made as to the winner of the fourth NTL. However, local media sources have suggested that of the 17 NTL applicants, 11 had been selected to form a public consortium, each contributing the required \$2.7m into a total shared pot. According to the MCIT, the final details of the consortium will be officially announced before the new government takes office in March of 2016.

Domestic private player Yatanarpon Teleport (YTP) is another strong candidate. Initially known as Bagan Cybertech, then rebranded as Myanmar Teleport, it later became YTP under a joint venture with MPT. With a history of providing broadband services, the company was granted a network facilities license in early 2015 that allows it to participate in communication-related services such as fibre-optic installation. The company had not been given permission to move into a mobile operator position by the end of 2015. However, industry analysts suggest that YTP is well positioned to capitalise on the liberalisation of the market. International reports have claimed that YTP was merging with Viettel Global, the investment arm of Vietnam's military-run Viettel Group, for an initial \$800m, while local sources suggest that YTP is planning to form a consortium with Myanmar Information and Communication Technology Development Corporation and A1 Construction Company.



Chinese manufactured mobile devices dominate the market in Myanmar, although competition is growing

However, by the end of December 2015, no official confirmation had been made.

While the end user stands to benefit from this environment of increased competition, the market might already be too crowded for the new player. Regardless of who wins the fourth NTL, it will be difficult for them to penetrate the market. By the time they enter, the existing operators, including MecTel, will have the vast majority of Myanmar covered.

SPECTRUM: In terms of spectrum allocation, the two international operators were initially assigned two lots of 5 MHz in the 900 MHz band and two lots of 10 MHz in the 2100 MHz band, which are due to expire in 2029. Each firm agreed to the \$500m license fee. Since the initial allotment, Telenor has paid an additional \$75m for 5 MHz of 2100 MHz spectrum. Both firms are eager to migrate to 4G long-term evolution (LTE) technology. As of December 2015, only MPT had tested LTE technology using 20 MHz in the 1800 MHz band. YTP currently operates WiMAX, and claims 40 MHz in the 2600 MHz band, and has announced it also has plans to move into the 4G realm.

DATA IS KING: As it stands, 3G demand is leading the market. The growth in demand for data far exceeds the growth in voice. According to Ooredoo statistics, its data usage among mobile phone users doubled from Q1 to Q2 2015, with 80% of users choosing smart mobile phones. From the onset, Ooredoo opted for a 3G-only network, in comparison to Telenor, which chose to operate a combination of 2G and 3G technologies. This approach was based on the initial assumption that approximately only 60% of users would have access to smart phones. However, Telenor has announced it will prioritise 3G coverage due to the major upswing in data demand. According to research conducted by Telenor, voice traffic grew 93%, while data usage increased 196% from January to June 2015.

A fourth national telecoms licence is expected to be issued in 2016. Announced in early 2015, the tender was only opened to local companies.

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To assist with managing increased data demand, operators are working on alternatives to the normal tower installation, including small-cell solutions that can be put on alternate sites such as lamp posts or on rooftops, to improve the quality of the network.

TOWER POWER: The construction of mobile towers is flourishing. Operators have been able to leapfrog older technology, speeding up the implementation process. According to research by the International Finance Corporation and the Groupe Speciale Mobile Association in 2014, 17,300 telecommunication towers need to be constructed by the end of 2017 in order to reach the 70% coverage targets. According to industry estimates, 11,700 towers had been agreed for construction between the three main operators and eight tower firms, of which 7410 had been finished by October 2015, with a concentration in Yangon, Mandalay and Naypyidaw. 2400 of these belong to MPT/KGSM. Irrawaddy Green Tower (IGT) is the only company to have been contracted by both foreign operators, and is responsible for 2900 sites – 1800 for Telenor and 1100 for Ooredoo.

According to Telenor officials, the company planned to have 4000 towers by the end of 2015 and approximately 9000 towers within five years. By June 2015 it had 2308 sites covering 50% of the population. Apollo Towers, funded by Texas Pacific Group (one of the world's largest equity funds), is responsible for the construction of 1800 towers for Telenor, of which 1040 had been completed by October 2015. A subsidiary of the Young Investment Group called Eco-Friendly Towers has also agreed to build 700 towers for Telenor. Moreover, in early December 2015 Malaysia telecoms service provider OCK Group and its local Myanmar partner, King Royal Technologies, signed a 12-year deal to build and lease more than 900 towers for Telenor. By the end of 2015 the Norwegian firm had signed a build and lease memorandum of understanding for a total of 5227 towers.

Ooredoo had contracted four firms by October 2015 to build 4073 towers, while MPT and its Japanese partners had built 2400 towers by October 2015. The second largest contractor is Pan Asia Majestic Eagle Limited (PAMEL), which secured \$85m in financing to build 1250 towers for Ooredoo. Myanmar Tower Company (MTC) owned by Edotco Group and Yoma Strategic Holdings (YSH) had completed 220 towers for the Qatari firm by Q3 2015. Moreover, Myanmar Infrastructure Group (MIG) has signed up to construct 500 towers for Ooredoo.

The versatility shown by individual tower companies in overcoming the challenge of finding access to capital has highlighted investor confidence in the sector. Myanmar's financial services industry was liberalised in late 2014, albeit with certain restrictions on foreign banks. The PAMEL finance deal, an agreement for \$85m between five major financial institutions in Q3 of 2014, was one of the first of its kind in Myanmar, at a time when foreign institutions were still jostling for banking licenses in the country. Not to be outdone, Malaysian telecoms giant



The expansion of communications infrastructure is critical to the sector's growth throughout the country

Axiata Group has joined the market, issuing \$500m in Islamic bonds in November 2015, the largest ever corporate bond issue in Malaysia. This issue has gone to fund its subsidiary, Edotco Group, in a bid to move into the frontier market – \$125m of this amount has been used to acquire a 75% stake in MTC, while the remaining 25% is still under YSH, chaired by local business giant Serge Pun. Apollo Towers secured \$30m in equity from Myanmar Investments International Limited, after receiving a \$250m loan from the Overseas Private Investment Corporation, a development finance arm of the US government.

LAND & POWER: While telecommunications companies have been able to take the edge off funding restraints, they still must navigate the numerous obstacles associated with infrastructure development. These challenges are most apparent in the lack of clarity over property rights. Myanmar still suffers from a legacy left over from the past nationalisation of land ownership. This has resulted in a lack of overarching policy for land registration and titling issues, so landowners who claim to own property often have little, if any, valid documentation. In some cases one piece of land is claimed by numerous parties. Tower companies continue to struggle as site locations are difficult to acquire and a great deal of negotiation needs to take place when entering into land contracts. As it stands, foreign companies are not allowed to own land. Instead they enter into a 50-year lease agreement.

Lack of infrastructure continues to hinder the progress of network expansion. Many areas are not reachable by road. Instead of trucks, buffaloes are used in the rainy months to transport expensive equipment. Many sites need to be erected in rural areas where there is often no national grid coverage. As a result many towers are run off a combination of diesel fuel and alternative power sources, such as solar power, which increases operation costs,

The construction of mobile towers is flourishing. Operators have been able to leapfrog older technology, speeding up the implementation process. Some 17,300 telecommunication towers need to be constructed by the end of 2017 in order to reach the 70% coverage target.

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Customers will often pay between \$180 and \$360 for mobile devices

Digitised cash is set to gain momentum in 2016, as more firms look to tap into the urbanisation of Myanmar. Mobile money is largely aimed at the unbanked, with only 6% of adults having access to a bank account in 2014.

particularly during the monsoon season when solar power is of little use. The weather has also made progress difficult, with the rainy season typically lasting four months. In addition, Myanmar has a history of ethnic and religious conflict, which makes extending coverage to some areas a challenge.

SHARING: In an effort to surmount the challenges associated with network expansion, operators are agreeing to share towers, which translates into greater income for the tower companies and a reduction of costs for operators, while speeding up network coverage. This is also expected to reduce the cost paid for services by customers. The practice of tower sharing is unusual in urban zones and central Myanmar. However, cooperation is set to increase as efforts move more towards harder-to-reach locations, particularly along the borders of China and Thailand. IGT, for example, has focused more on peripheral and southern states and announced that they expect sharing on 700 of their first 2000 sites, with a tenancy rate of 130%.

MOBILE MARKET: Chinese manufactured smart phones continue to dominate the market, with international communications company Huawei occupying slightly more than 50% of the market, down from 71% in 2013. While there is a decrease in market share for the Chinese firm, resulting from a rise in international imports such as Apple, Samsung and Vivo products, the amount of phones being sold are still increasing at a solid pace as network coverage reaches new communities. A survey conducted by Mileage Communications Myanmar on 250 people in Yangon found that 37.3% of those surveyed owned a Huawei device, 20.5% owned a Samsung and 11.2% owned a Sony. The survey also concluded that 33.3% were prepared to pay MMK200,000 (\$180) for a new phone, while 32.7% would be willing to pay MMK400,000 (\$360). This demonstrates the increasing purchasing power of Myanmar's emerging middle class.

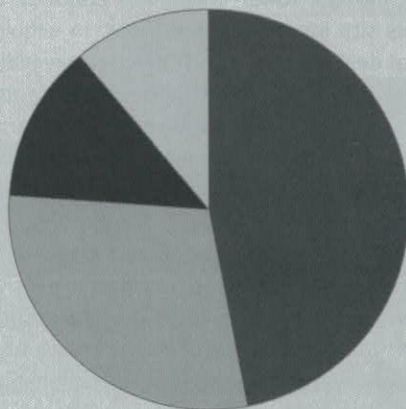
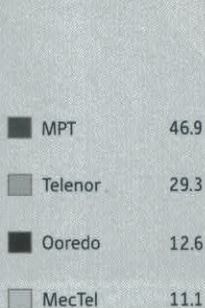
MOBILE MONEY: Digitised cash is set to gain momentum in 2016, as more firms look to tap into the urbanisation of Myanmar. Operators are teaming up with local banks and solution providers to establish e-money transaction accounts. Numerous banks have already introduced mobile banking, which is available to people with existing bank accounts. On the other hand, mobile money is largely aimed at the unbanked, and with only 6% of adults having access to a bank account in 2014, the potential for e-money growth is substantial. While the concept has been tested with great success in African markets such as Kenya, experts believe that Myanmar's model will more closely resemble those followed in other Asian markets.

Industry insiders are particularly optimistic. "It is groundbreaking territory for Myanmar. For the first time many people that were previously excluded from the financial sector are now able to send and receive money using their mobile devices," Brad Jones, CEO of Wave Money (a partnership between Yoma Bank and Telenor), told OBG.

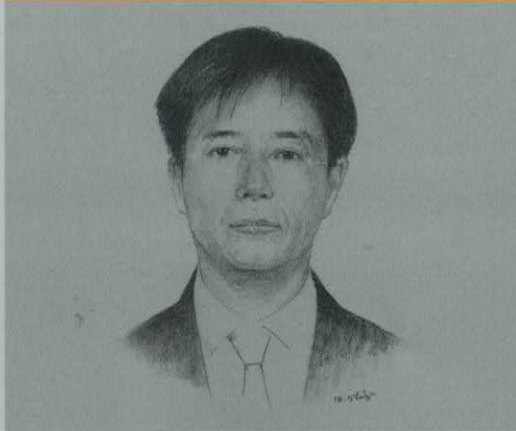
The first mobile money platform was launched in January 2014 by the company Myanmar Mobile Money, and since then a growing number of products have entered the market. Yet challenges still remain for the service providers. "Banks have to educate customers and gain trust. Myanmar is still very much a cash-based society. Older generations want to see a product to believe in it, so it is more of a challenge to get them onboard," U Min Myat Soe Moe, managing director of Skylark IT Solutions and Managed Services, told OBG.

OUTLOOK: Telecommunications development remains a fundamental pillar in the evolution of Myanmar's economy, and supports the development of other sectors, particularly financial services. Network expansion initiatives will remain a dominant force behind foreign investment and job creation for the foreseeable future. Telecoms infrastructure spending is set to increase as border coverage grows and demand continues to increase.

Subscriber share by operator, mid-2015 (%)



SOURCE: Myanmar Times, MPT



U Sai Saw Lin Tun

New territories

OBG talks to U Sai Saw Lin Tun, Chairman, Myanmar Post and Telecoms (MPT)

With ASEAN Economic Community integration nearing, what elements have been identified to improve Myanmar's ICT capabilities?

SAI SAW LIN TUN: Priorities for the improvement of ICT capabilities in Myanmar include the transfer of global technology, knowledge, skills, experiences and an international standard of governance to local companies and workforces.

Local operators can contribute by training internal human resources and collaborating with other companies to bolster the industry and promote sustainable development. Increased regional cooperation and the further reduction of trade barriers between ASEAN countries will make it easier and more cost effective to source certain manufactured and processed goods that local and international companies need to expand operations.

Boosted regional cooperation will make it easier to attract and engage regional expertise to help support and grow telecoms operations. Fostering home-grown talent in the ICT sector will also be essential. Through international agreements and partnerships with sector experts in countries such as Japan, theoretical and practical training can be provided to support the Myanmar workforce, increasing efficiency and proficiency of practices among telecoms operators.

The continued growth of the industry, which will be aided by ASEAN integration, will allow its players to make competitive offers to local workers. The prospect of being able to play a part in such a dynamically changing field as the Myanmar telecoms industry would help keep talent at home.

The ICT sector also has a big role to play in the development of the labour force. The expansion of digital coverage and usage has great potential for the education sector. This expansion can open up the possibility of high-quality distance learning by offering new modes of delivery such as online

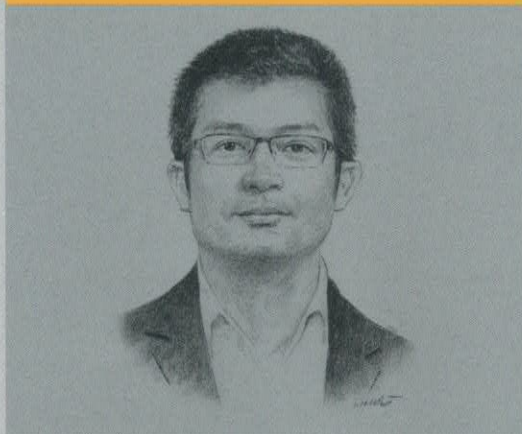
courses, degrees and other e-learning initiatives. These forms have the potential to transform teaching and learning processes. Furthermore, the transfer of data made possible by the expansion of mobile broadband technology is particularly crucial to finding new ways to deliver educational content over long distances, which is essential in a diverse landscape with hard-to-reach rural communities.

What has been the reaction of the market to the introduction of 3G? What challenges have arisen as a result of the change?

SAI SAW LIN TUN: The domestic market has reacted positively to the deployment of 3G technology around the country. Myanmar has seen a rapid increase in the sale of inexpensive smart phones, which has enabled faster internet browsing and smoother operation of social networking sites, as well as a dramatic increase in the amount of Facebook, Viber and Line accounts.

The future launch of 4G technology is under consideration, but at the moment the highest priority is to expand the 2G and 3G networks across the country as quickly as possible. Providing 4G coverage also involves further frequency allocation. As of December 2015, MPT had more than 17m subscribers, and we aim to increase population coverage to 95% by the end of March 2016.

Expansion does not come without its challenges. There are several obstacles to infrastructure development and expansion, one being a lack of clarity over land ownership and legal rights, which continues to hinder the progress of tower installation. It is not uncommon for potential landlords to have inadequate documentation covering their rights over real property. This means even greater due diligence is required before entering into any contracts over land, and ultimately results in a more cautious pace of expansion for telecoms operators.



Liman Zhang

Progress and partnership

OBG talks to Liman Zhang, Managing Director, Huawei

How has the government worked to develop and advance the capacity and quality of the telecommunications sector?

ZHANG: In terms of the ICT industry, the government has taken an important step in developing the sector. The announcement of the first draft of the ICT master plan at the Myanmar Connect forum in September 2015 was a welcomed initiative that demonstrates the government's commitment. The plan is very clear and will assist the industry from an investment perspective. The public sector has also laid out clear investment policies such as the Foreign Investment Law, which has encouraged the arrival of the international operators. Although progress has been made, there is still room for the government to improve the efficiency of certain processes and procedures.

Myanmar is a large country with a diverse landscape, so one of the challenges is providing nationwide coverage, especially for hard-to-reach villages. If the government can assist with certain facilities to reduce the digital gap it will help promote the economic growth of the country.

What potential exists for collaboration between the public and private sectors in the ICT industry in Myanmar?

ZHANG: The government has put a plan in place that has allowed for the arrival of international companies, which bring with them better technology and processes coupled with their experience working in other emerging and developed markets.

The country is already reaping the rewards of improved cooperation between the public and private sectors. A top priority for collaboration between the two is the transfer of skills and knowledge. One area that companies can develop is local talent. It is vital that the private sector assist in the development of the labour market through

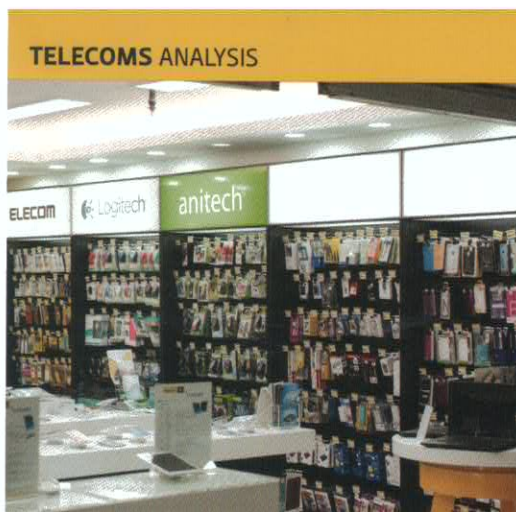
knowledge transfer. One objective should be to empower staff so that all senior positions are one day held by Myanmar nationals. Foreign companies have an opportunity to share their global experiences and international practices to promote the ease of doing business in Myanmar.

What have been the biggest challenges when expanding the telecoms network?

ZHANG: Certain legislation, rules and laws are a little complex and therefore lack consistency. One problem in particular is delays in the approval process. Developing a site can be unnecessarily difficult because obtaining critical certificates and documents is a slightly complex procedure. This may slow down the development process. This same problem of certificates hampers things on the import side of the equation as well. If imports are delayed then network deployment is delayed, and thus the customer may suffer from congestion and the operator can possibly suffer from delayed revenue. So the import process is one area that can definitely become more efficient.

An unstable supply of electricity can also have a negative effect on the timely deployment of networks. This can lead to increased costs for the operators because you need to factor in the cost of adding generators and fuel to the site. While energy supply remains a challenge, the government has a dedicated plan to improve the situation. I believe that over time we will see clear and real improvements to the national energy grid.

Another challenge is a lack of infrastructure, which may create logistics problems. Good logistics is key to the end process and can reduce delays, but shortages remain in the areas of air, road and rail transport. However, improvements are being made. Prime examples of these efforts are the road to Naypyidaw and the railway to Mandalay.



Tariff competition between service providers has lowered data prices

Boiling point

The sector attempts to balance affordability and sustainability

The expansion of Myanmar's ICT sector is one of the brightest spots in an economy that has undergone rapid transformation in recent years. The increasing demand for data has caught operators off guard. Norway's Telenor initially launched a combination 2G and 3G network in the anticipation that a good percentage of users would not have 3G capable phones. However, with a growing number of affordable smart phones entering the market and reasonably priced SIM cards – which were once priced as high as \$3000 but can now be bought at thousands of locations for less than \$1.50 – mobile penetration and data usage are rapidly on the rise. As a result, Telenor has followed in the footsteps of its Qatari competitor Ooredoo, and announced that future network infrastructure will be 3G, which will likely be followed by 4G once spectrum allocation is eased.

The ICT sector is an appealing prospect to investors. With 91 international firms competing for the first two operating licenses in 2013, and a host of multinational corporations in network development and management, it is clear that investor appetite is growing. However, experts believe that the price for data is hovering at a boiling point as operators try to squeeze out the competition. While customers have greatly benefitted from the falling price of voice, data and SMS services, the industry itself is trying to balance affordability with sustainability.

DATA: Tariff innovation is the tool of choice for operators in the highly price-sensitive Myanmar market. In May 2015, Ooredoo introduced its "Phalan Phalan" internet promotion that reduced data charges from MMK10 (\$0.008) to MMK6 (\$0.005) per MB. This move was quickly countered by its Norwegian competitor less than 10 hours later, with Telenor announcing that it was reducing the price of a MB down to MMK5 (\$0.004) from MMK6 (\$0.005), maintaining its position as the data price leader with its "My Internet" promotion. MecTel, which is owned by the military, is

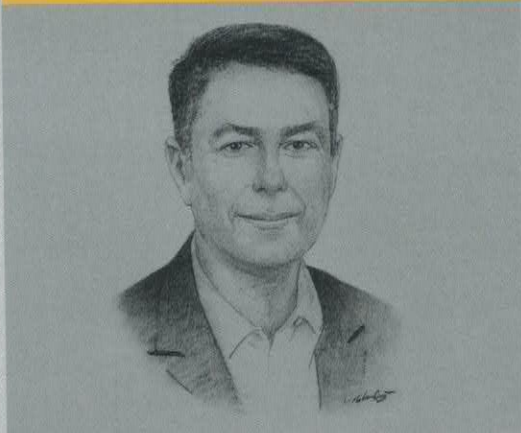
on par with Ooredoo at least as far as data charges are concerned, at MMK6 (\$0.005) per MB with its "Shwe Myinttar" plan. In October 2015 Myanmar Post and Telecommunications also reduced the cost of its "Swe Thahar" package to MMK6 (\$0.005) per MB from MMK7.5 (\$0.006), making the average cost of a MB approximately 40% lower than neighbouring Thailand – priced at MMK10.10 (\$0.008) – where operation costs are much lower. On the other hand, average data prices in Cambodia are 360% higher than in Myanmar, at MMK21.63 (\$0.016)

In 2013 Myanmar's average revenue per user (ARPU) was at an impressive \$9, while mobile penetration was a less impressive 10%. The high ARPU was the result of limited SIM cards in the hands of a few wealthy customers. ARPU for operators in 2015 is in the \$5 to \$7 range, with Ooredoo customers at the higher end of the scale due to their 3G-only network. These averages are expected to progressively fall more into line with regional averages as more individuals in rural communities get connected. Indonesia and Vietnam were in the \$3 range in 2015.

SUSTAINABILITY: Finding a balance between quality and affordable services is a priority. With higher than normal operating costs and a depreciating local currency, operators have been pressed throughout 2015 to cut costs. This will become more difficult during the next stage of tower construction. However, with tower sharing initiatives set to increase, some costs will be greatly reduced. It is not yet clear how much that will translate into a reduction of costs for the end user. The expected entry of another operator could trigger a new round of price cuts. However, analysts believe that the intense price competition amongst Myanmar's mobile operators is likely to slow in 2016, even while it will remain a key factor in attracting new customers. Under the current profit-cost structure, if prices were to fall much further, service levels could possibly be jeopardised.

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Philippe Luxcey

Towering expansion

OBG talks to Philippe Luxcey, Managing Director, Apollo Towers Myanmar

What made Myanmar an attractive destination, and what challenges have you encountered?

LUXCEY: It was quite simple. We chose a greenfield market for our business. There was only one monopolistic operator, Myanmar Post and Telecoms (MPT), with a very limited number of sites. The government decided to award two licences in a very short period. It was a perfect opportunity to set up a tower company and start our business from scratch. Currently, we have two contracts, but the total number of towers is 1800, and as of September 2015 we have delivered more than 1200.

In terms of the cost structure, if you look at rural areas, of course transportation of materials is a challenge due to the limited infrastructure. So transport is an issue that leads to higher costs. When you go to cities with decent road access, costs are approximately 20% higher than in developed markets. When you go to rural areas, costs rise as much as 40%. When you go to very remote areas like in Shan, or Kachin, you need to transport materials on containers and trucks from Yangon. It takes close to one week to reach Kachin, so delays also impact cost. The costs often concern of the operator rather than the tower company. For rural areas, if there is no coverage today, due to the very high level of demand, the situation is a good deal for the operator. Sometimes, you can be surprised because people in very remote areas need perhaps even more phone coverage and telecoms services than in the large cities.

Is the lack of a stable energy supply impacting the operation of telecoms towers?

LUXCEY: Grid availability and quality is critical here. By way of comparison, in Africa, basically you get the grid or you don't, and if you get the grid, it's generally good; you can expect to get 220 V or 230 V. In Myanmar, however, even if you get the grid on a site, sometimes you get as little as 80 V instead of 220 V.

That is the worst case scenario though. The average is around 120 V. The grid is not well distributed but it is present in a good portion of the country. The quality, however, does not perform to an expected level. We had to redesign our existing power solution with our suppliers to cope with Myanmar's challenges. Our solution is to retune the parameters in our power cabinets. So instead of running 24 hours on a diesel generator, we have batteries. So we charge batteries, stop the generators and let the batteries discharge. Then we turn on the generators to recharge the batteries, in cycles, up and down. So we have a solution where we have two diesel generators on-site where we assume there is no grid at all. Then we remove a generator when the grid arrives and keep one generator on-site as back-up when there are cuts.

Solar power is costly and it's not so efficient in the rainy season. So we are still working on studies and simulations to find the optimal mix. Today, speed is key for operators because they want to cover most of the country and do it quickly. Building a solar solution takes more time than putting in a diesel generator. There are also land issues, because to produce the same amount of energy with solar panels as with diesel generators, we need the land equivalent of two tennis courts, and it is very difficult these days to rent due to various factors such as escalated prices.

How would you assess network expansion since the arrival of the international operators?

LUXCEY: For the sector, Telenor and Ooredoo are quite successful, and MPT has also dramatically improved its position; their services and their quality of service was bolstered by their Japanese partner. Data services are improving quickly and congestion issues are being managed well. So competition is good and is improving the quality of service for customers. The market penetration rate is amazing. It was less than 10% a year ago and it is now above 50%.



Until recently, internet access in Myanmar was expensive and slow

Making connections

Major developments are under way as the sector seeks to improve internet capacity and IT training

The growth of the IT sector has been partly overshadowed by the liberalisation of the telecoms industry. However, the arrival of major international telecoms players has opened up significant new opportunities for Myanmar's expanding tech market. Yet this has also put some strain on the country's internet capacity as a population of more than 51m gradually gains access to the web, mostly for the first time, on their mobile phones.

The evolution of Myanmar's telecoms industry has amplified the aspirations of its growing number of tech graduates and digital entrepreneurs. With an increasing amount of interest targeted towards areas such as computer programming, software development and online media, the youth of Myanmar are positioning themselves to capitalise on the modernisation of the economy. However, a lack of necessary infrastructure and an historically neglected education system continue to hinder growth. However, the easing of censorship and increased enthusiasm for investment is quickly narrowing the technology deficit.

Prospects for tech entrepreneurs have grown substantially as the economy is reformed and opened up to foreign investment. "The new telecommunications law has helped the IT industry a great deal, and the entrance of international operators has allowed local small and medium-sized enterprises (SMEs) to assist in the advancement of Myanmar's economy," U Minn Thein, co-founder and chief administrative officer of Frontiir, a local internet service provider (ISP), told OBG.

INTERNET: When the military government decided to open the country to the outside world in 2011, overall internet penetration stood at just 1%. According to World Internet Stats figures, in 2012 there were approximately 534,930 internet users, with 98.13% of these users based in the business capitals of Yangon and Mandalay. Although the first

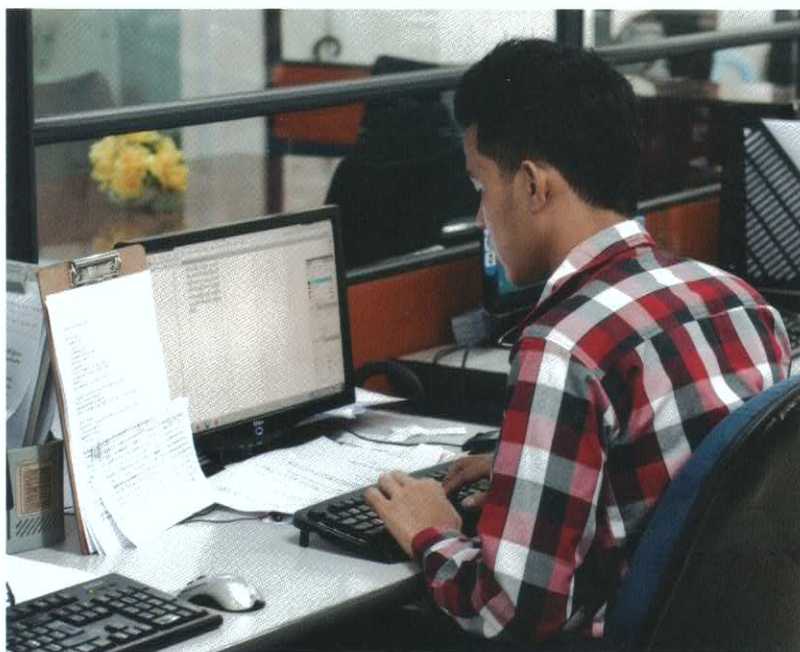
connection was established in 2000, progress was subdued due to a limited amount of public spending on technical infrastructure and the fact that what little access was available was closely monitored by the military. As a result, internet access was slow and came at a high cost. In addition to those shortfalls, power outages and heavy rain-fall during the monsoon season continue to make cross-border terrestrial fibre networks sluggish.

CABLE: For the most part, mobile phones have played a major role in easing connection problems, but more needs to be done to diversify Myanmar's underlying international links. The country has relied mostly on two cables for the last 15 years: one overland cable to Thailand and the other a sub-sea cable, known as the South-East Asia - Middle East - Western Europe 3 (SEA-ME-WE 3). Commissioned in 2000, the subsea cable connects Myanmar to 38 landing points around the world using wavelength division multiplexing technology with synchronous digital hierarchy transmission, which translates into 10 Gbps. There is also a terrestrial link to China, but it has been disabled numerous times due to the monsoon, with this often resulting in a lengthy disconnection. Myanmar was excluded from the submarine cable SEA-ME-WE 4, which is the primary internet backbone between South-east Asia, the Indian subcontinent, the Middle East and Europe, due to the former military government's inability to pay its share for SEA-ME-WE 3, which Myanmar Post and Telecommunications (MPT) must now pay back. Any disruption in either the overland or subsea cables noticeably affects Myanmar's connectivity.

In late 2013, as part of an attempt to prepare the country for hosting the South-east Asian Games, MPT doubled the bandwidth on the cross-border cable with Thailand, which has proved to be a valuable investment for the country, although

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For the most part, mobile phones have played a major role in easing connection problems, but more needs to be done to diversify Myanmar's underlying international links. The country has relied mostly on two cables for the last 15 years.



Tech start-ups are blossoming throughout the country, although significant challenges to growth remain

Major strides have been made to promote connection speeds. Sticking with cable initiatives, foreign enterprises are also eager to assist in improving download speed, which averaged 5 Mbps in mid-2015, ranking Myanmar 159 out of 198 countries.

disconnects in either cable still create major download delays. The network's backbone is due to get stronger as Myanmar is set to be connected by another subsea cable, the similarly titled SEA-ME-WE 5, which will stretch 20,000 km from Singapore to France, connecting 17 countries along the way. Transferring 100 Gbps, the new cable will be 10 times the speed of the SEA-ME-WE 3, and is earmarked to be completed in early 2016. The country is also reported to be joining the Asia-Africa-Europe-1 (AAE-1) cable project, which traces a similar path to the SEA-ME-WE 5. However, by December 2015 no official statement had been made about Myanmar joining the AAE-1 project.

PLAYERS: According to sector reports since late 2014, 45 ISPs have applied for licenses, with more than 12 issued by August 2015, consisting of four tower companies, two fibre-optic network providers and six infrastructure companies. Prior to the easing of entry levels, broadband distribution was dominated by four firms, three of which are closely linked. First, MPT, which falls under the Ministry of Communications & Information Technology (MCIT), is both the policy maker and regulator for all issues related to telecoms and IT. The second is Yatanarpon Teleport (YTP), partly owned by MPT, and the third is Redlink which was formed under the guidance of YTP. The last to join prior to the market liberalisation was SkyNet. According to a 2013 report by Redlink, SkyNet had the least market share at 11%, while next in line was YTP with 24%, then MPT with 27% and Redlink with 38% market share, for a combined total of 30,824 broadband subscriptions.

According to World Bank estimates, fixed broadband internet subscribers in Myanmar reached 143,600 in 2014, and by August 2015 broadband penetration had passed the 1m mark, or 2% of the population, in comparison to neighbouring Thailand which stood at 8.4% of population.

Since late 2014, 45 internet service providers have applied for licences, with more than 12 issued by August 2015, consisting of four tower companies, two fibre-optic network providers and six infrastructure companies.

Increased ISP competition has dramatically increased access points and led to a drop in prices. In 2012 it would cost as much as \$500 to install a phone line, with an additional \$1000 for an ADSL installation with a monthly fee of around \$600 to \$700 for a service which had many complaints.

FOREIGN INTEREST: Major strides have been made to promote connection speeds. Sticking with cable initiatives, foreign enterprises are also eager to assist in improving download speed, which averaged 5 Mbps in mid-2015 ranking Myanmar 159 out of 198 countries in comparison to Singapore, which has an average speed of 131.84 Mbps. One example is Benchachinda Holding Company from Thailand, which has formed Myanmar Information Highway Limited (MIH) along with four other companies. MIH is set to lay fibre-optic cables across Myanmar, starting with Yangon, in an effort to boost broadband connectivity with a target market of medium- to high-end hotels, financial institutions and households. The plan is to link MIH with the United Information Highway network in Thailand, which has an average download speed of 20.94 Mbps. Another example is Vietnam's FPT, which was granted a 15-year network facilities service license by the MCIT, allowing the Vietnamese firm to offer fixed telecoms and internet services.

While foreign investment has become common in the once isolated state, the landmark entrance of Microsoft is seen as a critical step in the advancement of the country's technology potential. By the end of 2015 the American corporation had inked two deals in the country. The first was with Kanbawza Group of Companies, Myanmar's largest conglomerate, with the aim of upgrading the company's IT systems, with particular focus aimed towards the group's KBZ Bank, which looks to compete with nine foreign banks that were granted operating licenses in late 2014. The second deal was signed with local conglomerate Shwe Taung Group, a leading property developer, which will allow the company access to tools such as Windows 10 Enterprise and Office 2016 Professional through Microsoft's sole licensing partner, Myanmar Information Technology.

BRIDGING THE GAP: Strategic measures have also been taken to ease the traffic flow on the existing network. Both Telenor and YTP launched Google Global Cache (GGC) in 2015, a server that will keep data within Myanmar as opposed to downloading from outside the country, creating a shortcut to websites allowing faster downloads. MPT has linked with Korean company CDNetworks, which offers a service similar to GGC. Industry experts are calling the arrival of these hosting servers a major milestone for Myanmar's ICT sector.

Locally hosted websites have risen dramatically in recent years, which have made for a more efficient internet environment. The amount of domestic sites went up more than 300% from Q3 2013 to Q3 2014. The increase in national content is also

improving the overall experience because these sites offer faster access than external sites.

In addition to these sites, efforts to establish Myanmar's first national satellite is expected to boost broadband speeds and improve security. The MCIT tender for a satellite is being advised by global players SatConsult and Euroconsult, who are assisting the government's selection process. 15 companies had submitted bids by November 2015, and according to local media reports the list has been cut down to four potentials who have offered either to provide capacity on satellites already in the sky, or on satellites yet to be launched. According to SatConsult estimates, current satellite usage stands at 1418 MHz, with demand expected to increase 36% to 1930 MHz between 2015 and 2019, then up to 2458 MHz in 2029.

ONLINE: For a country that was virtually unconnected until recently, the speed of social media account subscription uptake has been striking, as can be seen in the rapid surge in Facebook users, which reached 7.1m by November 2015. According to estimates from Telenor, data usage increased almost 200% from January to June 2015. During that time the data used was 43% for browsing, 24% for Facebook, 14% for streaming and 19% for gaming and other uses. According to another survey by Mileage Communications Myanmar, 71.3% of the respondents subscribe to Facebook, while 25.7% use Gmail and 22.8% use Google Talk.

According to Daw Amy Nyunt, managing director of Netsmart Myanmar, the popularity of social media websites has played a major role in facilitating emergency response. "The recent floods show that connectivity has improved. Information is much faster, which has enabled aid workers to assist the affected much quicker in comparison to Cyclone Nargis in 2008," she told OBG. During the monsoon season in 2015, 12 of Myanmar's 14 states were flooded, damaging crops and seriously impacting the livelihood of 70% of the population, who depend on the agricultural sector in rural areas. In contrast to previous disasters when word spread slowly to rescuers, the recent catastrophe quickly spurred the support of local and international groups through the online "#SaveMyanmar" campaign. Of the 138 donation groups, 103 had Facebook pages, while hashtags #supportMyanmar, #saveMyanmar and #prayforMyanmar were tweeted over 57,000 times in one week.

START-UPS: While the market is ripe for the arrival of tech start-ups, new businesses still struggle to launch. This is due largely to the fact that access to inputs such as capital and land are difficult to acquire, with loans at local banks historically offered at 13% interest and recent increases in property prices. Yet with the advent of microfinance and the liberalisation of the financial services industry, many believe that small and medium-sized enterprises will be better positioned to benefit from the expansion of the sector.



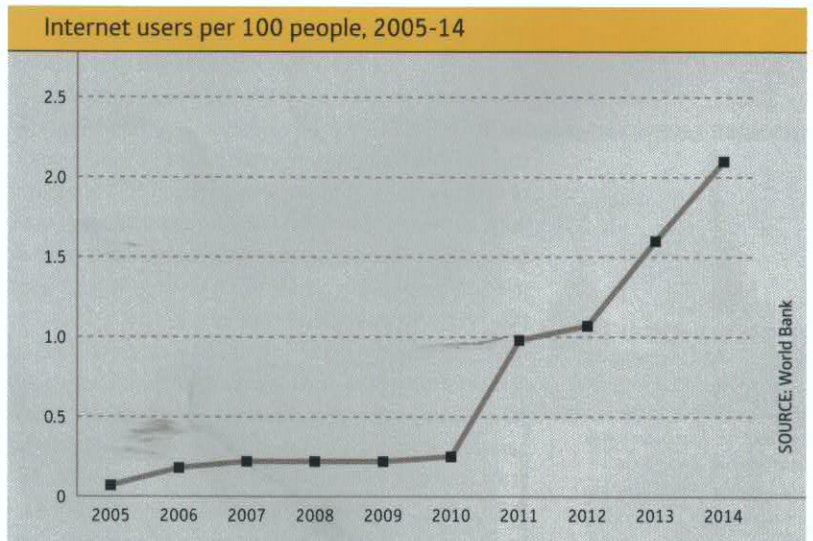
Mobile devices are now more widespread as penetration rates grow

Although challenges remain, U Zaw Naing, managing director of Mandalay Technology, told OBG "The size of the market is huge and there has been very rapid penetration in terms of technology, but local companies are yet to capitalise fully due to limited financial and skill capacity, resulting from decades of limited exposure."

SECURITY: Due to a lack of exposure and limited soft infrastructure, the industry has a lot of ground to make up in terms of keeping valuable data secure. "The country is behind in terms of IT security but strides are being made," U Minn Thein told OBG. "The slow connectivity in the past actually acted as a deterrent to potential hackers. Now that the speed has increased, along with activity, there is more need for IT security," he added.

In an effort to combat future cyberattacks, the MCIT has set up the Department of Information Technology and Cyber-Security. This has come at the right time for the financial services industry, as most banks have recently started to offer

With the advent of microfinance and the liberalisation of the financial services industry, many believe that small and medium-sized enterprises will be better positioned to benefit from the expansion of the sector.





Young people in Myanmar are now more interested in computer programming and software development

Due to the lack of copyright laws and intellectual property rights in the country, pirated software is widespread, with local sources estimating that more than 90% of systems have copied programmes.

online banking options. According to officials from the MCIT, the department is made up of MPT representatives that specialise in e-government activities and will collaborate with international organisations and professional bodies.

Due to the lack of copyright laws and intellectual property rights in the country, pirated software is widespread, with local sources estimating that more than 90% of systems have copied programmes. Regrettably, even new computers bought from licensed dealers in the business capital of Yangon can be riddled with hijacked programs, damaging the integrity of any purchase guarantees and making the software vulnerable to attacks. Daw Amy Nyunt told OBG, "Most local businesses operate pirated software; aside from the legal issues, the most pressing challenge is the lack of technical assistance from the developer." The MCIT faces a challenge educating local people about the risks of copied programmes, which will need to start with the implementation of policies restricting retailers from selling susceptible equipment. If an individual or organisation falls prey to an attack, they are encouraged to contact the IT and Cyber-Protection Committee of the MCIT.

WORKFORCE: The historical mismanagement of the national education system has limited human resources development, especially in ICT. Students with sufficient financial backing went abroad, and generally remained there. However, this trend is gradually changing. U Minn Thein told OBG, "Over the last two years, salaries within the ICT sector have almost doubled, which has enabled skilled workers from Myanmar working abroad to return." However, the increased number of more attractive salaries offered by has made retention of local staff difficult for some SMEs.

The education sector has also been bolstered by an increase in government spending that will help

train future IT technicians. During military rule the education sector received on average 1.3% of the national budget, which led to the rapid decay of a system that was once regarded the best in South-east Asia. During President U Thein Sein's reign, however, spending was increased with his last budget on education accounting for more than 5% of total government spending, or \$1.3bn.

SUPPORT: For most developed countries, the use of ICT in education and training has become a priority. However, Myanmar still lags behind in this respect, but broadly based outreach programmes are assisting in the re-emergence of the country's education system. Donor agencies and multinational corporations are working alongside the Ministry of Education (MoE) in an effort to use updated technology to improve teaching methods.

One of many examples is the collaboration between UNESCO, Ericsson, the UK Department for International Development and the MoE for the Empowering Women and Girls through Mobile Technology in Myanmar project. A first of its kind, this ICT education project will improve learning outcomes in literacy and numeracy for thousands of students, half of whom are marginalised girls.

The ICT for Education project is another example. Ericsson provides UNESCO with funding of about \$1.4m for the project. In the initial phase, the funds will be used to connect 17 schools in the Mandalay Region. The second phase aims to connect 14 schools in the Bago Region and Mon State. Each of the schools will receive laptops, tablet computers and other support to aid the teaching process. Initiatives like these are also designed to strengthen the workforce across a variety of sectors beyond ICT. This coincides with the Myanmar Computer Federation's emphasis on developing the country as an outsourcing centre for call centres and software development.

OUTLOOK: Until the new international connection links go live, internet disruptions will continue. Yet with the next subsea cable expected to be launched in early 2016, it is hoped that these frustrations should dissipate quickly. Myanmar's ICT sector has pockets of excellence, but significant hurdles still need to be overcome before the local business community can capitalise fully on the digital age, particularly in the areas of education and IT security. With spending on education set to increase in the new and more open political climate, Myanmar is expecting to witness a substantial growth in the number of IT graduates. This will go a long way in deepening the national talent pool. However, until the MCIT ushers in the necessary policies to mitigate the risk of use and exposure to pirated software, businesses will have to venture further afield for legitimate software. With international players set to launch 4G technology in the not-too-distant future, and an increased interest in foreign investment, it is expected that there will be a surge in opportunities for job seekers and SMEs alike.

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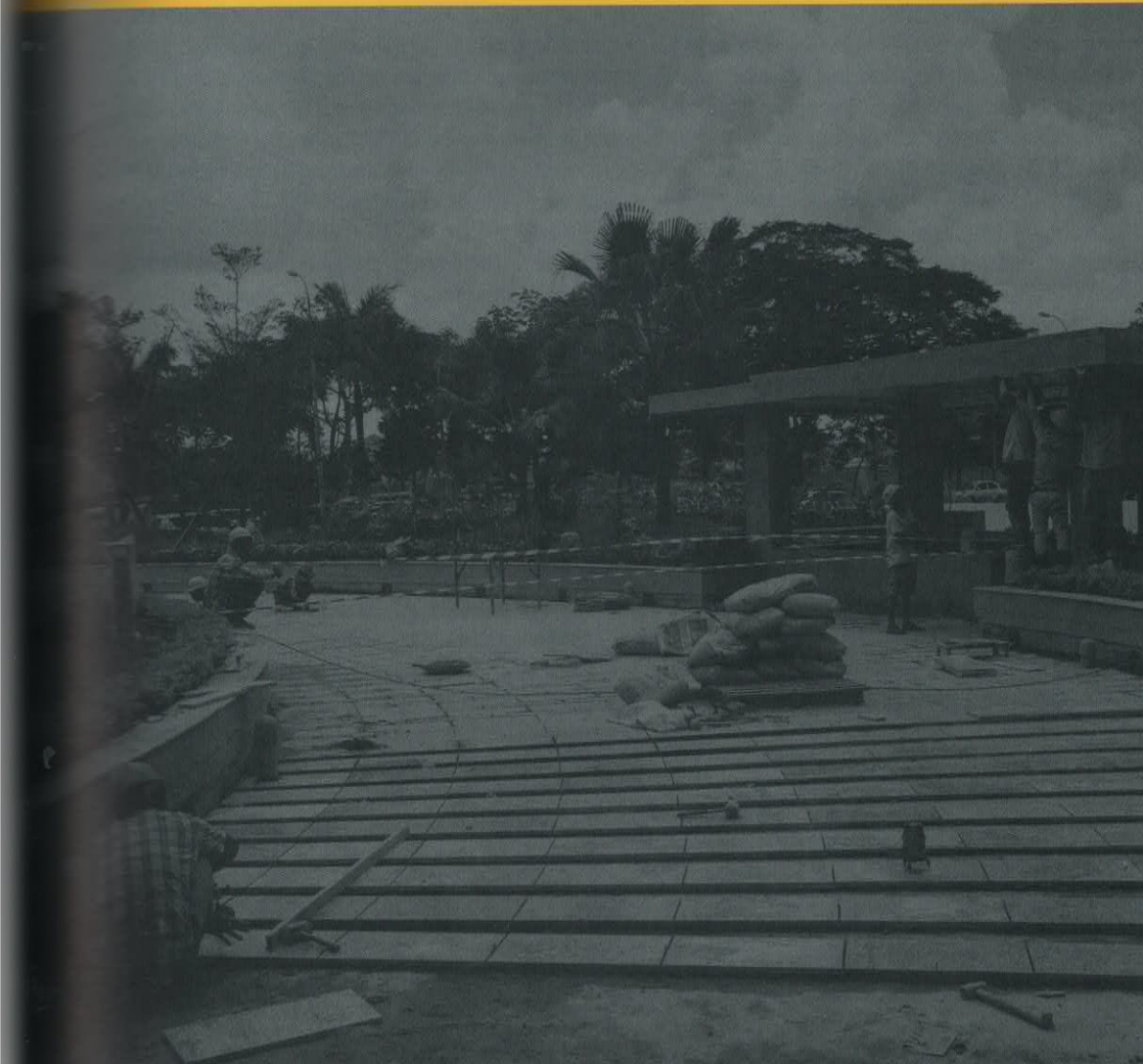
Construction & Real Estate

High-end retail complexes spring up in Yangon

Building rules and regulations are tightened

A new law could allow foreigners to buy housing

Affordable housing provision grows in importance





Many building materials are imported to Myanmar, driving up costs

The nuts and bolts

With the construction industry expanding apace, Myanmar is turning its attention to building regulations and standards

The construction industry has expanded rapidly in recent years. The sector's GDP growth amounted to 7.7% in fiscal year 2014/15 and is expected to rise to 8.3% in 2015/16.

Construction activity eased in 2015, as investors awaited the outcome of November's historic election and the passage of a new law governing the development of condominiums. The law was introduced in Parliament in 2012 and could potentially allow foreigners to buy property in the country for the first time. Despite the political risks, Myanmar's development needs remain significant, particularly in infrastructure. With the victory of the National League for Democracy, it is expected that 2016 will see an ongoing commitment to updating essential services, such as water supply and sewerage, upgrading airports and roads, and building better housing.

RAPID GROWTH: The speedy expansion of the construction industry, underpinned by investment in infrastructure and property development in Yangon and Mandalay, has fuelled sector GDP growth, which reached 7.7% in fiscal year 2014/15, according to the Asian Development Bank, which expects growth to accelerate to 8.3% in 2015/16, remaining close to this pace as long as construction activity remains robust.

In real terms, the construction industry's output value recorded a compound annual growth rate (CAGR) of 7.4% between 2010 and 2014, according to the market research firm Research and Markets. This rate is expected to slow to about 6% between 2015 and 2019. Consultancy firm Solidiance predicts that Myanmar's construction market will be worth at least \$6.6bn by 2018, compared with \$2.4bn in 2011, making it the fastest growing in South-east Asia.

Myanmar's construction boom has had a dramatic impact on the skyline of Yangon. The country's commercial heart is currently undergoing a process of modernisation, with high-rise office buildings, luxury residential developments, international hotels, shopping malls, expressways and flyovers springing up around the city. Efforts are also being made to rebuild Yangon's basic public services, which have been hindered by consecutive years of underinvestment.

DEVELOPMENT PLANS: In terms of Yangon's overall development, the city is lagging somewhat behind other South-east Asian urban centres. Tony Picon, managing director of real estate firm Colliers International Myanmar, estimates that the city is about 15 years behind even the Cambodian capital, Phnom Penh, which is home to a far smaller number of people. On the whole, it is likely to take some years before development in Myanmar is brought in line with its regional neighbours. Future development could come in the shape of public-private investments (PPPs). "As a result of external restrictions, PPP's are a fairly new concept in Myanmar," U Han Thein Lwin, managing director of High Tech Concrete, told OBG. "But they have the potential to play a substantial role in infrastructure development."

To speed up the development process, in June 2015 city officials unveiled an ambitious urban development plan for Yangon, designed to modernise public utilities, upgrade roads and public transport, and build seven new urban centres around the city by 2040. The towns are to feature large-scale residential estates as well as areas for commercial and industrial activity. Developed in conjunction with the Japan International Cooperation Agency, the developments are expected to cost some \$7bn in total.

In past years, the majority of construction sector growth has come from infrastructure and residential projects. Infrastructure's contribution to the sector amounted to 45% in 2011, dipping to 37% in 2012 and then 35% in 2013, while the residential segment's contribution rose from 35% to 40% over the same period. In comparison, the commercial segment's contribution fell slightly by 1% between 2011 and 2013 to stand at 11%, while industrial activity grew from 8% to 14% over the period.

OBSTACLES TO EXPANSION: There is substantial demand for property in Myanmar, particularly in Yangon, but the cost of construction is high, partly due

An urban development plan worth \$7bn is set to modernise public utilities and upgrade roads and public transport in Yangon. As part of the plan, seven new towns will be built and these will include large-scale residential developments.

to the fact that most materials, with the exception of cement, sand and granite, have to be imported – with the majority being supplied by China, Thailand and India. Inefficient logistics and opaque land ownership laws also contribute towards rising costs.

“The lack of construction materials is a challenge,” Rui Barreto, managing director of Spiral Architects, told OBG. “There isn’t enough cement available locally to meet demand. The majority of raw materials are imported. Myanmar has extensive raw materials, including wood, steel and rubber, but local industries need to be developed so that we can use these resources efficiently and therefore import less from other countries, such as China and Thailand.”

Colliers International Myanmar estimates that, compared to Thailand, the cost of materials for an equivalent project in Myanmar usually adds about 20% to the cost of construction. This is further exacerbated by the decline in the value of the kyat. The currency dropped about 20% to 30% against the US dollar in 2015, making imported goods more expensive. “Speculation in the currency market has led to a significant depreciation of the kyat, which has resulted in rising construction costs because most materials are imported,” U Thura Aung, managing director of AMPS Construction, told OBG.

PERMIT PROCESS: Securing permits remains time consuming, although the introduction of online applications in 2015 has helped to simplify the process. U Toe Aung, director of the Urban Planning Division, the Yangon City Development Committee (YCDC) told OBG that, while it is possible for proposals for buildings under eight stories to secure approval from the YCDC, approval for high-rise buildings of more than eight stories must be obtained from the High-Rise Building Inspection Committee, while prospective projects above 12 floors must submit to inspections by the Quality Control for High-rise Projects, as well as regulatory approvals involving other government agencies. In theory, with all documentation in order, the process takes around two months, according to U Toe Aung. For bigger projects, however, it could take as long as a year or more to secure all necessary approvals. In addition, such permits usually require that construction be completed within a certain time frame, although contractors can apply for extensions.

CEMENT DEMAND: Although Myanmar imports more than 40% of its cement needs, sand, granite and cement are also available locally and Mandalay has at least five cement factories.

The imposition of building regulations coupled with the expectation of more stringent building codes and the use of more sophisticated methods, including reinforced steel structures, has meant that the local cement producers are under pressure to keep up with demand. However, local production is set to increase in the next few years, with some domestic producers undertaking factory upgrades to meet demand and the entrance of foreign investors to the market.

Thailand’s Siam Cement is building its first Myanmar-based plant at a cost of some \$373m. The plant

will have an annual capacity of around 1.8m tonnes and will be situated in Mawlamyine, where it has a plentiful supply of limestone and has water access to Yangon. The company, which expects the market to grow at a rate of 10% a year up to 2018, plans to start operations in the middle of 2016.

Semen Indonesia, meanwhile, is constructing a \$200m plant, with the capacity to produce 1m tonnes of cement a year once it starts operations, scheduled for 2017. Steel scaffolding, which is popular with foreign construction companies, is also a growing industry, displacing the traditional bamboo scaffolding that has long been preferred in Myanmar.

The more sophisticated building techniques have exposed the lack of skills in Myanmar’s construction industry. Supervisors often have to be brought in from overseas, increasing companies’ wage bills at a time when labour costs in general are rising. The daily wage for unskilled labourers rose to \$6 in 2015, compared with \$4.50 in 2014. A government-mandated minimum wage of MMK3,600 (\$3.24) for an eight hour work day, was introduced in September 2015. The minimum wage applies to all companies and industries except for small businesses and family-run groups with fewer than 15 employees.

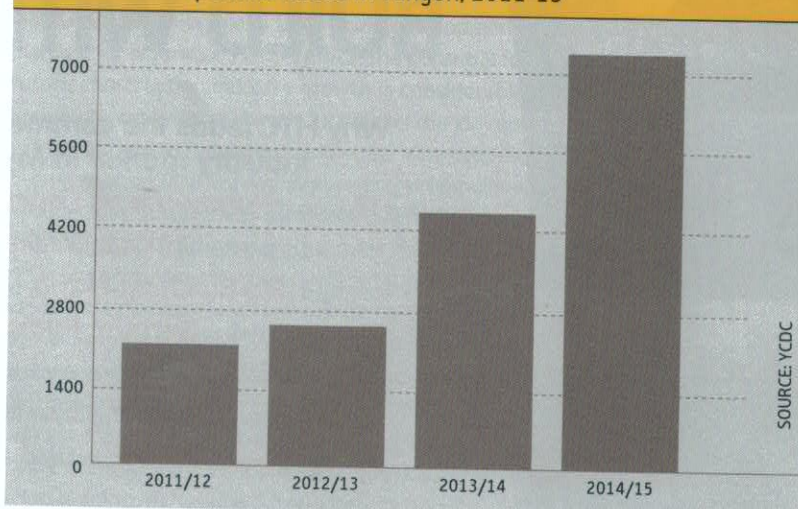
“The country has the potential to employ one million people in the manufacturing sector in the next few years,” U Khin Maung Aye, chairman of Lat War Group of Companies, told OBG, “a massive increase from two hundred thousand but with the minimum wage now set at MMK3600, some factories will have to reduce staffing by as much as 30 to 40 percent.”

UPSKILLING: Unsurprisingly, efforts are under way to improve technical skills within the construction industry. “Myanmar is in transition,” U Win Khaing, president of the Myanmar Engineering Society (MES), told OBG. “It was a free for all before. You could do whatever you liked. We are now trying to construct quality buildings, so you need qualified engineers, technicians and skilled workers.”

MES is a regulatory body with 50,000 members and is working to lift standards to the level of Myanmar’s ASEAN neighbours, in line with the economic

Labour costs are rising in Myanmar. In 2015 the government introduced a minimum wage of \$3.24 for an eight-hour work day. The wage for unskilled labourers increased to \$6 in 2015 compared to \$4.50 in 2014.

Construction permits issued in Yangon, 2011-15





New regulations are expected to improve the quality of buildings

Some 3000 workers have applied to undertake training to become registered senior engineers in order to oversee the kind of high-rise buildings that are becoming increasingly common in Yangon

integration initiatives of the ten-member body. In 2015 MES held more than 200 seminars and workshops, providing professional development programmes that are now a requirement for all certified engineers. According to U Win Khaing, Myanmar currently has just 260 engineers sufficiently qualified to oversee the kind of high-rise buildings that are becoming increasingly common in Yangon, while some 3000 workers have applied to undertake training to become registered senior engineers. Training programmes will include elements that focus on safety and building codes. The Society expects that, by March 2016, it will have identified and certified the leading contractors in each regional town.

Improving professional standards will, in turn, help to improve the quality of new buildings, which experts say remain below par. "It is important for local companies to train their staff," U Ko Ko Htwe, chairman of the Taw Win Family Company, told OBG. Especially

in today's environment when the retention of staff remains a significant challenge. Workers need to feel valuable to an organisation"

NEW BUILDING CODE: Myanmar's current building code dates from 2012 when there were few, if any, high-rise buildings in the country. As a result, the majority of the larger projects that have been built in the country in recent years have tended to follow either US or British guidelines.

Amendments to the code have been under way since 2013 and apply to all buildings, with a special focus on the construction of municipal buildings, such as schools and hospitals. Also to be included in the code are fire safety, extreme weather and natural disaster measures. While there have been no big earthquakes for some time, Yangon is vulnerable to seismic activity. In 1930 the 7.3 magnitude Bago earthquake resulted in 50 fatalities at a time when the city's population was only 400,000. Cyclone Nargis, which tore through southern Myanmar in 2008 exposed the country's vulnerability to natural disasters.

The new code will require approval from the Ministry of Construction before it can be implemented, but U Win Khaing told OBG he was confident this would be achieved in early 2016, and some architects and contractors have already begun to employ some of its recommendations, according to the local press.

IMPROVING REGULATIONS: As part of efforts to raise building standards, the YCDC is updating regulations concerning building contractors. The amount required for a licence deposit has been increased from MMK5m (\$4500) to MMK20m (\$18,000) for small contractors and from MMK20m (\$18,000) to MMK50m (\$45,000) for larger operators. Contractors are required to obtain a licence before undertaking any kind of building work in Myanmar.

Other laws governing construction date from Myanmar's colonial past and are also in the process of being updated, while city masterplans aim to ensure proper zoning of areas for industrial, commercial or residential use. U Win Khaing told OBG that he

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expects the new regulations to improve the quality of buildings and prevent construction companies from cutting corners. "In three to four years time, builders will just have to follow the rules," he said. "The cost may be a little higher, but we should have better quality buildings, fewer issues on safety, improved standards to follow and proper materials."

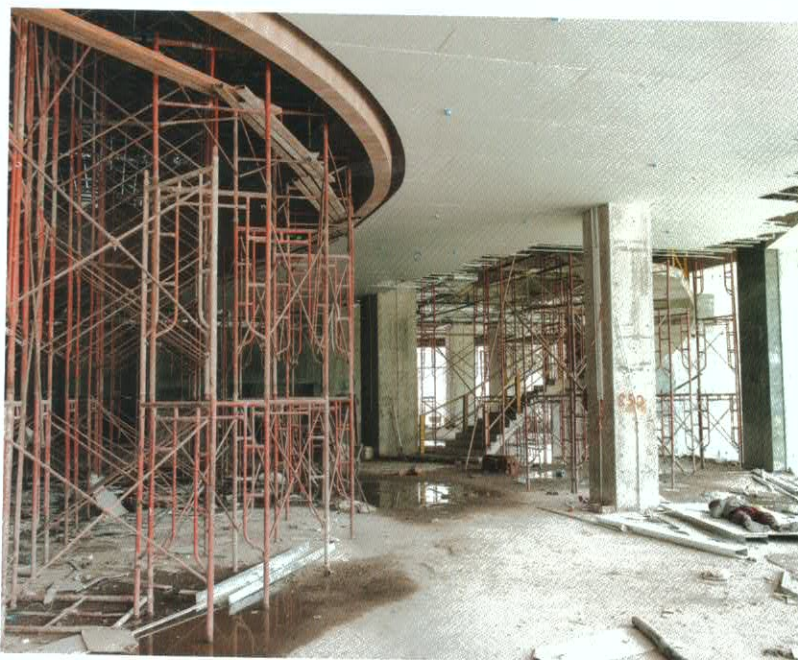
The YCDC is also involved in drafting a National Land Use Policy that will ensure greater transparency in terms of land ownership, according to U Toe Aung, who told OBG that there are currently a number of issues concerning land and titles which need to be resolved, as well as a lack of publicly available information, which gives some people an unfair advantage over others when it comes to land transactions.

IDENTIFYING A PARTNER: The main investors in Myanmar's real estate and construction industry are from Asia and are led by Singapore, Thailand, Japan, Hong Kong and China. Many developers have also brought their own architects, project managers and urban planners with them. Singapore's Surbana, which grew out of the city-state's Housing and Development Board, has emerged as a major player in new township developments in Yangon.

Western firms are more nervous about investing in Myanmar, as businesses tend to be hugely diversified and key individuals remain subject to sanctions. While most US and EU sanctions were lifted in 2012, the US maintains a blacklist of some 200 individuals or organisations. All US companies or individuals planning investments of \$500,000 or more in Myanmar must also report their plan to the State Department and provide a yearly update to the government.

A report on investing in Myanmar by the law firm VDB Loi states that all foreign investors are required to find a local partner to invest in Myanmar property. The local stakeholder must own at least 20% of the venture. Only in the tourism sector or a build-operate-transfer agreement with the government, which are generally utilised for key infrastructure projects such as airports, can a foreign entity own 100% of a project. Moreover, given the inadequate legal framework for disputes and lack of clarity over land issues, due diligence is imperative in order to find a trusted partner, according to Stephanie Ashmore, executive director of the British Chamber of Commerce Myanmar, which was set up in 2014 to provide guidance to firms looking to invest in the country.

LEADER OF THE PACK: Few developers in Myanmar possess the technical experience and expertise to work on the large-scale projects that tend to appeal to larger investors, and so most join forces with established companies, such as Yoma Strategic Holdings (Yoma), the Singapore-listed unit of the conglomerate, Serge Pun and Associates. Trading on the Singapore Stock Exchange for over a decade and the first Myanmar company to list its shares in the city state, over 90% of Yoma's sales revenues are from property development. The Singapore connection is seen as providing some assurance to prospective foreign partners in terms of both risk and reputation.



Major developers are improving transparency by sharing financial information and impact assessments

Yoma has been described as the "go-to" partner for foreign investors in Myanmar, not only in construction and property – its core business – but also in other arenas in which the company is expanding its presence, such as fast food.

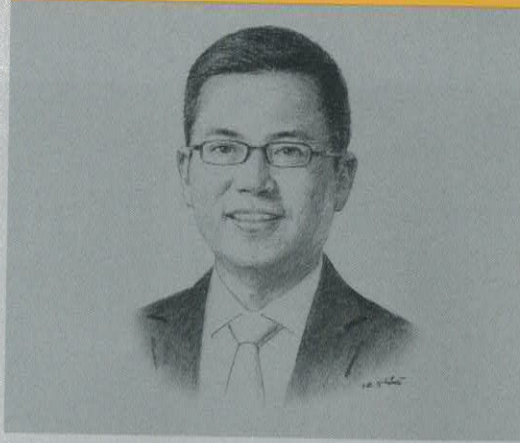
Myanmar's bigger developers are becoming increasingly transparent, according to the Myanmar Centre for Responsible Business (MCRB), which publishes an annual survey of 100 companies. The report noted that leading companies had started to include financial information on their websites, as well as social impact assessments. "Myanmar's leading large companies continue to demonstrate a commitment to transparency and good corporate governance," Vicky Bowman, director of the Myanmar Centre for Responsible Business, said in a statement. "They see it as fundamental to gaining and retaining their social licence to operate." In the report's rankings, which are based on corporate governance and business practices and include tackling corruption, organisational transparency, health and safety, and the environment, Serge Pun came first, with Max Myanmar in second place and KBZ Group third.

OUTLOOK: With so many large-scale developments planned for Myanmar's larger cities, the potential for future construction industry growth is considerable. Prospects are improved even further by the current efforts to tighten regulations and streamline building permit processes, which will reduce project timelines and improve building standards and quality.

Although a tightening of the rules may serve to drive up costs in the short term and put some developers off the market, this effect will be far outweighed by the long-term benefits of having a stronger, more sustainable industry. Moreover, ongoing efforts to upskill industry workers at home will go some way to ensuring that Myanmar can begin to supply some of its future development needs domestically, thus helping to secure future long-term growth.

The main investors in Myanmar's real estate and construction industry are from Asia and are led by Singapore, Thailand, Japan, Hong Kong and China.

All foreign investors are required to find local partners to invest in Myanmar property, and the local stakeholder must own at least 20% of the venture.



Ang Wee Gee

The right people

OBG talks to Ang Wee Gee, CEO, Keppel Land

In your opinion, how do construction timelines for projects in Myanmar compare to those of other countries in the region?

ANG: Timelines vary among developers, particularly in an emerging market where regulations are not always clear. A developer does not work on its own but, rather, in collaboration with contractors, consultants and other industry professionals. Therefore, the appointment of the right consultants and contractors is a key factor in determining the timeline of any project.

If you are not financially strong or are relying on core investors to fund the project, there is a risk that the project will not get started or may even stop halfway during construction. In developed markets such as Singapore, Hong Kong or Tokyo, the risks of implementing projects unsuccessfully are lower and are examples of how regulatory processes can be improved and levels of transparency increased. While businesses may want quick results, an incremental approach is more sustainable. Gradual progress enables you to better assess the risks ahead. With a stable government, foreign investors will be able to make decisions about the future with more ease.

What are the risks associated with investing in real estate ventures in emerging markets such as Myanmar, and to what extent is it possible for these risks to be mitigated?

ANG: Some of the notable risks in emerging markets include issues with land titles, partnerships, project implementation and poor advice from contractors or consultants. Getting the right team of people to work on a project can be particularly challenging. Therefore, establishing proper governance in the local organisation ensures that you are able to evaluate and manage potential risks. I am confident that the local authorities in Myanmar

are capable of reducing the risks typically associated with emerging markets.

What measures can be taken to strengthen the property market and prevent future bubbles?

ANG: Having readily available information can be useful in ensuring there is no speculation that would cause a bubble. Once investors possess sufficient information about supply and demand in the market, they will be able to make more informed decisions. Moreover, if someone new is coming in, they will know that they will have to compete with the existing supply in the market. The government sells land through a tender process, and there is a tendency for this to contribute to a bubble situation because developers will put in a high tender in order to secure the site. Indeed, these developers are more like speculators, as they try to obtain the site first then flip it over to a real developer later.

The government should be more selective in terms of who can participate in these tenders, and there should be a pre-qualification process to determine who the best developers are. This would help create competition and find developers who will bring value to the city, while at the same time, also contribute to the growth of the country and the overall economy. It would also prevent the entry of speculators who just want to sell the land at a higher price than the purchase price.

Other than pre-qualifying bidders, the government could introduce a "two-envelope" system, where after a few developers are selected based on design, the second envelope is opened based on price. This is common in developed countries where the government is concerned about having the right design and product for a market. This will eliminate developers who wish to put a higher price on the land but may lack the expertise to design something suitable for the particular location.



In Yangon retail space is increasing and existing malls are upgrading

High-rise living

Potential in the upscale market leads to new condo and retail developments in Myanmar's cities

An expansion of retail space in urban centres is currently under way in Myanmar, as the country targets the creation of "destination" malls, similar to those that have proved popular in much of South-east Asia. In Yangon, Myanmar's commercial centre, total retail stock stood at an estimated 171,078 sq metres of leasable space at the end of the first half of 2015, according to the real estate firm Colliers International Myanmar, a figure that has not increased since 2014.

RETAIL EXPANSION: Now, the addition of the HAGL Myanmar Plaza, which opened its doors in December 2015, will add a substantial 38,364 sq metres of leasable retail space to the portfolio. Built by the Vietnamese firm, Hoang Anh Gia Lai Group, as part of its luxury \$500m mixed-use development, Myanmar Centre, the mall will be the city's biggest shopping destination.

In 2015, in anticipation of the opening of the HAGL Myanmar Centre, existing malls, which once had little in way of competition, began to renovate. Sule Plaza (formerly Myanmar Shopping Centre) was upgraded in the first quarter of 2015 to attract new tenants – including foreign brands. The Junction Centre Group, which has a number of malls in Yangon and is controlled by Shwe Taung Development, has spruced up some of its properties, including its flagship 27,000-sq-metre shopping centre, Junction Square, which draws more than 4.5m shoppers a year and opened in 2012. Meanwhile, Sule Square, next door to the Sule Shangri-La in the city centre, will reopen after new construction on podium retail in its office tower in the first half of 2016.

Nevertheless, Yangon has a considerable way to go before it catches up with the retail experience on offer in other South-east Asian cities. The Asia-Pacific retail market is the world's largest and the malls of Bangkok, Singapore and Kuala Lumpur

offer their customers attractive environments in which to shop, with comfortable places to sit, utilising "lifestyle" elements such as cinemas, ice rinks and children's activity centres, with the aim of encouraging people to spend more time – and more money – at the mall.

MARKET PROSPECTS: Myanmar, according to a Prudential report on South-east Asia's retail market, remains "pre-institutional" in terms of its offerings, which means that retail remains street-based and dominated by local owner-occupiers. In a country where about a quarter of the population live below the poverty line, many shoppers are focussed on the necessities of day-to-day life.

Accessibility is also an issue for Yangon's malls, especially as the city has banned motorcycles and scooters, leaving people reliant on buses and other forms of public transport. "In terms of retail locations, the lack of infrastructure impacts the shopping malls which customers decide to use," Daw Sandar Htun, managing director of Shwe Taung Development Company, told OBG. "Normally the catchment area is between two to four miles but, in many instances, people opt for another shopping mall due to the route of the bus line."

FRANCHISES: Nevertheless, some foreign firms are testing the waters. In the food and beverages market, franchises have become a preferred way to enter Myanmar. KFC opened its first store in June 2015, the Singaporean chain Pastamania is expected to open in the second quarter of 2016 and Pizza Hut, another US brand, opened its doors in November 2015.

Yangon's wealthy prefer to do their shopping overseas, and that is unlikely to change, but as more of the city's workers see their incomes rise, creating a whole new middle class, they will want to try for themselves the brands that were once out of their reach. With some 125,000 sq metres

The Asia-Pacific retail market is the world's largest, and large-scale mixed-use developments are springing up all over the region, including in Myanmar.

With some 125,000 sq metres of retail space due to open over the next four years, Yangon is set to see more franchises and mid-tier brands establish themselves in the city.



A new condominium law could allow foreigners to buy property

There is potential for more affordable and mid-range housing projects due to Myanmar's growing population, which is expected to rise from its current level of more than 50m to around 90m people by 2040.

of retail space due to open in Yangon between 2016-18, this should, according to Colliers International Myanmar, encourage not only more franchisees, but also more mid-tier brands to set up shop in Myanmar's biggest city.

RESIDENTIAL: Since Myanmar opened to foreign investment, much of the focus in the country's residential property market has been on condominiums, which have sprung up mainly in Yangon, but also in secondary cities such as Mandalay.

Prices have surged since 2011, with developers selling units off-plan to finance the costs of construction, and buyers looking for new modes of investment. But delays to the long promised Condominium Law, which has been in development for a number of years, dampened activity in the sector in 2015, leaving some off-plan developers without enough funding to complete their projects.

"The government needs to be more rigid with certain policy," U Zau Man Lahtaw, managing director of Myanmar Seilone Group, told OBG.

"Changing regulation too often can reduce the confidence of buyers which, in turn, can result in a slow down of the construction of projects."

FOREIGN OWNERSHIP: One of the most important aspects of the new condo law, which is still being debated, is that its introduction should, for the first time, allow foreigners to own property in Myanmar, giving them the right to buy around 40% of any building that has been classified as a condominium. A legal definition of a condominium is also to be provided.

The draft law currently states that high-rise residential buildings cannot be classified as condominiums if they are built on less than one acre of land. This restriction would rule out a large number of projects that many believe should be classed as condominiums. The legislation is also expected to include provisions regarding the construction process and the responsibilities of those involved, and it will also introduce the concept of communal management.

However, due to concerns about the implications of the legislation and also by the preparations for the elections, the law has been subject to long-term delays. Industry experts, in statements to the press, have predicted that the eventual passage of new legislation is likely to breathe new life into the property market.

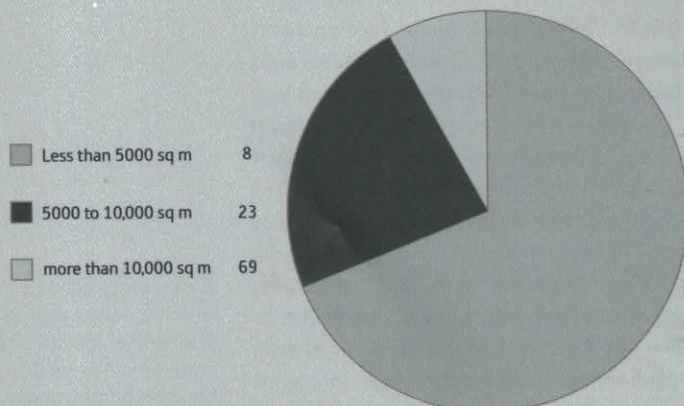
Mark Petrovic, managing director of architecture and engineering consultancy Archetype Group, told OBG in August 2015, "The property market has slowed down in the last eight months, partly due to the fact that hype has simmered and foreign arrivals have decreased; but, after the election, demand and foreign interest will pick up again, leading to a price hike."

AFFORDABLE HOUSING: Real estate experts note that potential also lies in affordable and mid-range housing projects due to Myanmar's growing population, which is expected to increase from its current level of more than 50m to reach some 90m people by 2040 (see analysis). In Yangon, the number of residents is growing by more than 6% a year and is set to nearly double by 2035 to 9.7m people from just over 5m in 2013, according to the local press. Household income is also forecast to expand four times over the same period.

These factors are likely to push up residential property demand, with the government estimating annual demand for housing at 300,000 units, much of which is likely to be built in new townships away from the city centre. The national government budgeted \$100m for 2015/16 to construct ten affordable housing projects with a total 18,000 units, across the country, according to the local press. Seven of these projects will be situated in Yangon, which has an affordable housing stock of just 17,000 units.

PRIVATE SECTOR STAKE: Although the projects are primarily being built by the Yangon City Development Committee (YCDC) or the Ministry

Yangon shopping malls by size, 2014 (%)



SOURCE: Colliers International Myanmar

of Construction, there are also opportunities for private sector involvement. Singapore's Surbana, which has its roots in Singapore's Housing and Development Board – the agency that built the city-state's public housing estates – is managing an affordable housing project in Dagon Seikkan Township, in partnership with the government of Myanmar. The project involves the construction of more than 10,000 low-cost housing units. Surbana is involved in the development's master planning, as well as the architectural design and civil and structural engineering.

Some of Myanmar's smaller developers have done well by focusing on the construction of apartments targeted at city-dwellers who have seen their income rise and want to upgrade to a more modern property.

But financing remains an issue for developers and buyers. The Construction and Housing Development Bank, which opened in 2013, was the first to provide loans to firms building cheaper apartments, as well as to buyers, but developers complain that costs remain high. The bank itself says it lacks the capital to provide loans for longer tenors. Its longest loan is repayable over four years.

There is also potential in one- and two-bedroomed units that typically would appeal to the substantial number of foreigners living alone in the country. Such units need not be serviced apartments – Yangon already has a stock of about 300 of these – but instead should be well built and have facilities such as swimming pools or gyms in order to attract the demographic. There are some difficulties in constructing smaller units due to onerous parking space requirements.

THE HOTEL INDUSTRY: Myanmar's reforms and its gradual move towards a democratic political system has attracted a new wave of foreign travellers to the country. Tourist arrivals reached 3.08m in 2014, up from 2.04m in 2013 and 791,505 in 2010, according to the Ministry of Hotels and



Myanmar's rapidly growing tourism industry has led to increased investment in tourist infrastructure

Tourism (MHT). This rapid expansion has triggered a wave of investment in tourist infrastructure, led by domestic investors, according to a report by PwC. There is plenty of potential for foreign investment too. Following the introduction of the 2012 Foreign Investment Law, foreign companies are now permitted to fully own hotels in Myanmar which have been classified above three stars. Foreign investment in smaller-scale properties is also encouraged through joint ventures with local partners.

Companies from the Asia-Pacific region remain the largest tourism investors in Myanmar, but additionally, some of the world's most well-known Western hotel operators, including France's Accor, Switzerland's Kempinski and Spain's Melia, are expanding their portfolios in the country or are opening hotels for the first time.

Total foreign investment in hotels was \$2.6bn in 2014, and was led by Singapore and Vietnam, according to the MHT. The Hoang Ang Gia Lai Group's \$550m mixed-use development in Yangon will include a 400-room hotel – Melia Yangon. In 2015 Colliers predicted more than 1009 new upper-scale hotel rooms to hit the Yangon market in 2015, and expects to see additional 1580 rooms by 2016. With so many new hotels opening, long established operators are being forced to improve the quality of their offerings. Demand for quality accommodation is also increasing beyond Yangon. Travel experts in Bagan say more rooms are needed in the city, where the number of visitors rose by as much as 15% in the most recent season.

LEGISLATION DELAYS: Land ownership and property rights in Myanmar remain unclear and, particularly in the case of older buildings, questions of ownership can be hard to resolve.

The country has various classifications for land, which are detailed in as many as a dozen separate

More than 2000 new upper-scale hotel rooms are predicted to arrive in the Yangon market in 2016. With so many new hotels opening, long-established operators are being forced to improve the quality of their offerings.



Deadlines for securing building permits are decreasing in Myanmar



Yangon's old town is one of South-east Asia's best-preserved cities and a major draw for tourists

A new Heritage Protection Law is currently in the works, which, once implemented, will require that projects built close to old buildings and pagodas obtain special approval. Some 189 buildings have already been designated as in need of protection.

land laws, according to the law firm VDB Loi. A foreign invested company in Myanmar does not have any land use rights, unless it secures long-term approval from the government or the lease is less than a year in duration. According to U Toe Aung, director of the Urban Planning Division at the YCDC, a National Land Use Policy is currently being drafted that should increase the transparency of land information and help make the system fairer. It should also make committing fraud more difficult. Moreover, building permits, which previously took so long to be issued that contractors sometimes went ahead without securing the necessary approvals, are now being issued much more quickly. The YCDC is also hoping that an online applications process that was initiated in 2015 will help to increase efficiency.

In terms of construction permits, Myanmar rose 10 places in the World Bank's 2016 "Doing Business" survey, to 74th place. The survey noted that, while it took roughly 95 days to obtain a permit through a process which involved 14 different procedures (better than in East Asia and the Pacific as a whole), costs were considerably higher.

Myanmar remained in 145th position in terms of registering a property, with the process taking 85 days and costing about 5.1% of a property's value compared with 74 days and 4.4% for the broader region. The annual survey measures the performance of 189 economies across the world.

ENSURING BALANCE: Regulations are also being refined in relation to heritage buildings. Even though some 40% of the old town of Yangon was destroyed during military rule, it remains one of South-east Asia's best preserved cities and a considerable draw for tourists.

A new Heritage Protection Law is currently in the works which, once implemented, will require that projects built close to old buildings and pagodas

first obtain special approval from the Department of Archaeology, National Museum and Library. This has been designed to put a stop to historic buildings being demolished by developers which claim the buildings are dangerous. In this respect, according to U Toe Aung, the authorities wish to achieve a balance. Some 189 buildings have already been designated as in need of protection.

Indeed, the cancellation of the Dagon City project which was to be built close to the Shwedagon Pagoda in July 2015 shocked many investors and rattled the property market. Dagon City was cancelled by outgoing president U Thein Sein, amid mounting public opposition to the development due to concerns that the project would affect the views of the temple and damage its foundations.

However, since then, the government has been keen to allay investors' concerns. The authorities have pledged compensation for losses incurred and are promising to look for alternative development sites for the developers.

"There's a genuine debate going on and the growing consensus is that in the downtown area they are aiming to keep the density to what it is now," Tony Picon, managing director of Colliers International Myanmar, told OBG. "A height restriction will be imposed on new buildings to preserve the heritage sites and there will be controls on what can be built around heritage sites. They're getting it right in terms of how they want to define the downtown area."

While the Dagon episode may have alarmed developers, it has also provided clarity in terms of the government's stance on protecting heritage sites. Furthermore, the smooth conclusion of the country's first open national elections in decades combined with the new laws and codes passed in Parliament should provide a much needed framework of regulations and help form a firmer foundation for the future growth of Myanmar's construction and real estate industries.

SECOND CITY POTENTIAL: As Myanmar's biggest and most vibrant city – and home to the vast majority of expatriates who work in the country – Yangon has been the natural focus of the country's rapid condominium expansion.

However, since 2013, developers have begun to explore the appetite for high-rise living among the residents of Myanmar's smaller cities. Mandalay, for example, with a population of 1.5m, is a major trading centre for Myanmar with China and India and is the hub of what is a lucrative trade in jade. The first condominium to be built outside Yangon was established in Mandalay in 2013.

The most ambitious project under way in Myanmar's second city is Mingalar Mandalay, a \$140m, 47-acre new township that includes not only condos, but also luxury villas, which are priced from \$2.5m. The development is a joint venture between the Mandalay City Development Committee, CAD Construction and New Star Light Construction,

and the condominium design has been drawn up by a New York-based architect.

Nearby Khayae Residence, designed by Singapore's SPC Consultants, secured government approval in July 2015. The 10-storey residential complex will feature a rooftop swimming pool, gym, function hall and car parking. Pegged for completion in October 2016, it will have round-the-clock power and water supplies.

Mandalay's trading links mean the city's per capita income is actually higher than Yangon, according to Picon, but that does not mean the residents are necessarily more predisposed towards condominiums. According to Picon, most people in Mandalay have more of an affinity for property with attached land. In fact, U San Linn, chairman of developer Nan Htike Shwe Sin, which is building a 16-story condominium – its first high rise – in the Shan State capital of Taunggyi, told local press that buyers come mostly from Yangon because *prices outside the city are more affordable.*

People from Yangon are also the buyers for Kris Plaza, the first condominium development in the administrative capital of Naypyidaw, which was carved out of the jungle by the then military government in 2005 and which now has a population of just under 1m. Under the country's development plans, the new city has been identified as a logistics centre for domestic distribution.

The two-tower, ten-storey complex of 114 apartments including pool, gym, children's playground and retail complex, is being built by First Myanmar Investment, part of the Serge Pun and Associates group of companies. A company spokesperson told local press that Yangon residents had shown the most interest in the development.

INVESTMENT OPPORTUNITY: In the case of high-end real estate, including condominiums, many of the purchasers have two or three properties already, U Win Khaing, president of the Myanmar



Many buyers of real estate in Myanmar own more than one property, viewing it as a safe investment

Engineering Society, told OBG. Their interest in property acquisition partly reflects the limited investment opportunities in Myanmar, where few want to deposit money in banks and where there is no stock exchange to buy stocks from. For them, real estate is a safe investment option.

Moreover, as approximately 70% of the population continues to make a living from low-income agriculture, it will be some time before the majority of Myanmar citizens can contemplate buying their own homes. "We are still a least-developed country," U Win Khaing told OBG. "A lot of people still live below the poverty line."

The country's overall GDP per capita was \$1127 in 2014, according to data from the IMF, and this is partly why the authorities – and the developers – are keen to allow foreigners the opportunity to buy. Under the existing law, foreigners cannot purchase "immovable assets" and can be jailed, fined, or both, if found guilty of doing so, although some property agents suspect foreigners of buying homes through nominees or fake ID cards.

OUTLOOK: Although a long time coming, the prospect of a proper legal framework governing condominiums will be of real benefit to the residential property market in Myanmar, providing greater clarity both to those looking to build and those wanting to buy. It will, however, be only a first step. Foreigners will still need to find the funds for their purchases. In a country where bank loans are limited and interest rates high, financing property sales presents a challenge for the average buyer.

In smaller cities, such as Mandalay and Naypyidaw, where rates are cheaper, prospects look good. There is likely to be more interest from those who do business in the city. But the success of condominiums, particularly outside Yangon, will depend ultimately on the old laws of supply and demand, and location, location, location.

Under the existing law, foreigners cannot purchase "immovable assets", but the authorities and developers are keen to allow them the opportunity to buy properties.



Having a home is beyond the reach of most of Myanmar's citizens



Yangon's population is growing rapidly, prompting a housing shortage

Affordable housing

Yangon's rapidly growing population is driving up demand for low-cost housing

With costs estimated at \$18 per sq foot, building an affordable apartment is difficult for developers. The likely return on affordable housing is also far lower than for luxury apartments, which may deter possible developers.

At least 330,000 people move to Yangon every year from Myanmar's rural heartlands or its townships in the hope of finding work. The city's population is expected to reach nearly 10m by 2035, almost double the number registered in 2013.

HOUSING SHORTAGE: This trend has prompted a housing shortage in the city that has pushed rents to the levels of Myanmar's most prosperous neighbours. Many newcomers find themselves living in slums or small, poorly-maintained apartment blocks. Even families that have lived in the city for many years are often housed in colonial-era buildings, sub-divided into apartments without basic amenities.

The Department of Urban and Housing Development, which is part of the Ministry of Construction, estimates that around 1.8m people are in need of low-cost housing and acknowledges that the government has been unable to meet the growing demand for affordable homes. It is currently working to establish a housing policy, development strategy and affordable housing programme.

LAND ISSUES: Although the government has made low-cost housing a priority, given existing problems with land and financing, both for developers and the potential buyers, it is struggling to deliver on its commitment. Despite commissioning several housing projects in the city, demand far outweighs supply, with homes awarded through a lottery, which, according to the media, is hugely oversubscribed.

For developers, the first issue is the land itself. Gaining access to and buying land for development is difficult, given the high prices involved. A study on urban development in Yangon, by the Japan International Cooperation Agency and the Yangon authorities, found that in 2012 agricultural land occupied approximately 51% of the city's total area, while urbanized areas covered just 31%.

The availability of land issue is compounded by the fact that ownership remains opaque – increasing

the risk of disputes. A new land use policy aimed at increasing transparency remains under discussion.

LOW RETURNS: In terms of building costs, it is hard for developers to keep down prices for low-cost apartments, according to U Kyaw Kyaw Soe, managing director of System Engineering, in conversation with the press. U Kyaw Kyaw Soe estimates it costs developers about MMK20,000 (\$18) per sq foot to build an affordable apartment – a figure which does not include the cost of the land or infrastructure. Since the likely return on affordable housing is far lower than for luxury apartments, there is little incentive for developers to build lower-cost units.

Myanmar's under-developed financial system also acts as a deterrent, making it difficult for contractors to secure the capital that would enable them to build.

SATELLITE TOWNS: The Yangon City Development Committee (YCDC) is focusing its attention on the development of new satellite towns, which will include affordable homes both for purchase and rent. Two of the new townships, including Dagon Seikkan, which is being developed in partnership with Singapore's Surbana, have been designated as pilot projects for the provision of affordable housing in the city. Just over 10,000 units were planned for completion in 2015. Surbana, leveraging on its experience developing Singapore's public housing, is also working with Myanmar officials on a master plan for expanding affordable housing across the country.

The government has indicated that it is willing to allocate land specifically for affordable housing and to cooperate more closely with private developers – whether local or foreign – on such schemes. Indeed, government support will be vital in terms of housing provision given the current environment. As home financing does not really exist in Myanmar in a format that is accessible to the majority, and as more people arrive in the city, the pressure on the government to provide affordable accommodation can only increase.

The government has made the development of affordable housing a priority and has indicated a willingness to cooperate more closely with private developers, domestic or foreign, on low-cost projects.



U Win Khaing

Gaining momentum

OBG talks to U Win Khaing, President, Myanmar Engineering Society (MES)

How does Myanmar's building code compare to international norms?

WIN KHAING: The Myanmar construction industry has expanded tremendously over the last four years. We are seeing about \$4.2bn worth of construction projects annually, and the business is growing by 8% each year. Therefore, we need to have a code and standards in order to regulate the industry. In the past we had no need of a national building code because construction works were mostly carried out by the government, through the Ministry of Construction's public works department and the irrigation department, both of which had their own departmental codes and standards.

Since 2011, momentum has begun to pick up, and it has become necessary to put in place codes and standards. That is why MES, along with the Ministry of Construction and UN Human Settlements Programme, has drawn up the Myanmar National Building Code, which will be enacted soon. This is a two-volume document and covers almost every aspect of building work that needs to be done, including infrastructure. It covers related subjects like electrical works, water supply and fire safety, and has been drawn up to ensure compliance with the best practices of the International Building Code, the American Society of Civil Engineers, and British and Indian standards, so we are not reinventing the wheel. The Myanmar code has taken account of international norms and then adapted them to fit the geography of the country, as well as the building materials available to us and the hazards that are specific to Myanmar.

How can foreign firms adapt to the operating environment in Myanmar? What steps can they take prior to undertaking property ventures?

WIN KHAING: Firms need to have good market knowledge. Each country has its own unique

conditions that can be used to an investor's advantage. It is important that companies formulate an investment strategy to suit the sector, whether it be the hotel industry, real estate or infrastructure. It is also vital to have an awareness of the investment law and an understanding of all rules, regulations and challenges. Investors need to appreciate the costs involved in finding suitable land to match the business plan. Moreover, detailed planning and due diligence needs to be undertaken to accommodate the time frame and turnaround of Yangon City Development Committee processes. Investors need to have a realistic idea of the construction lead times in order to be prepared in advance for any potential pitfalls or scenarios that might crop up. It is vital to take a long-term approach when forming local partnerships and to have a solid understanding of the local business environment.

What are the main constraints for financing large-scale infrastructure projects in Myanmar?

WIN KHAING: We still have weak macroeconomic management resulting from a lack of experience and exposure to market mechanisms. We also have an underdeveloped financial sector, but we recently began addressing that issue by opening nine foreign banks in Myanmar. We are trying to develop the financial sector to support the development of much-needed infrastructure, which will enable us to have electricity nationwide by 2030. In addition, the government is working on a number of areas in order to improve the situation.

Furthermore, the education gap poses a challenge, as it adds constraints to both the workforce and our ability to handle capacity. We also currently have weak economic diversification. Although this is improving, government revenue currently comes from a select few sectors, which makes the financing of large-scale infrastructure projects difficult.



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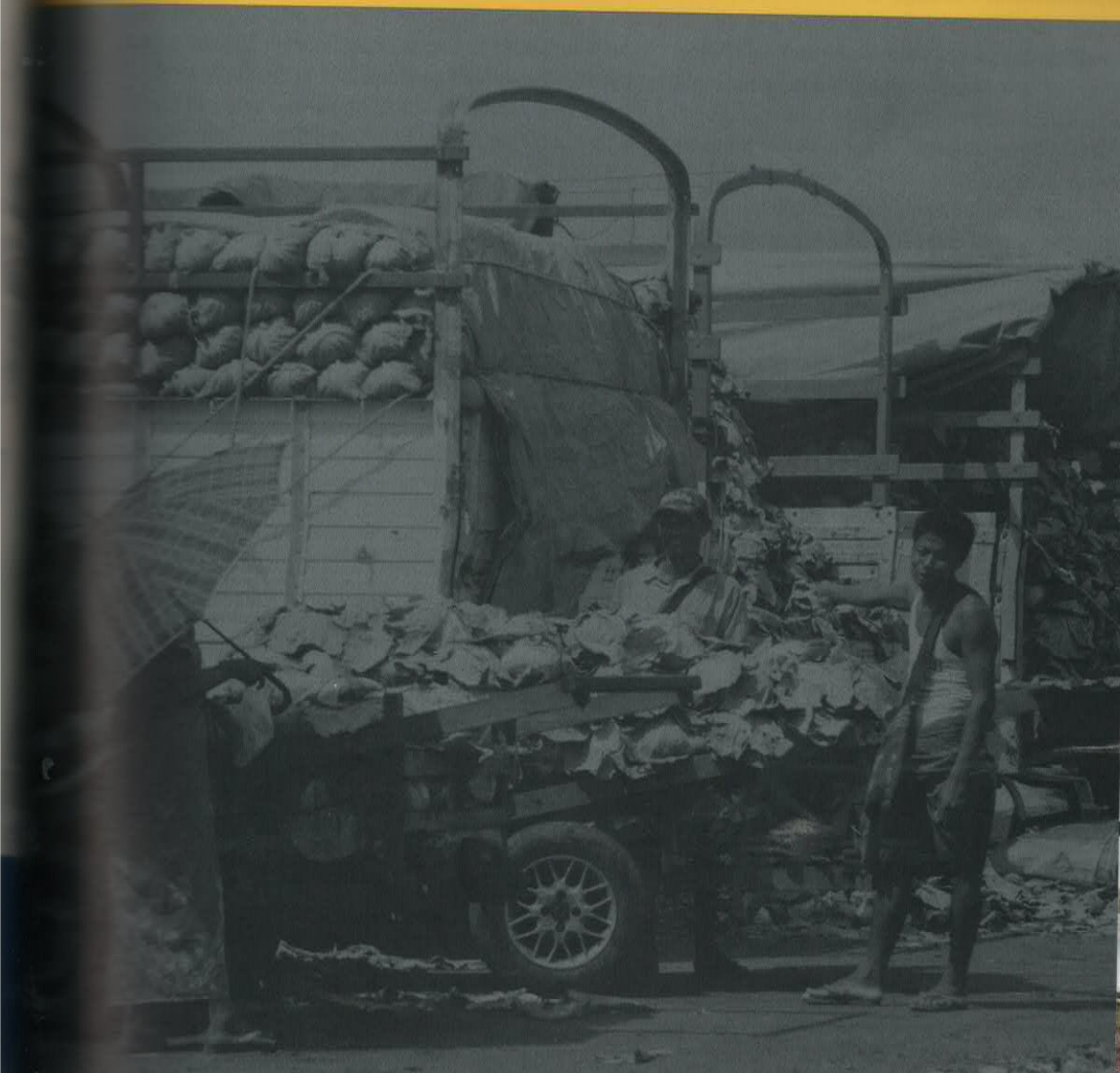
Agriculture & Forestry

Liberalisation policies help boost investment and trade

New laws are a step towards greater land security

More investment needed to boost processing capacity

Recent trade agreements expand the market for goods





The agriculture sector employs 61.2% of Myanmar's labour force

Regrowth

Opening the sector and investing in productivity

The agricultural sector continues to play an important role in Myanmar's economy, generating 24% of GDP and 24.6% of export earnings.

The historic importance of agricultural production in Myanmar's economy continues to hold strong in the wake of recent economic reforms and liberalisation. Indeed, the industry presents a number of industrial and productive opportunities that, if properly nurtured, could help the country regain and even surpass much of its former standing as a lead producer in the region. To do so, however, will require significant investment in the sector, greater mechanisation, the provision of better financing for farmers, as well as clearer land rights. **AGRICULTURAL DRIVER:** While modernisation is still under way in Myanmar's agricultural industry, the sector continues to play a major part in the country's economic growth. Agriculture generates an estimated 24% of GDP, 24.6% of export earnings and employs 61.2% of the labour force, and while the country continues along its path of opening and reformation, agriculture will likely remain a significant engine for growth.

Indeed, the sector is expected to hold its own and play a key role in the country's economic transformation. Industry players and economists expect that reform and investment will make Myanmar's land more productive, improve the earnings of farmers and generate higher income. The headline percentages may decrease as they have been over time, but added value will continue to increase as efficiencies and investments begin to make a difference. In a 2013 report titled "Agriculture Plus Plus: Growth Strategy for Myanmar Agriculture", the Institute of Developing Economies concluded the Myanmar's agricultural production has time to make a comeback. "Although the agricultural share in GDP and employment usually declines as an economy grows, it is not a sunset industry in Myanmar," the report concluded.

A COUNTRY BLESSED: Myanmar is a country with an abundance of agricultural resources. It has

twice the arable land per capita compared with the Asian average and 10 times the per-capita water reserves of China or India, according to global accounting firm, KPMG. Historically, it has been a major producer and exporter of rice.

An estimated 54% of the crop-sown area in the country is used to grow rice, and the staple generates 80% of the country's total agricultural value (see analysis). Myanmar is also a major producer of beans and pulses. An estimated 16% of sown land is committed to these products. Beyond this, industrial crops use 7% of the sown land, oil crops 21% and other cereals 2%. Overall, Myanmar grows 60 different types of crops, including wheat, corn, oilseeds, vegetables, pulses, potatoes, mangoes, bananas, rambutan and pineapple.

NEED FOR GREATER INVESTMENT: However, despite its strong base of agricultural resources, the sector at present remains underdeveloped. Indeed, the country's agricultural landscape has suffered chronic underinvestment and as a result it remains undercapitalised and relatively inefficient. Farming incomes in Myanmar are some of the lowest in the world, with the average annual earnings per worker in the domestic sector resting at \$194 in 2012, compared with \$706 in Thailand, \$730 in Indonesia and \$507 in Bangladesh.

Productivity is also low; in a 2011 study that collated findings from the Food and Agriculture Organisation and Asian Development Bank, it was found that the sector generated \$301 of value per person per year while the land generated \$451 per ha per year. These figures compare poorly with Myanmar's neighbours, with Vietnam earning \$694 and \$1978, respectively, followed closely by Cambodia (\$712 and \$627); Laos (\$835 and \$822); and Indonesia (\$1666 and \$1539).

In its second "Review of Myanmar" report, issued in early 2015, the OECD assesses that agriculture

Myanmar's agricultural production capacity ranks high in the region, with the country counting twice as much arable land per capita than the Asian average.

can play a vital and positive role in the economic development of Myanmar. Indeed, the sector is so large that it has the potential to become a key driver of consumption and investment. But to achieve progress, the OECD argues that a number of steps need to be taken across the board. This includes not only the improvement of land use rights, financing, skills and infrastructure, but also better food safety standards so that exports to developed countries can be expanded.

FINANCING: The country does have a financing system in place for the agriculture sector, though there is still much room for improvement. The main source of funding is the Myanmar Agricultural Development Bank (MADB), which was founded in 1953. According to the World Bank, the MADB does a good job of disbursing loans and the structure is innovative; while the bank does not require collateral from farmers, it does require farmers to collectively guarantee each other, spreading risk. Still, the bank does not effectively serve the sector, as it remains highly focused on loans to rice farmers and has a limited range of products. The financing system also lacks sophisticated risk management, depends on subsidies, has poor corporate governance and operates on a limited IT system. Most of all, the structure of its loan programme does not fully cover the costs of farming.

MADB will only finance up to 10 acres per farmer and limits its loans to MMK100,000 (\$90) per acre for staple crops (and only MMK20,000, or \$18, for other crops). Furthermore, it will not finance traders, transportation firms and other related companies, and does not at all support fruit or vegetable production. Machine loans are made, but they make up less than 1% of the total portfolio.

There are also some who question how sustainable the current lending practices are to local agribusinesses. The bank has subsidised the sector increasingly over time, with the interest margin falling from 9% in 1998 to 0.5% in 2012, while its capital is just MMK1bn (\$900,000). In its recent report the World Bank recommends the MADB raise capital to MMK30bn (\$27m) and re-price loans to reduce losses. It also recommends improvements in transparency and governance and more investment in IT and human resources. In addition the World Bank advises that the MADB reassess and better define its role.

INFORMAL MEANS: Beyond that received from the MADB, farmers receive little to no support from the formal banking system, with the sector receiving only an estimated 1-3% of commercial bank loans. This drives many farmers towards alternative financing means. They may borrow from family, friends and related businesses, such as millers, or else turn to loan sharks, where rates can run as high as 20% per month. Such practices lead to endless cycles of debt and compound the farmers' problems by forcing them to sell as quickly as possible into a crowded market for low prices.

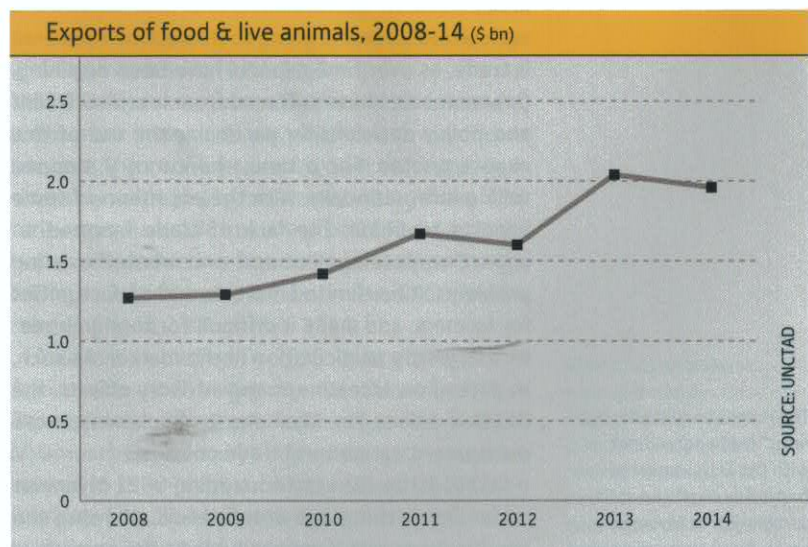


The World Bank has committed \$100m in credit to 100,000 farmers

“The main obstacles are high interest rates and poor access to the banking system,” U Nyi Nyi, director of agriculture at the Yuzana Group, told OBG. “The credit currently available is not enough for the farming family.” U Thadoe Hein, managing director of Myanmar Awba Group, added, highlighting the vulnerability of poor farmers who must resort to unregulated forms of financing. “There are limited funds available, so the farmers have to rely on loan sharks,” he told OBG.

However, remaining aware of the problems, the government and international donors are working to help with financing. In March 2015 the government said it would be investing nearly \$1bn in the sector. According to press reports, a total of \$928m would be committed to 16 projects and, of these, the government says that 12 will be funded by foreign aid. For its part, the World Bank has committed to supporting the sector with \$100m of credit for 100,000 farmers. The project will focus on improving irrigation and reducing

While the Myanmar Agricultural Development Bank does provide loans to farmers and seeks to spread risk, the range of products on offer is limited and the bank's loans do not fully cover farmers' needs.





A lack of financing and land security reduces the incentive for local farmers to mechanise production

Myanmar has worked with the OECD to improve the inflow of foreign investment; between 1988 and 2015, \$243m has been invested in Myanmar's agriculture sector.

the volatility of the price of rice in the country. According to the bank, the heavy concentration of harvesting in just a few months (November and December) leads to price drops followed by price spikes early the following year.

Additionally, foreign investment is essential for the sector if it is going to develop. To get the right type and size of equipment, especially in for milling, and to achieve the overall economies of scale needed to improve efficiency and productivity, significant capital is needed – much more than can be provided by domestic institutions and the national government. Agriculture was ranked ninth out of 11 sectors for foreign direct investment (FDI) between 1988 and early 2015, with a total of \$243m invested. In this respect, Myanmar has been working with the OECD to attract further investment. Among the subjects discussed were foreign ownership of agricultural land and a legal framework that will allow for contract farming.

KEY FOR DEVELOPMENT: A number of other areas need to be reformed and improved if the agricultural sector is going to thrive. One such area is trade, as over time exports have been declining. Overseas sales have suffered from low investment and policy decisions, in particular the use of rice export quotas. For a time, the country stopped selling internationally, with the exception of some exports to China. The lack of trade has had an impact on development and exacerbated existing problems. It has limited markets and opportunities for farmers, and made it difficult for foreign investors to justify participation in the market. As such, as part of its assessment and advisory efforts, the OECD is calling for Myanmar to implement more transparent agricultural trade policies.

In 2013 the EU started trading with Myanmar under "everything but arms" terms, allowing the country to export most products to the union free

of tariffs and quotas. These preferential privileges came following the lifting of economic sanctions that had been in place since 1997. However, the programme has been slow to bring benefits to the country. To a great extent, this is the result of companies simply not knowing about the programme and what it offers. Myanmar producers have also been unable to meet the quality standards of buyers in the EU and are often unable to fill the large orders demanded by the union.

In particular, the value chain of Myanmar's agricultural sector has been criticised. It has many links of weaknesses that raise costs for all participants. Mills are antiquated and transportation is poor. According to the World Bank, the cost of exporting a tonne of rice is among the highest in the world, at \$66 in 2010. This price includes MMK28,800 (\$25.92) of transportation, MMK8000 (\$7.20) for labour, MMK16,000 (\$14.40) for milling and processing, MMK8000 (\$7.20) for packaging and MMK5800 (\$5.22) for licensing and port fees.

Mechanisation is difficult for farmers for several reasons. Financing is the obvious problem, because farmers do not have the necessary cash and the banks are reluctant to lend. Furthermore, farmers who do have resources are unlikely to make the investment because they lack secure land tenure. Additionally, the size of the landholdings are usually too small to justify the use of tractors or other labour saving machines, and it is difficult to get servicing for equipment.

LAND USE: The reform of land rights is of primary importance to the agricultural sector. One study published in 2009 found the country had 73 active land laws, some dating back to the 1800s. The British first established clear property rights with the Land and Revenue Act (1879). Subsequent laws distinguished between state and non-state land, and have, over time, refined the rights and obligations of landowners and their relationship to the state.



Improving use of machines and processing is key for sector growth

The recent "everything but arms" trade agreement with the EU is expected to provide much-needed stimulation to Myanmar's agricultural trade segment.

Much of this changed at independence in 1948. The new constitution established the state as the ultimate owner of all land in the country, and this was followed by the Land Nationalisation Act of 1953. In 1962, under the socialist government, rice production was also nationalised. A series of acts followed that brought agricultural lands further into state hands. The 1974 constitution reaffirmed the state as the owner of all land and made no mention of earlier guarantees of proper compensation for the taking of real property. The Transfer of Immovable Property Restriction Act (1987) limited the right to sell property to foreigners.

After the 1988 coup, the 1974 constitution was repealed and the State Law and Order Council required all rice be turned over to the state. In 1990, other crop lands were also taken over and the state mandated that more rice be produced. Later, in 1991, the Central Committee for the Management of Cultivable Land, Fallow Land and Waste Land was formed. This committee was empowered to take control of large tracts of land for state enterprises and for the purposes of large-scale agricultural development. The guidelines used by the committee, known as the Wasteland Instructions, in practice allowed for considerable foreign investment in agriculture.

FARMLAND LAW: The Farmland Law, passed in 2012, changed the situation considerably. It created property rights for individuals by allowing for the issue of land-use certificates. Changes in the status of the land, such as when it is sold and mortgaged, must also be registered. Nevertheless, the government still maintains ultimate ownership of the land, and it can rescind the relevant usage rights for any number of violations. The law is also outside the legal process, as holders of the land-use certificates can only appeal to the administrators of the programme and not to the courts.

The Vacant, Fallow, Virgin Lands Management Law, known as the VFV Law, was also passed in 2012. The law is an update of the Rules for the Grant of Waste Land (1861) and the Wasteland Instructions. Under the VFV Law, tracts of land can be leased from the government for up to 30 years. A company or a person can acquire 5000 acres each purchase and can acquire a total of 50,000 acres. Agriculture use is included under the law, but the properties cannot be sold or leased onward without the permission of the government. Foreigners can participate in the programme, and rural farmers can apply for up to 50 acres.

EFFECTIVENESS: The Farmland Law seems to be less effective than hoped. According to press reports, the lack of rule of law and high land prices as a result of speculation have resulted in slow real investment in the sector. Inconsistencies with existing legislation appear to be limiting interest. The Foreign Investment Law, for example, permits 50-year investments but land leases are limited to 30 years. The OECD notes that the registration



The yield for rice has climbed from 1.69 tonnes per hectare in 1961 to a high of over 3 tonnes in 2000

process remains long, slow and inefficient. It adds that the laws do not improve land security, as the provisions act as land-use rights in essence and not true ownership, meaning that the rights can be withdrawn at any time. The OECD also recognises that regardless of the laws, government priority remains large-scale farming. Further, the process of obtaining titles can be cumbersome. "If you need land, it looks easy, but it's not. The process is long," U Myo Thant, assistant vice-president of Myanmar CP Livestock, told OBG.

The government has been drafting a land-use policy since 2012. The main goals of the policy, as outlined in an October 2015 draft, is to protect the land use rights of individuals and to improve the way land is administered. It was hoped that the policy would be put into place before the 2012 election, but because of complaints from rights groups, the process was delayed. The groups said that they did not have enough time to read the policy and that the politicians had attempted to rush it through. The policy has already been released for two rounds of comments, one in November 2014 and another in June 2015

YIELDS: Myanmar committed itself to improving yields after independence, which led to significant success. The country raised production rates considerably, with yields for rice climbing from 1.69 tonnes per ha in 1961 to a high of 3 tonnes in 2000. However, production figures have dropped since, falling to 2.45 tonnes per ha of rice in 2010, before rebounding to 2.8 tonnes in 2014.

A report published in 2015 by the Ministry of Agriculture and Irrigation, the "Myanmar Rice Development Strategy", found that the area in Myanmar covered by high-yield rice varieties peaked in 1990 (at about 55%) and has since fallen to under 50%. The lack of irrigation is seen as contributing to the yield problem. While great efforts

Initial attempts to address land rights issues in Myanmar include the 2012 Farmland Law, which provides individuals with land-use certificates, although the state continues to own all land.

New land-use policies have come under close inspection from both policymakers and civil society members, with two successive rounds of comments undertaken in 2014 and 2015.



Myanmar produces more than 60 types of crops, including cereals, fruits and vegetables, and oil crops

In 2013 the Ministry of Agriculture and Irrigation issued its first rice seed development strategy, hoping to improve the agricultural practices of farmers, add hybrid seeds, increase mechanisation, improve irrigation and boost financing.

were made in the 1980s, it has been difficult for the government to maintain what is in place due to its still nascent capacity and financial resources. As well, some systems are still tainted with seawater following the aftermath of cyclone Nargis, with many canals requiring repair and a need for new secondary and tertiary canals.

The Myanmar Rice Seed Development Strategy (MRSDS) was set out in 2013. It is the Ministry of Agriculture and Irrigation's (MOAI) first effort to develop a rice strategy for the country. Under the MRSDS, the ministry hopes to introduce good agricultural practices to more farmers, add more hybrid seeds to the sector, boost the number of farms mechanised, increase irrigation and improve efficiency in the sector. It also aims to provide farmers with better access to financing.

The national seed law was signed in 2011 and came into effect in 2013. It calls for the creation of a national seed committee charged with developing a seed policy, conducting seed research and forming seed quality inspection bodies. Companies interested in introducing new plants or seeds must apply to the committee. In addition, seed testing laboratories will have to be certified by the committee, as will companies wishing to engage in the seed business. The goal is to improve the quality of seeds by controlling pests and genetic flaws and to control the distribution of seeds.

PULSES & BEANS: The trade in pulses and beans first began when the British imported seeds and brought in growers from India. The segment has been highly successful but remains dependent on the Indian market for sales and pricing, as the country receives 74% of Myanmar's exports. The segment also needs to develop value-added products from the raw materials; less than 10% of output is currently being processed domestically. Operating capital has also been identified as a key problem

for the growers. Farmers could raise two or three crops a year but, because of financing issues, many are unable to fully utilise their land. In the World Bank's 2014 report on agricultural development in Myanmar, it is reported that the MADB is willing to provide farmers with lower-interest loans, but the bank will disburse a maximum of MMK20,000 (\$18) per acre, less than 10% of total funding required.

Because of the volatile prices, default risk is high. In 2011 Sein Nan Htike, a bean trading company, defaulted on MMK5bn (\$4.5m) of payments owed to suppliers. Traditionally, business contracts in Myanmar are verbal (though officially the practice is banned). To reduce the chance of default, the Myanmar Pulses, Beans and Sesame Seed Merchants Association instituted a new system whereby traders in the commodity must place a 10% deposit at time of order, the exception being contracts executed in less than one month.

The flooding of 2015 affected production of beans and pulses, but it did not lead to the shortages and price hikes as seen with rice. Domestic consumption is relatively low, so the disruption did not have a significant impact on the market.

FORESTRY: Just under half of Myanmar is covered by forests, and 10% of the country is primary forest. However, rapid deforestation is a major concern, with the country losing about 1.2% of coverage per year between 1990 and 2010. Some estimates put the total forested area as low as 24%. Deforestation has by and large been the result of illegal timber trade undertaken by Chinese interests.

The sector is guided by a number of regulations, including the Forest Policy (1995), the Forest Law (1992), the Forest Rules (1995), the National Code of Forest Harvesting (2000) and the Environment Conservation Law (2012). Under the current policies, forest reserves are to increase to 30% of the overall land area, with protected forests increased to 10%. Permits are required for timber extraction, and practices must be adhered to that guarantee that the environment is not unduly disturbed. To protect forests and to encourage processing, a ban on the export of logs was instituted in late 2014. However, as most timber is sold illegally, it is not clear whether this ban can be expected to have much impact. "The government has banned the export of legal logs, but illegal logs are still being exported," Pawan Sharma, country manager at Mayar India, told OBG.

OUTLOOK: Myanmar's agriculture sector is staging a comeback. After years of underinvestment and a near total drop in exports, the country is rewriting its laws and establishing initiatives to boost production and yields, and encourage foreign investment. Success is as much a matter of implementation as legislation, and it is not clear how quickly the reforms will take effect. But given Myanmar's abundant agricultural resources and the role the sector can play in developing the country, it is likely that these initiatives will take priority.

Although nearly half of the country is covered by forests, deforestation has been a major concern in recent years, and new regulations aim to increase forest reserves to 30% of Myanmar's total area.



Although rice exports have fallen, production has continued to rise

Making a comeback

Reviving rice production and export

Investment in Myanmar's agriculture sector is beginning to see gradual results. Indeed, Myanmar is on track to double its exports of rice by 2020, increasing production from under 2m tonnes per year to over 4m tonnes. This level of overseas sales has not been achieved in 70 years, and hitting the target would indicate Myanmar's return as a major player in the international rice markets. According to the World Bank, the country must first take a few important steps to achieve this goal. It must diversify production, open its milling industry to foreign investment and reduce the costs and complications of export. If successful, the bank estimates that many of the most vulnerable people in Myanmar will have a chance to rise from extreme poverty.

GLORY DAYS: In pre-colonial times, the king prohibited the export of rice, while the local price was too low for farmers to focus on the crop. Intense cultivation began under the British, who brought in capital and labour and introduced a favourable land tenure system. The British also improved transport, resulting in a boom in production. From 1870 to 1915, total output rose from 1.5m tonnes to 7m tonnes. Production stagnated through the Second World War, and fell back to under 2m tonnes per year during Japanese occupation. However, after independence in 1948 production increased rapidly, again hitting 7m tonnes per year by 1965.

Exports always played a large role; by 1940, 71% of production was sold overseas. Much of Myanmar's production went to war-torn countries in the region that faced food shortages. But as neighbours regained their ability to produce rice domestically, Myanmar's exports dropped, falling to 51% of total production by 1957 and to 39% by 1960, though Myanmar remained the world's largest exporter of rice in the early 1960s.

With the onset of political instability, the total area cultivated in Myanmar began to stagnate from

the 1960s through the 1980s. However, at the same time, total output rose dramatically. Rice production jumped from about 6m tonnes a year to 14m tonnes in 1985, and continued to climb, hitting a high of 32.7m tonnes in 2009, all the while exports remained low. Exports fell steadily from 3.1m tonnes in 1940 to 1.7m tonnes in 1960, to a low of 28,300 tonnes in 1997 (0.17% of production).

THE COMEBACK: Myanmar's current government aims to reignite the industry, with the goal of returning to former rice production and export highs. In late 2012, it set an export target of 3m tonnes a year by 2017, and 4m tonnes by 2020. Exports have been picking up, and it seems that the country is on the way to hitting its goal. During the fiscal year ending March 2015, total exports hit 1.7m tonnes, up 40% year-on-year. It is expected that the country will break the 2m tonne mark in 2015/16. If this mark is achieved, the year will be the highest level of exports for the country in volume terms since about 1940.

Many factors are at work in the export equation. Myanmar faces strong competition from nations that are more productive in terms of output. While in 2013 Myanmar produced about 2.65 tonnes per ha, Malaysia was at 3.82, the Philippines at 3.72 and Vietnam at 5.9. Furthermore, according to the World Bank, Myanmar's milling equipment is out-dated and inefficient, experiencing 15-20% loss, while port infrastructure is poor and policy uncertainty remains. The quality of output is also low, and the country is limited to markets with lower standards.

Nevertheless, positive gains have continued. Europe opened to Myanmar rice under a recent agreement following the lifting of economic sanction, and China is becoming a bigger buyer. While China officially banned rice imports from Myanmar, much still comes across the border defying the ban, while trade is slowly moving to more official transactions.

Processing machinery and equipment remain old and inefficient, preventing Myanmar from successfully competing against neighbouring countries in agricultural production and export.



The government is now working to actively manage forest resources

Conserving the resource

As the economy opens up, Myanmar seeks to balance forestry exports with preservation

Myanmar has well-developed methods and practices for harvesting and maintaining forestry assets. An early selection system was developed in 1856 by Dietrich Brandis, a German national who worked with the British Imperial Forestry Service.

The forestry sector has been vitally important to Myanmar. When the country was isolated by sanctions, the selling of logs and wood helped bring in desperately needed hard currency. Exports of forestry products in 2011, the year political reforms began, broke \$1bn. However, since the reforms began, much has changed. Myanmar, now open, is less in need of simple foreign currency inflows. It has other priorities. At the same time, increased engagement with foreign groups, companies and governments has led to a rise in the awareness of how to better manage natural resources.

The result is a dramatic shift in export policies and gradual reforms of the sector and the institutions that work within it. In the near term, the transition has been disruptive in terms of exports and is potentially challenging in terms of total production. Yet over the longer term, the sector is set to become stronger and more sustainable as systems are put into place to better manage resources and as the relevant institutions shift emphasis from output to conservation and balanced growth.

A LONG HISTORY: Myanmar has well-developed methods and practices for harvesting and maintaining forestry assets. An early selection system was developed in 1856 by Dietrich Brandis, a German national who worked with the British Imperial Forestry Service. The Brandis Selection System became the Burma Selection System in 1920 and later evolved into the Myanmar Selection System (MSS). The MSS is still in use today.

For a time, the 1894 Indian Forest Policy guided activity in the sector. It was followed by the Burma Forest Act, which was passed in 1902 and remained in force until 1992, when a Forest Law was passed. Forest Rules were enacted in 1995 and followed by the National Code of Practice for Forest Harvesting, 1998. Sustainable forest management practices have been utilised since 1995, while the

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Timber Certification Committee of Myanmar was established in 1998. In 2008, reduced impact logging guidelines were published.

The Ministry of Environmental Conservation and Forestry is the sector regulator and has been in charge of conservation since 2006. A number of other government and government-related bodies are also active in the sector, including the Forest Department; Myanmar Timber Enterprise (MTE); the Dry Zone Greening Department; the National Commission for Environmental Affairs; the Forest Resource, Environment, Development and Conservation Association; the Forest Joint Venture Corporation; and the Timber Merchants' Association.

WEAK SYSTEM: Despite the laws, systems, standards and institutions in place, the sector has not been well-managed in practice. Implementation started breaking down in the 1970s and by the time of the 2011 reforms the sector was facing serious problems. Less strict controls in the past allowed for the overproduction and sale of logs, and this practice was largely responsible for the decline in forest land. Observers note that production has remained high and that the resources are still under threat since the 2011 reforms began.

It is estimated that the country has been losing 465,388 ha of forest a year, about 1.2% of its total. This is the equivalent of an area the size of Brunei annually. Between 1990 and 2010, about 20% of the country's total forest land, or 7.4m ha, vanished. Total forest land declined from 41m ha in 1975 to 30m ha in 2010, according to the UN Food and Agricultural Organisation. The *Myanmar Times* has reported that the country has the third worst rate of deforestation in the world, following closely behind Brazil and Indonesia.

Factors that lead to deforestation include the clearing of forest for agriculture, illegal logging and the clearing of land for infrastructure projects.

Less strict controls in the past allowed for the overproduction and sale of logs, and this practice was largely responsible for the decline in forest land.

Observers note that while the conversion of land to agriculture has been ongoing for years, the government has recently been aggressively pushing large scale industrial agricultural developments, and this has come at a great cost to forestry.

Industrial agricultural development has become a pillar of the new government. It is estimated that 2.1m ha of land has already been allocated to agribusiness, and the government is expected to allocate another 4.5m ha. No single initiative accounts for the conversion of forestry land. Rather, it is the result of exemptions, loopholes and permits.

The industry publication *Forest Trends* notes that while Myanmar has a well-established set of rules and regulations guiding forestry, it lacks an internationally recognised certification system. It adds that the authorities have failed to distinguish between timber harvested in official forest production areas and timber sourced as a consequence of areas being cleared for agriculture.

REFORM: Myanmar is undertaking a number of significant reforms. Due to the lifting of sanctions and the emphasis on foreign direct investment and value added, the country has started to look more closely at its priorities when it comes to forestry resources. The sense is that harvest management and processing should be a high priority and that exports for their own sake should no longer be pursued, recognising the need for conservation.

The most dramatic policy in this regard has been the export ban. As of April 2014 it has been illegal to sell unprocessed logs overseas. Myanmar produces a wide range of wood-related products, from woodfuel to fine furniture, but historically almost all exports of forest products have been in the form of logs. In 2013, logs accounted about 90% of all forestry exports. Moreover, there was a concern that domestic capacity in forestry was not being properly utilised, that workers in the sector were underemployed and that, more importantly, processing was not being adequately developed in the country. "Since logs were available, there was very little investment in processing," says Pawan Sharma, country manager of Mayar India, one the largest timber exporters in the region.

The country is also looking closely at illegal exports, which are estimated to make up about 75% of all timber trade. In 2006, facing international pressure, neighbouring China cracked down on illegal logging from its side of the border by banning people from entering Myanmar to log and preventing logs from crossing the border. Yet after 2012, as the country opened more to the outside world, illegal activities picked up again.

In January 2015, 155 Chinese loggers were arrested in Myanmar and 153 of them received life sentences, although they were later pardoned. Reportedly, some 1600 logs were seized in the raid in which the loggers were arrested. Government officials said that 10,000 tonnes of illegal timber had been confiscated during the first half of 2015.



In a bid to boost local processing, the government made it illegal to sell unprocessed logs overseas

MTE: Some of the most serious reform efforts are being undertaken at the MTE. The State Timber Board (STB), which pre-dated the MTE, was formed in 1948 and had a monopoly on teak extraction. Non-teak activities were nationalised in 1964. The STB became the Timber Corporation in 1974 and then the MTE in 1989. The MTE still has a monopoly on all aspects of teak harvesting and processing.

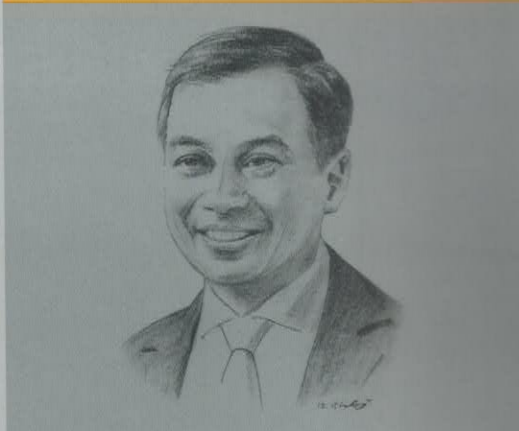
Private companies have been allowed in the sector since 1988 and are active in business involving non-teak species, although logging of all species is generally undertaken by the MTE. Private teak plantations have been allowed since 2004, and much of the MTE's teak comes from them. Timber concessions have historically been short term, running from 1-3 years, making it difficult for private companies to make significant investments.

The MTE reforms are comprehensive. It plans on reducing the harvest in 2015-16 so that it is in line with the annual allowable cut as set out by the Forest Department, while it also hopes to better manage production so that it more closely matches demand. Government-owned saw mills and other wood-related factories are to be transferred to the private sector. The MTE is to be corporatised and then eventually privatised. Yet the MTE notes that it cannot be fully privatised as it has responsibility over natural resources, and as such a government role in its operations is always envisioned. "Over the last two years they have considered the privatisation of the MTE," Sharma told OBG.

The MTE was added to the US Office of Foreign Asset Control Specially Designated National (SDN) sanctions list in 2008, which limited Myanmar's ability to export its timber products. However in July 2014, the MTE was exempted from the SDN list for a one-year period, and this was then extended in 2015 for two further years, meaning that wood products from the MTE can be legally imported.

Myanmar is undertaking a number of significant reforms. Due to the lifting of sanctions and the emphasis on foreign direct investment and value added, the country has started to look more closely at its priorities when it comes to forestry resources.

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U Thadoe Hein

Sowing seeds

OBG talks to U Thadoe Hein, Managing Director, Myanmar Awba Group

How does development of agriculture in Myanmar compare to other countries in the region?

THADOE HEIN: Myanmar's agriculture sector, like its other sectors, lags those of its peers in the region. Farming remains very traditional and primitive compared to neighbouring countries. The use of fertilisers and other inputs is only one-seventh that of Thailand and Vietnam. Thus yields are low and so is crop quality. Myanmar also lags behind in terms of processing of agricultural output. Rice mills, fruit and vegetable processing, packaging and storage, and market access could all be improved and developed to be on par with our neighbours.

How can farming and fertilisation techniques better enhance crop yields across the country?

THADOE HEIN: Myanmar's farmers are using very little fertiliser, and though the country is fortunate to have fertile soil, as the population grows and as multiple cropping is practiced on the same farmland over many years, soil nutrients will be depleted, and we need to replenish these by applying appropriate amounts of fertiliser. In agriculturally developed countries, the authorities survey the nutrient profiles of different regions and recommend fertilisation programmes. One of the main objectives of balancing soil nutrition, aside from increasing crop yields, is to make sure that farmers do not use excessive quantities of a single nutrient. For example, if farmers use too much nitrogen fertiliser, it can pollute the environment and ruin water supplies. Yield and crop quality can also be increased substantially with modern farm mechanisation, efficient irrigation systems like drip irrigation, and greenhouses.

What can be done to increase the amount of investment in the agriculture sector?

THADOE HEIN: Internally, the government needs to encourage farmers to invest more in their farmland

and ensure their operations are profitable. So much money is wasted in transportation and financing costs, leaving farmers barely profitable. The cost of logistics in Myanmar is the highest in the region, and this reduces margins by 10% to 15%. Additionally, farmers have limited access to competitive agricultural loans, so most of them have to rely on costly financing at high interest rates, sometimes of more than 5% per month. High interest rates are an inhibitor of profitability. As in any other businesses, people will not invest if the return is inadequate.

Land utilisation could be improved by developing irrigation infrastructure. Rice farmers in Vietnam's Mekong Delta grow as many as three crops of rice per year without needing to be concerned about droughts and floods, while Myanmar's farmers in Ayeyarwaddy Delta can barely grow two crops. The monsoon crop is a risky one due to the potential for flooding, so farmers are not making adequate investments and yields are poor.

Yields could be increased twofold with the right investment in infrastructure. Better infrastructure, such as irrigation developments and road access – along with financial inclusion – is essential to stimulating investment in farming and agriculture.

Furthermore, the government needs to support investors in post-harvest processing and export by offering tax incentives for milling, packaging and processing. Low-cost, long-term financing options must be given to the investors and entrepreneurs throughout the agriculture value chain. Additionally, a clear legal framework and set of regulations must be established so that foreign investors can work together with farmers without endangering ownership of the land. By working together with small holders, foreign investors may be able to create large-scale, modern farming operations using a cooperative approach, or through the creation of publicly listed companies with shareholding farmers.

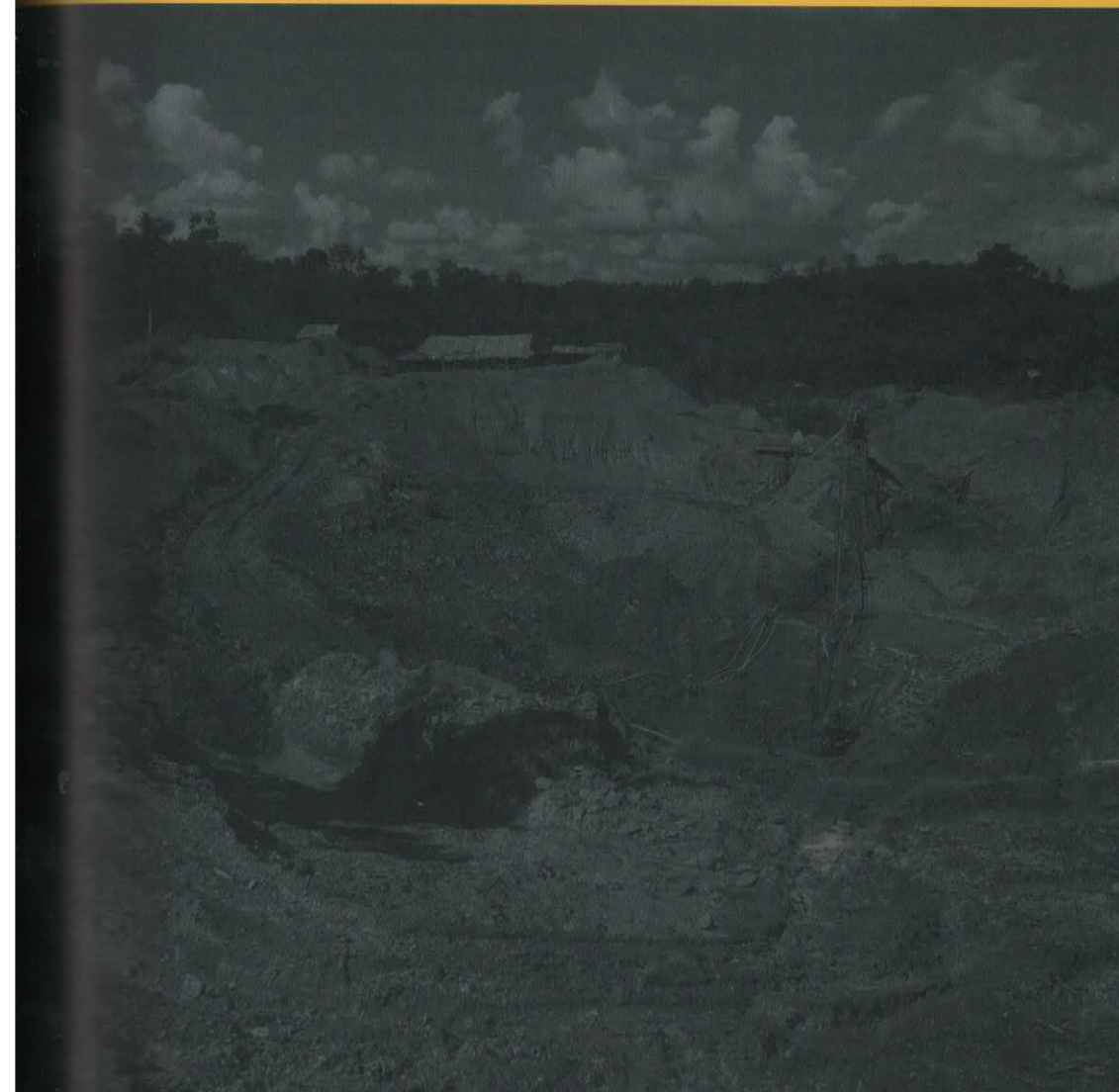
Mining

Unique geography offers wide array of mineral reserves

Investment expands with adoption of new mining law

Formalised channels for buying precious stones needed

Plans gain traction for new central gold exchange





Myanmar's deposits of mineral wealth remain largely under-explored

Treasure trove

A complex geography provides a diverse mix of rich minerals

While the country's resources were mapped during colonial times, few geological surveys have taken place since. Proven mineral reserves include tin, lead, zinc, copper and precious stones, among others.

While most industries have benefitted from an influx of foreign investment since the opening of the economy in 2011, the mining sector has yet to catch up. There are a few reasons for this, including legal inconsistencies and ongoing civil unrest in key areas. Through the implementation of mining law reforms passed in late 2015, many prospective investors' concerns have been addressed by the legal amendments, and they are eagerly waiting in the wings to tap the country's deposits of metals, ores, industrial minerals and coal.

With a total land area of 676,578 sq km, Myanmar is the world's 40th-largest country and the second-largest in South-east Asia. Despite containing vast deposits of tin, tungsten, copper, gold, silver, zinc, lead and precious stones, the country's diverse landscape remains relatively unexplored compared with other mineral-rich countries. Yet the newly elected government promises much-needed reform and foreign capital for a sector that is as opaque as it is profitable.

GEOLOGY: Wedged between the Himalayas in the north and the Andaman Sea to the south, Myanmar has a unique geology. Located in a suture zone on the Burma Plate, it resembles a sort of ancient tectonic jigsaw puzzle. With the Indian Plate to the west, Indochina Plate to the east and the Eurasian Plate to the north, the country is divided into four geographic belts: the Eastern Highlands, Central Lowlands, Western Ranges and Arakan Coastal Plain. Sloping downward from north to south, each belt has its own history as to the formation of the earth's crust. Major known mineral belts also run from north to south. Key mining areas include the tin-tungsten belt of the Tanintharyi Region, running along the eastern border with Thailand; the antimony belt in the states of Shan, Kayah and Mon; the lead-zinc-silver-barite belt of Shan State; the porphyry copper belt in Monywa and Wuntho;

the nickel-chromite belt of the northern Chin Hills and Tagaung Taung; the gold-copper belt in the Sagaing Region; the oil-gas belt of central Myanmar and Ayeyarwady Delta; and the precious stone belts in the Kachin and Mogok Regions.

UNDER-EXPLORED: While the entire country was mapped under the British colonial era, and later through various agencies and foreign missions, there is still limited data in the form of modern geological surveys. According to the Department of Geological Survey and Mineral Exploration (DGSE), there are more than 2000 occurrences of 62 different commodities. These include precious stones, which remain off limits to foreign investors, and other minerals such as tin, copper, gold and zinc. The local authorities are actively marketing the available opportunities, as Myanmar largely lacks the capital and equipment to extract the country's mineral wealth on a large scale.

From the establishment of the 1988 Foreign Investment Law through to October 2015, only \$2.87bn of investment had been approved in the mining sector, or 4.95% of all foreign direct investment (FDI), around \$58.03bn. According to the Myanmar Investment Commission, the mining sector received \$6.26m in FDI for fiscal year 2014/15, the fifth-largest recipient by sector, though considerably less than the \$3.22bn received for hydrocarbons (see Economy chapter).

GOLD & COPPER: Of the 13 existing foreign mining operations, gold and copper dominate, with a geographical concentration in the Sagaing and Mandalay Regions. Although a total of 32 foreign projects have been permitted along this belt, prior sanctions meant that only eight remain; with a total combined capital investment of \$1.53bn, of which copper represents more than 90%. Notable foreign gold prospectors include PanAust from Australia and Nobel Gold from Hong Kong, which is

Sitting above the Indian, Indochina and Eurasian plates, Myanmar is divided into four geographic belts, which help to provide a rich and diverse minerals mix.

currently exploring for gold and associated minerals in the Sagaing Region.

The largest local player in gold production is the National Prosperity Gold Production Group, which operates the Modi Momi mine. A 2011 survey of the concession estimates it holds more than 2.3m oz of gold, and refined gold production reached 52,600 oz from September 2011 to March 2015. According to company representatives in late 2015, the firm was in the final stages of commissioning a new plant that will increase production from 80 oz to 400 oz per day.

Until the modified laws usher in a new wave of foreign exploration, Chinese-led projects are likely to dominate operations in the sector for the foreseeable future, particularly the Monywa copper project, which comprises the Sabetaung and Kysintaung and Letpadaung copper mines (which were initially operated by Canadian firm Ivanhoe from 1994 to 2007). The latter exited due to the previous sanctions, selling their stake for a reported \$103m to the Myanmar Wanbao Mining company under the Ministry of Mines (MoM).

After a lengthy brokerage process the mine was taken over in 2011 under a joint venture (JV) between the Union of Myanmar Economic Holdings (UMEHL), the economic arm of the military, and Wanbao Mining, which falls under the umbrella of Norinco, a Chinese state-owned military-industrial conglomerate, which provided \$250m for a stake in the venture. As of July 2013 a revised contract gave Wanbao 30% of the mine's profits, down from the initial 49%, while the government received 51% with the remaining 19% paid to the UMEHL. Although the project has come under much scrutiny, National League for Democracy chairperson Daw Aung San Suu Kyi voted in favour of the project in 2013. Since then approximately \$1bn has been committed to expanding the site, with an annual production target of 139,000 tonnes of copper. Despite the potential, ongoing land disputes continue to delay the project.

NICKEL: In terms of total invested foreign capital, nickel is the third-largest recipient, with one project under China Nonferrous Metal Mining (CNMC), followed by lead, silver and zinc, which have four existing foreign investors and a total of \$20m. The Tagaung Taung Nickel Mine, located in Mandalay Region, is the largest nickel-laterite ore exploration project by a Chinese enterprise overseas, with an investment of some \$800m for an estimated 700,000 tonnes of nickel. Commenced in 2011 under CNMC through a production-sharing contract (PSC) with No. 3 Mining Enterprise (ME-3). The production process consists of strip mining and coarse-size separation processes, after which qualified ore is transferred to the smelting plant to produce ferronickel. According to the Metallurgical Corporation of China, the site will produce an annual output of 25,000 tonnes of nickel ferrite and nickel metal. According to the International



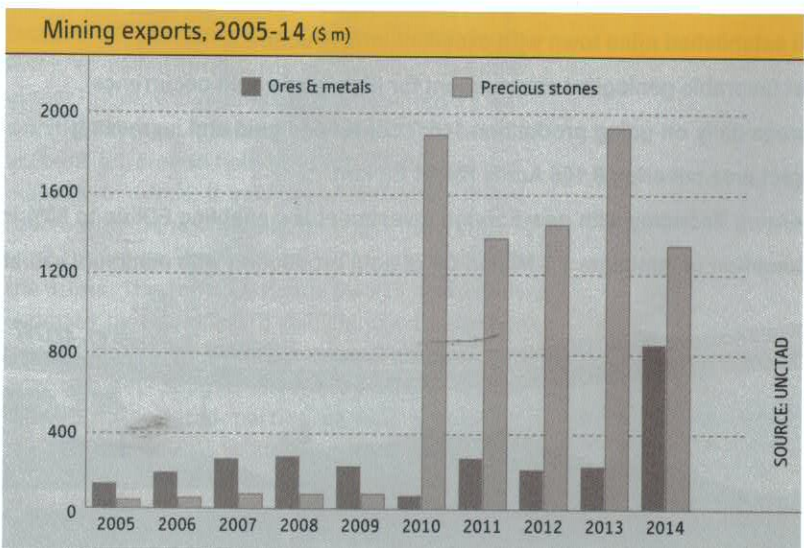
A geological survey found over 2000 occurrences of 62 commodities

Trade Centre, the mine produced some \$11.5m worth of ferronickel in 2013.

MARBLE: Statistics from the Directorate of Investment and Company Administration Myanmar show that Vietnamese group Simco Song Da is the third-largest foreign investor in mining. The group is focused on large-scale marble extraction and manufacturing in Nayputaung quarry in Rakhine State, some 500 km from Yangon. According to Myanmar Ceramic Industries, Simco Song Da had invested \$18m in the country as of 2012.

The reserve is estimated to hold 87m tonnes of marble, with an ore reserve measuring 914-metres long, 457-metres wide and 244-metres high. To date, commercial production of marble slabs has been above 100,000 sq metres annually, producing Nayputaung marble in three major colours: dark grey, light grey and chocolate brown. The Vietnamese company signed a PSC with ME-3 based on an agreement of 80:20 to 70:30 correlating to the quality and price of marble extracted.

Production-sharing contracts and joint ventures support a number of operations in the sector, with Chinese-led projects continuing to dominate.



Tin is a large and growing export to neighbouring China, whose tin refineries saw production increase by 10% in 2014 to reach 175,000 tonnes.

DOWN BUT NOT OUT: Once coined the "Timber Mine" for its hardwood inner structure, the concession to the Namtu Bawdwin mine in northern Shan State is operated by Win Myint Mo Company Limited. In its prime, the mine descended around 366 metres over 12 levels, and became the largest producer of lead, silver and zinc in the world. The compound dates back more than 400 years and is described in an article by JD Hoffman in 1916 as one of the world's leading deposits. In August 1915 the deposit was estimated at some 2m tonnes, containing about 25 oz of silver per tonne as well as 27% lead and 22% zinc, an impressive concentration even by today's standards.

During the Second World War, the mine changed hands to the Japanese, producing 200,000 tonnes of high-grade ore between 1942 and 1945. Once Myanmar gained independence in 1962 very little of the mine's rich resources were tapped, with production dwindling for decades. According to local sources, a feasibility study by a German company in 1975 found the location to be highly profitable, but no advancements were made as the company and government at the time could not agree on processing technology. While it has been thought in recent years that a foreign investor would jump-start the mine, nothing had materialised by November 2015. However, investors are keen on the area, in particular Hong Kong-based

Asia Pacific Mining, which has been granted an exploration licence nearby the old mine.

TIN: Another mineral attracting significant attention is tin, which is bolstering Chinese supply to such an extent that China has gone from a net importer of refined tin to a net exporter within six years. This is mostly due to the sharp rise in tin-concentrate imports from Myanmar (production rose 4900% between 2009-14), allowing Chinese refineries to increase tin production by 10% to 175,000 tonnes as of the end of 2014.

The rise in exports of tin concentrate from the Tanintharyi Region into China, from almost zero a few years ago to more than 20,000 tonnes per year, played a key role in the drop in tin prices on the London Metal Exchange, which hit a five-and-a-half-year low in April 2015. The exchange's prices had fallen by as much as 9% in one day to \$14,850 per tonne, representing a 22% decline on the start of 2015. As of late 2015, experts were predicting a further drop to \$12,000 per tonne before any recovery takes place. The price drop is even more notable as it coincides with efforts by Indonesia, the world's largest exporter of tin, to limit its outbound sales and thus support global prices. In the same month as the six-year low, April 2015, imports from Myanmar into China hit a record high of 33,095 tonnes in April 2015, according to the International Tin Research Institute's China office.

National Prosperity Gold Production Group Limited

- . Largest Gold Mining company in Myanmar
- . Favorable Geo-Political environment
- . Low production cost, optimized operations
- . Rich history of exploration and global interest
- . Well established mine town with excellent infrastructure
- . Most favorable geological environment for high grade gold occurrence
- . Average daily on-going production 115 Oz of refined gold and increasing
- . Project area covering 6,105 Acres (24.71 Sq km)
- . Emerging Economy with new Foreign Investment law enabling FDI up to 80% in Gold mining (First Mover Advantage)
- . Expectation of minimum 2.3 Million Oz of gold production with minimum valuation of 200 Million USD

Up until September 2015:
 Ore Produced - 278,256 Metric Tons
 Ore Processed - 248,094 Metric Tons
 Refined Gold - 73,966 Oz

Mine Address:
 Block- A, Moe Hti - Moe Hti
 Yemethin Township, Mandalay Region

Corporate Address: No-86, Thiriyadanar Shopping Complex, Naypyitaw. Tel: (+95) 67- 421297, E-mail: info@npgpg.com

Main Adit - No -1 (Hlon Gyi)
 730608 37E - 2253017 57N
 Elev - 823.53m

The DGSE notes 480 deposits of tin-tungsten with a total potential of 40m tonnes. This includes the Mawchi mine, which is owned by major player UMEHL and operated by the Ye Htut Kyaw Mining Company. Tin exploration is currently dominated by local mining companies and affiliates of UMEHL. There have been seven foreign exploration projects for the mineral since the early 1990s. The two remaining projects, in Dawei in the south-east of the country, fall under De Rui Feng Investment of China and Myanmar Pongpipat Company of Thailand, which together had brought in investment of \$16.33m as of November 2015.

OTHER PROJECTS: Notable players from outside Asia include Cornerstone Resources from Australia, which is prospecting for zinc in Shan State's Mong Pan Township, and Canada's Centurion Minerals, which is partnered with local firm Crown Minerals in an 80:20 joint venture. The latter, which has a history of mining activity in Indonesia, is evaluating two gold-exploration concessions by the MoM in late-2013. The first includes the 692-sq-km "slate belt" south of Mandalay. The area encompasses Modi Taung gold mine in the south and Lebyin gold and polymetallic mine in the east, both discovered by Ivanhoe Mines prior to their exit in the mid-2000s. The second concession, which covers 900 sq km and is located 40 km north of Mandalay, is bordered by two operating gold mines. Although phase I of the exploration yielded positive data, no announcement for phase II had been announced at the time of publication.

OFF LIMITS: Not to be outdone by lucrative metals, precious stones are Myanmar's most valuable mineral by some stretch. Besides the prized rubies of Mogok Valley, the northern hills of Kachin State are home to the world's highest quality jadeite, known as "imperial jade". Despite the undeniable growth potential of the country's gem industry, particularly in downstream processing, questions



Seven tin-tungsten exploration projects have been launched with foreign help since the early 1990s

remain around accessibility, with many areas off limits due to armed conflict between the military and a number of rebel groups. According to local industry leaders, the lack of a systematic value-chain hurts a sector that only receives an estimated 10% of the final sale price. The remainder is pocketed by countries such as Thailand, which cuts and polishes the stones. "There is no export licence for finished products," Daw Thet Thet Khine, managing director of Golden Palace Gold and Jewellery, told OBG. "Myanmar is rich in natural resources, but policy does not enable us to leverage off this. Thus, neighbouring countries reap the rewards by carrying out value-added services for raw materials from Myanmar," she added.

QUEST FOR TRANSPARENCY: Reliable data on Myanmar's gem market has long been difficult to come by, and significant challenges remain around transparency and accountability in the industry's role in armed conflict. A report issued by Global Witness in October 2015 shed light on the jade industry, in particular shadowy relations between factions of the army, the Kachin Independence Army, so-called drug lords and various business elites. The report estimated that the industry was worth \$31bn in 2014 alone, which if true would account for around half of national GDP. The vast majority of funds, it said, were leaked via illegal routes with China, where buyers have been known to spend up to \$5m for a necklace adorned with the stone. The report's figure dwarfs a previous estimate by the Harvard Ash Centre for Democratic Governance, which put unofficial sales at approximately \$8bn in 2011. According to Global Witness, associated parties earned a total of \$122.8bn from 2005 to 2015.

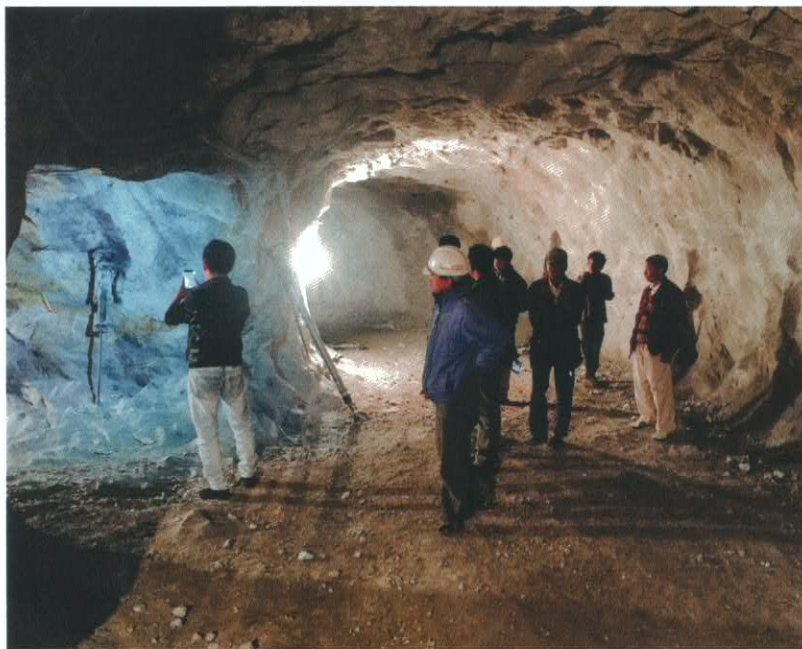
Some of those parties have since come forward claiming that their profits are via official routes through emporiums organised by the government.

The Department of Geological Survey and Mineral Exploration has identified 480 deposits of tin-tungsten with a total potential of 40m tonnes.

Precious stones are one of the country's most prized assets. However, ongoing ethnic conflict has impeded accessibility to resource-rich areas.



Reliable data on the gem market has been difficult to come by



Reforms should speed the approval process for mining investments, widely seen as outdated and costly

Although the mining sector is regulated by the Myanmar Mines Law of 1994 and the Myanmar Mines Rules of 1996, Parliament is set to implement a new mining law in the near term.

According to official statistics, Myanma Gems and Jade Emporium generated a record \$3.4bn in October 2014. However, sales were down by more than 33% at the 2015 event. To explain this, analysts point to more stringent regulations, including a 5% deposit up-front, which was imposed after a number of past bidders failed to deliver. The new policy reduced the number of buyers, particularly Chinese ones, by 60% at the 2015 auction.

The first report of the Myanmar Extractive Industries Transparency Initiative (MEITI), due in early 2016, will contain information about the amount of tax paid on natural resources. Success of the MEITI application will greatly depend on how the report accounts for the jade industry.

LEGAL FRAMEWORK: The industry is currently regulated by the Myanmar Mines Law of 1994 and Myanmar Mines Rules of 1996. In late December 2015, however, Parliament adopted a number of long-discussed amendments to the country's mining laws. The changes outlined in the legislation will be implemented in the coming months, starting with draft regulations from the MoM to be finished within 90 days (see analysis).

In line with the current regulations, a foreign company wishing to invest in mining in Myanmar needs to arrange a field visit with the MoM should it wish to explore investment opportunities. If, after the field visit, the investor expresses an interest to proceed, they must submit a letter of proposal, which needs to include, among other things, the intended prospecting area, amount of capital or estimated cost of the project, technology that will be used, and the mineral of interest. This process is similar for prospecting, exploration, feasibility studies and production permits.

Once those requirements have been met the foreign company must agree, by way of contract with the DGSE, that they will explore the given

area for the stated minerals of interest and pay \$250 (on average) per sq km for land rent, a signature bonus between \$50,000 and \$100,000, and a bank guarantee ranging from \$100,000 to \$200,000, which is held for the duration of the venture. The company then needs to negotiate a minimum expenditure amount based on the size of the project. Royalties are also agreed in advance, spanning a range of rates for various minerals. Once signed by both parties, the investor needs to acquire regional approval from the local authority, which can be time-consuming. The whole process from start to finish can take a few months, and even as long as two years.

In an effort to expedite the process, the MoM has removed the requirement to obtain an operating licence from the Myanmar Investment Commission prior to the company's permit application. If exploration is successful, companies need to sign a PSC with ME-1, No. 2 Mining Enterprise (ME-2) or ME-3. At present, ME-1 is responsible for the production and marketing of antimony, lead, zinc, silver, iron, titanium and copper ores, while ME-2 is responsible for the mining, production and marketing of gold, platinum, tin, tungsten and other heavy minerals. ME-3 oversees the production and supply of industrial raw minerals.

HURDLES: The older mining regulations are widely seen as outdated and costly, in particular the PSCs. The result has been limited foreign investment and sufficient pressure for the ministry and central government to amend the existing legislation. PSCs, which are often viewed as a significant deterrent, could range from 10-30%, based on the quantity and quality of the mineral produced. Aside from land rents and signature bonuses, project earnings are also impacted by various forms of taxation, calculated on income, imports and royalties (see Tax chapter). On top of these, an unstable supply of electricity, lengthy licensing process and ethnic conflict weigh heavily on project execution.

Though the reforms represent a big step forward, external factors will also need to improve before the sector benefits fully from the legislative changes. "There is a downturn in mining activity around the world, so even with passage of the Myanmar Mining Law by Parliament there will be less interest in the sector than originally anticipated," U Than Tun Win, managing director of local group TA Resources, told OBG. "However, this will improve as commodity prices balance out."

Another challenge is dealing with multiple levels of government. Following a lengthy exploration and licensing process, the mining company also needs approval from the provisional government. "In order to mitigate risk it is important to engage with the local or state government from the get-go," Michael Phin, head of finance for Valentis Resources, told OBG. "Working with the local land and forestry departments in the particular region

Illegal trading continues to limit transparency in the gem industry, with some reports estimating that as much as \$122.8bn was earned between 2005 and 2015, much via illegal routes into China.

is important because each state is dynamic and operates in a unique way," he added.

STICKING POINTS: Small-scale mining presents its own challenges. As of November 2015, the MoM had licensed just under 2500 mining operations, most of them small, locally owned projects using outdated methods. Many reportedly practice techniques harmful to the environment and in contravention to basic human rights. Indeed, the role of small-scale mining was among the key issues that held up the amendment process, which had been under way since 2013. Proposed amendments led to much debate between the Lower House and Upper House, with the latter arguing they would benefit small-scale miners by allowing them to enter into JVs with foreign investors, while the Lower House opposed this, leading to a postponement of the bill. In the end, with some adjustments, the outgoing parliament headed by the Union Solidarity and Development Party adopted the law just days before January 1, 2016.

Several sticking points remain, however. According to Andrew Mooney, CEO of Asia Pacific Mining, investors need to be patient. "People have to understand that the country is going through a massive change. There are many hoops that you need to negotiate," he said. "Mining companies need support from the central and regional governments, as well as from the local community. If you fail to reach an understanding with any one of those, then it will be difficult to succeed." Industry experts believe that certain measures would act as a catalyst for prospectors. "There are three pieces to the puzzle that need to be solved: political transparency, conflict resolution and legal reform," Lachlan Foy, head of commercial affairs at local mining consultancy Valentis Resources, told OBG. "With the recent political transformation, the new nationwide ceasefire agreement and recently enacted legislation, the industry is likely to experience a step-change," he added.



The role of small-scale outfits played a big part in the reforms debate

OUTLOOK: Depressed commodity prices ensure that China will remain a dominant force in Myanmar's mining industry, at least in the short term. Nonetheless, firms from around the globe will continue to position themselves to capitalise on the easing of legislative barriers, with a close eye on implementation of the new amendments. In many respects, increased foreign involvement remains more a question of when than if, as the speed of the sector's development will greatly depend on the participation of foreign players with the technology, equipment and capital to fund milestone projects. Existing exploration schemes may take a few years to lead to production, and the number of multinationals entering should rise as the reforms take root. New concepts of profit-sharing will put investors at greater ease, yet a period of testing the waters will still need to be overcome as Myanmar enters into yet another phase of reform.

As of late 2015 almost 2500 mining operations had been permitted by the Ministry of Mines, the majority of these being small-scale, locally owned projects.

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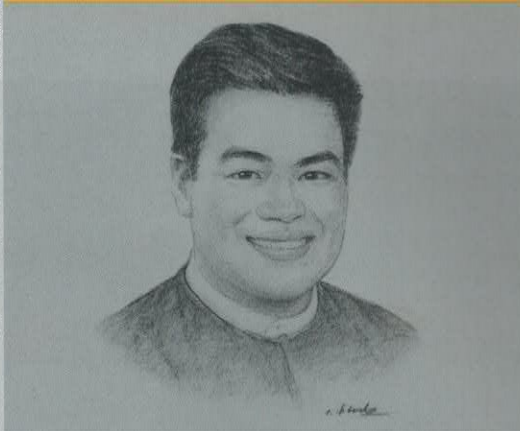
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U Htun Lynn Shein

A balancing act

OBG talks to U Htun Lynn Shein, Chairman, Myanmar Precious Resources Group

How, in your opinion, do production agreements in the mining sector in Myanmar differ in comparison to international norms?

HTUN LYNN SHEIN: There is a lack of standardisation in the mining sector internationally, unlike in the oil and gas sector. There should be a set of standards applied to mining law, mineral policy and tax policy. In terms of production agreements, each and every country has their own set of mineral and taxation norms. Some countries choose to go into joint ventures with equity interest in the project, and some countries choose to take profits from royalties alone, while others prefer to glean profits from tax options such as sale taxes.

Production-sharing contracts (PSCs) were first introduced in Bolivia in the late 1950s and were not very successful, so they did not become a common international practice. However, this has not been the case in Myanmar. Prior to the adoption of PSCs, the country's mineral policy was based on equity sharing. Looking back at the Letpadaung copper mine project, a joint venture undertaken with Canadian mining company Ivanhoe Mines, it is clear that the Myanmar government experienced many challenges in the management of this joint venture. At the root of the problem was the project's coincidence with a period of low commodity prices, resulting in a lack of revenue for the duration of the project, in addition to administration and management difficulties. This is one of the reasons that PSCs are now employed by the mining sector in Myanmar, even though contracts of this type reduce mining profits significantly, rendering them unpopular in most developed mining countries. Simply put, they are too expensive.

The mining industry in Myanmar is different from those in other countries because the vast majority of our mines operate on a smaller, more localised scale and produce less in terms of commodities. PSCs work well for both the mining companies and the

government, but less so for foreign companies that wish to conduct large-scale mining. The government must therefore find a balance between the two and implement a new policy that reflects this. Personally, I do not think that we should go back to equity-based contracts because, as countries like Mongolia have shown, they do not work. We should stick to royalties and taxes only. Once the new mining law is passed, it will become clear if there should be two separate policies – one for mining undertaken on a large scale and one for small-scale projects.

What impact does small-scale mining have on the environment compared to large-scale mining?

HTUN LYNN SHEIN: The nature of small-scale mining makes it difficult for the government to monitor, control and scrutinise operations, since mining projects are very small and only operate in any given area for a maximum of three years. Large-scale mining projects run for a much longer term – 15-30 years – making it easier for the government to monitor their activities. Another major issue for small-scale mining companies is limited capital, which translates into limited development expenditure, making them unable to prevent, say, deforestation. Often, people make a living from supplying the mine with trees they have cut down. In large-scale mining activity, however, we must let the ministry know of anything that will harm the environment, and before we start the project we need approval from the Ministry of Forestry and Environmental Conservation. We also have to carry out an Initial Environmental Impact Assessment, as well as undertake scoping studies, and subject ourselves to all sorts of measures that are put in place to monitor mining projects. Small-scale mining activity is often done illegally and it has a detrimental impact on the environment. This poses a huge problem for the country, but there are plans in place to contain it and to limit its impact on the environment.



Amendments to mining laws have passed after years of negotiation

In with the new

Long-discussed amendments to mining laws move forward

Aside from a few major investments, the Myanmar mining sector has lain largely dormant for decades, due to a combination of economic and political factors. To revive interest in the sector, the Ministry of Mines (MoM) has long been pressed by local mining companies and international prospectors to amend outdated mining laws which, in light of increasing global competition, have deterred many would-be explorers. "Mining is an attractive sector for investment, but there have been a limited number of foreign companies engaged because of the lack of legislation and unattractive product-sharing contracts," said U Zay Htet, managing director of Georesources Group of Companies, a local mining firm. Recent amendments signed by the president in late December 2015, however, look set to alter this situation drastically, and are already attracting a range of foreign players.

LEGISLATIVE CHANGES: The new amendments outline six key changes. The first is production-sharing contracts, which stipulate the government's portion of any mining project by its output, often reaching as high as 30%, on top of royalties. The new law permits firms to use two other mechanisms: profit-sharing and equity participation. The second change lowers royalty rates on different minerals from 10-20% to a range of 2-5%, more in line with other major mining countries. Third and crucially, local firms that hold permits for small- and medium-scale operations will be permitted to form joint ventures with foreign firms to expand their projects to large-scale status. A fourth section sets the maximum tenure period at 50 years for large-scale projects and 15 years for medium-scale ones. Under the fifth change, a form of devolution, boards will be set up for states and divisions that, with permission from the central government, will be able to grant small- and medium-scale licences within specified areas. Sixth, mining investors will be required to set aside a fund for environmental conservation, including rehabilitation after a

mine closes. To implement these six principles, the MoM will draft specific regulations during the first quarter of 2016, to be presented in late March.

LONG PROCESS: As for what these details might eventually look like, clues may be found in reviewing the history of the process. Until Parliament passed the amendments at the end of 2015, an overhaul of the mining law had been under legislative review since 2013. The causes of the delay have not always been fully clear, as only a limited portion of parliamentary debate is reported on publicly.

Several known issues, however, have shaped the debate. Among the most contentious has been resource and power-sharing agreements between the central government and regional legislatures. Another sticking point has been the role of small-scale mining, particularly the provision for small-scale miners to enter into joint ventures with foreign firms. The Upper House favoured this measure because it would promote the protection of small- and medium-scale mining, while the Lower House and military MPs opposed it, seeking to preserve the previous limits on foreign involvement.

PERKS & SNAGS: Small-scale operators were eager to see the law approved. Given the increasing need among local mining companies to improve skills and boost access to technology and capital, many companies were seeking foreign partners to develop their projects even before the amendments were passed. Forming such partnerships can be tricky and requires careful consideration, according to U La Min Win, managing director of Valentis Resources, a domestic mining firm. "While local companies are craving foreign investment, it is often difficult to undertake ordinary commercial negotiations," he told OBG. "Many local companies have inflated expectations of value and do not understand traditional farm-in joint ventures." Nevertheless, he added, foreign companies that made early moves into Myanmar have

A new draft law is expected to reinforce protection for discoveries, introduce new concepts of equity sharing and royalties, and prolong licence durations in line with international norms.

The role of small- and medium-scale mining has been one of the most contentious areas surrounding the new mining amendments.



New mechanisms for state participation should bolster confidence

position to pass certain laws without requiring the consent of the military, for whom 25% of seats are reserved (see Country Profile chapter). Until recently, military authorities were in a position to delay legal changes in order to protect vested interests, such as those of the Union of Myanmar Economic Holdings.

BROADER CHALLENGES: With an already existing backlog of permit applications, the NLD has the opportunity to usher in a new wave of investment in mining by prioritising the draft law's implementation. However, the party has also inherited a host of challenges that will need to be addressed if the reforms are to be successful. One such difficulty lies in brokering peace with various armed ethnic groups, notably the Kachin Independence Army, which as of late 2015 continued to battle state forces along the country's northern border. Complicating matters further, the conflict is largely funded by the illegal trade of precious stones, particularly jade. Intermittent clashes between the military and rebels are largely concentrated in locations with substantial mineral wealth.

While peace has been reached in certain areas, dialogue is still at a very basic level. For a nationwide ceasefire to truly take effect, a resource-sharing agreement is needed between the state and rebel groups. A ceasefire agreement signed in October 2015 by eight groups has been noteworthy and hailed as historic by outgoing President U Thein Sein.

STICKING POINTS: Resource-sharing alone has historically been a conundrum, but the reforms are a big step in addressing this. The Upper House MPs favoured decentralisation, supporting the clause to allow the MoM to form regional and state bodies chaired by a local minister. This clause – which overcame resistance by the Lower House – allows individual regions to grant investment permits across specified areas, including for evaluating, prospecting, production, trading of minerals and value-added services associated with mineral extraction. The joint committee that was charged with drafting the amendments was determined, however, to reach a middle ground to assist in its passage, suggesting that regional powers be allowed to give their approval for permits after an application has been scrutinised by the MoM. The likely result is that regional authorities will have more decision-making power going forward.

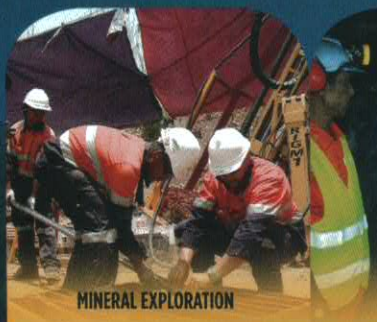
Resource-sharing is a key aspect to the current mining reforms and is heavily dependent on brokering a ceasefire agreement between state forces and rebel groups.

managed to overcome such obstacles. Such relations should only smooth as firms gain experience in new areas: whereas previous laws limited foreign investment to large-scale mining, the reforms allow this for small- and medium-scale ventures for the first time.

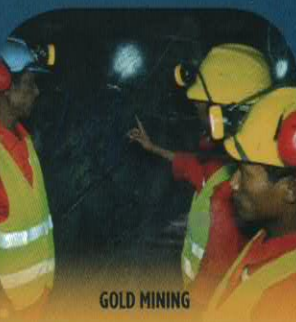
INCUMBENT AGENDA: Although outgoing MPs have interests in the mining industry and will want to protect their existing stake, investors are hopeful that the new law will improve a wide array of conditions as it enters the implementation stage. One of these is conjunctive tenure, which provides holders of an exploration permit with reasonable certainty that they will progress to a mining permit. In the meantime, the newly expanded options for state participation, extended tenure of permits and lower royalty rates should do much to reinforce protection of a company's discoveries, thus bolstering investor confidence.

Recent political changes give cause for optimism regarding implementation of the new laws. In the lead-up to the 2015 elections, various legislative amends went on the back burner as the main opposition party, the National League for Democracy (NLD) swept up the majority of seats on offer. As the winning party, the NLD is now in a stronger bargaining

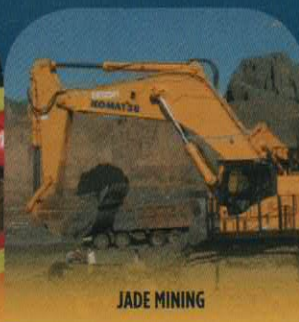
EXPLORING NEW RESOURCES, DEVELOPING PROVEN RESERVES



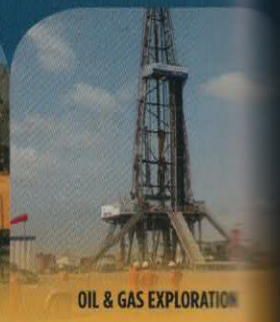
MINERAL EXPLORATION



GOLD MINING



JADE MINING



OIL & GAS EXPLORATION

MYANMA PRECIOUS RESOURCES GROUP

Room 101 & 302, Shwe Than Lwin Condo, New University Avenue, Aye Yeik Thar 1st Road, Bahan Tsp, Yangon, Myanmar.
Tel: 95 (1) 554840, 554981 Fax: 95 (1) 559510 E-mail: admin@mprg.com.mm Website: www.mprg.com.mm



Creation of a common exchange should help curb illegal operations

Shiny outlook

A proposed central gold exchange could prove a milestone

Often described as wedged between India and China to illustrate its growth potential, Myanmar's proximity to the two resource-hungry giants has not always been a blessing. For a long time, the state has fostered the interests of smugglers of various resources, creating a black market that grew to some \$100bn between 1960 and 2013, according to the US-based research and advocacy group Global Financial Integrity.

However, this is gradually changing. As the country pursues adoption of more modernised trade techniques across a variety of industries, illegal trade is being indirectly obstructed. One example of this is the proposed development of the Yangon Gold Exchange, which will formalise the trade of gold. This, in turn, will restrict the smuggling of precious metals, as investors will have the option to purchase gold certificates, eliminating the need to hold the actual commodity.

PRICE: Under current market conditions, the price of gold is determined by two factors: the international price of gold, and the strength of the US dollar against the Myanmar kyat. The volatility of the latter, which fell by more than 30% on the official market in 2015, has complicated the calculation of gold prices for dealers. This is due to the presence of unofficial market rates which differ from those released by the Central Bank of Myanmar. The creation of the central exchange would remove this uncertainty to some degree.

PROCESS: The gold exchanges of Shanghai and Hong Kong are being used as a template for the development of a central trading market, Myanmar's first major gold exchange. The initiative is being undertaken by the Myanmar Gold and Jewellery Entrepreneurs Association, which has formed a public company in a bid to boost local interest in the mineral.

The establishment of the exchange gained momentum in early 2015, when executives from Myanmar Gold Development Public Company visited Shanghai

and Hong Kong to better understand how those markets were formed and currently function. Shortly after the visit, the company drafted a report which will form the framework of the exchange.

BENEFITS: According to the Myanmar Gold Entrepreneurs Association (MGEA), a central exchange would bring quality and pricing in line with international standards. While the MGEA is aiming to restrict trade to local investors initially, it has publicly announced an interest in bringing in foreign investors at a later stage. The purchase of gold from dealers in Mandalay and Yangon is not tightly regulated at present, with no strict standard on locally produced gold.

Advancements are set to be made in various areas to raise the level of trade. Official trademarks will be placed on gold bars, and the MGEA is pressing the government to regulate taxes on the precious metal, all of which will aid the development of the exchange.

If the Shanghai exchange is anything to go by, it will take a few years for a central exchange in Myanmar to gain traction. However, there is significant potential to generate local demand. Created under state supervision in 1997, trade activity stayed at low levels for the first few years on the Shanghai market. Yet by 2012, it accounted for 95% of all gold trade in China, and by 2014 the country surpassed India to become the world's leading gold consumer.

PRODUCT: A central exchange, which was still awaiting government approval as of late 2015, may take time to become a reality in Myanmar. The numerous hurdles to this mostly mirror those faced by the Yangon Stock Exchange, such as upgrading accounting standards and recruiting experienced technical staff and local traders. At a time when commodity prices are depressed, however, the creation of an exchange presents an opportunity for locals to capitalise on the undervalued segment. As 2015 drew to a close, market experts were predicting that the price of gold would rise, given ongoing instability in the Middle East.

The price of gold in Myanmar is currently determined by the international market price and the strength of the US dollar against the kyat.

Shanghai and Hong Kong are being used as a template for the development of a central gold exchange, a process being led by the Myanmar Gold and Jewellery Entrepreneurs Association.



Vicky Bowman

Rules of extraction

OBG talks to Vicky Bowman, Director, Myanmar Centre for Responsible Business (MCRB)

How would you assess Myanmar's move towards a more transparent economy so far?

BOWMAN: Over the last few years we have seen a combination of factors improve transparency here. The government's reform agenda has led it to look at international standards, and they have been encouraged by other governments and by companies. For example, they applied to join the Extractive Industries Transparency Initiative (EITI) a couple of years ago, and we are just waiting to see whether they can submit their first report in January 2016.

EITI is a very systematic process around oil and gas and mining revenue transparency. It measures what the government collects against what companies say they pay and checks for a discrepancy between them. At the moment there is a lot of data collection within the ministries and companies.

There has also been international assistance from institutions such as the World Bank, which has helped with the telecoms sector. It introduced a new, more transparent type of tendering process. We often use the telecoms licences as an example to encourage other departments if they are privatising or are considering tendering. Improvements have also been made to the real estate tendering process.

Can mining and petroleum legislation balance the need for public revenues and environmental sustainability with remaining attractive to investors?

BOWMAN: EITI will be interesting, because for the first time the people of Myanmar will get a sense of how much revenue is coming in from extractive industries. There have been reports about the jade sector, and how much is being earned and how much potential revenue is being lost through illegal mining. So that will generate a lot more public interest.

Experienced oil and gas companies feel that taxes are very high in comparison with other high-risk countries, so the overall consensus is that it is a good

deal for the government. It is difficult to say with the mining industry because it is so fragmented, and many people are unable to pay taxes because they are not making a profit on production-sharing contracts. It has generated a debate around legislation, which should allow for a good mix of risk and reward for the extractive industries. Distribution of revenues will be a challenging debate for this country, especially when deciding how much will be returned to states like Rakhine, Kayin and Kachin, for example.

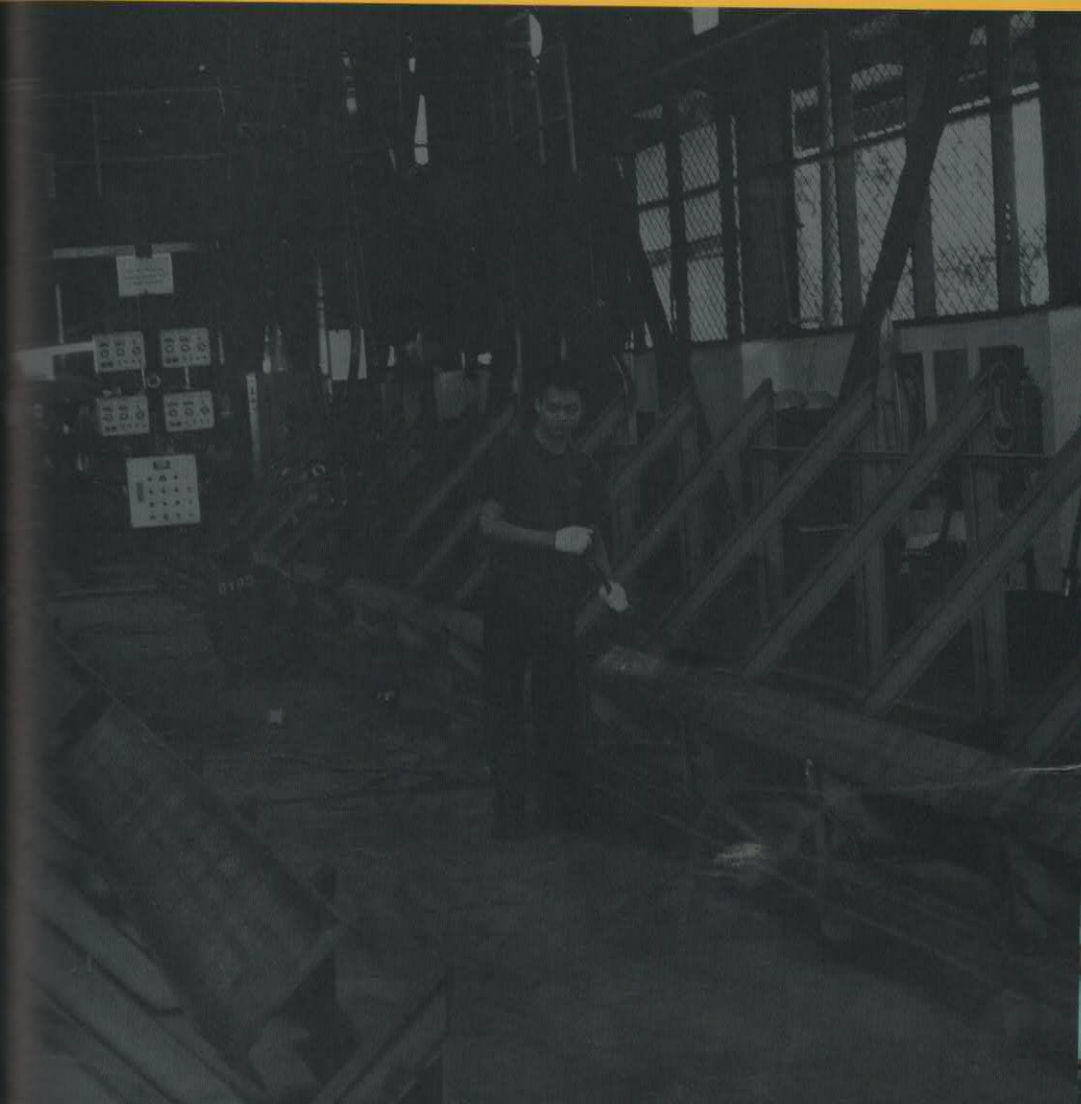
Have you noticed a shift in how private firms are investing in Myanmar's extractive industries? What impact will this have on local communities?

BOWMAN: Since US sanctions were lifted the policies of Western governments have changed, the government has tendered out oil and gas blocks, and there has been a big shift in the type of oil and gas companies coming in. The entry of European, American, Canadian and Australian operators has been positive, as most of those companies have strong global commitments to responsible business, and environmental and social protection. They are members of the International Petroleum Industry Environmental Conservation Association, and follow International Finance Corporation standards, which are probably the most realistic standards to be implementing here. They are designed to suit an emerging country like Myanmar that wants to protect its environment. These standards will improve safety, which has been one of this country's greatest weaknesses.

Mining is different. International mining companies are concerned about legal certainty and conjunctive tenure, so we are not seeing standards improve in the mining sector. This is needed because risks in mining have a greater impact on people. International operators are keen to work with stakeholders, and have been conducting impact assessments while thinking of innovative ways to benefit the local economy.

Industry & Retail

Foreign investment rising rapidly as output expands
Production gearing up in food and beverages segment
Garment manufacturing a major contributor
Quality space at a premium as retail sector grows





The main manufacturing sectors have attracted rising investment

Closing the gap

Industrial activities are key to growing GDP and rising incomes

In 2014 the industrial sector accounted for 21% of GDP, nearly double its 2008 share of 11%. Foreign direct investment in manufacturing also showed rapid growth in 2014 and the first three quarters of 2015, reaching \$1.5bn.

After decades as a primarily agrarian society, over the past six years Myanmar has made considerable progress towards the development of a sustainable industrial base. Its key manufacturing sectors – which include textiles and garments, food and beverage (F&B) products, and construction materials – have attracted growing investment and, consequently, have rapidly expanded output.

GROWING CONTRIBUTION: In 2014 the industrial sector as a whole accounted for 21% of Myanmar's GDP, according to consulting firm Solidiance. This is nearly double the sector's 2008 GDP share of 11%. Similarly, foreign direct investment (FDI) in the country's manufacturing sector showed considerable growth in 2014 and the first three quarters of 2015, reaching \$1.5bn over the period.

"There has been a lot of speculation that investment would slow in 2015 due to uncertainty about the November election," said U Aung Naing Oo, secretary of the Myanmar Investment Commission (MIC) and director-general of the Directorate of Investment and Company Administration (DICA), both of which fall under the Ministry of National Planning and Economic Development (MNPED). "This has not been the case at all. We currently have more than 50 projects awaiting approval."

CHALLENGES: While the introduction of a new foreign investment law in November 2012 was a positive step, the MIC admits that Myanmar's investment environment remains underdeveloped. More concretely, the nation's power grid is not up to international standards, which is a key hurdle to attracting manufacturing firms that require a steady supply of electricity. "There is considerable potential in light manufacturing in Myanmar," said Timothy Duckett, the deputy director of UK Trade and Investment in the country. "However, power is an issue. Many companies use generators to ensure a steady supply of electricity."

Similarly, high-quality transport infrastructure – including roads, port infrastructure and air cargo facilities – is lacking, particularly outside Yangon. While information and communication technology penetration has improved dramatically over the past five years, largely as a result of the successful liberalisation of the telecoms sector, Myanmar's digital infrastructure is weak compared to neighbouring countries. Finally, the country lacks a large, well-trained workforce.

In recent years the state has introduced a variety of policies aimed at overcoming these issues, with mixed results. While the new government's development plans had yet to be expressed at time of press, most local players expect Myanmar to continue to liberalise, and for the industrial sector to be central to any long-term economic development programme. Despite half a decade of rapid expansion, Myanmar still lags behind most of its neighbours across a range of indicators.

Closing this gap represents a key opportunity for the domestic private sector and foreign investors alike. Manufacturing and other industrial activities are widely expected to play an increasingly important role in the coming decades. "From 2013 to 2015 there has been strong growth here," Habib Rab, the World Bank's senior country economist in Myanmar, told OBG. "This has been driven by services, in particular telecoms and natural resources, but also by manufacturing, which accounts for a growing percentage of total FDI, much of it centred on the garment industry."

HISTORY: The modern industrial sector has only recently become a key economic contributor in Myanmar. Mining and extractive industry was a key component of Britain's interest in the country during the colonial period, which ran from early in the 19th century until the mid-20th century. Since then, however, Myanmar's fraught history

Most local players expect Myanmar to continue to liberalise, and for the industrial sector to be central to any long-term economic development programme. Despite recent rapid expansion, the country still lags across a range of indicators.

has prevented industrial development on any sort of nationwide or sub-regional scale. The Second World War, during which the nation was occupied by Japan before the British regained control in 1945, served as a catalyst for a series of domestic political events that resulted in independence in 1948. Over the ensuing decade – and particularly under the socialist regime that came to power in the early 1960s – the government began a long process of economic isolation, nationalisation of the economy and introduction of an import substitution regime, with long-term negative effects.

The country's isolationist stance was maintained until the mid-1990s, when the government, with the Myanmar Armed Forces (*Tadmadaw*) at the helm, began to explore options for boosting the economy by opening up slightly to foreign involvement. This position was formalised in 2011, when a sweeping and historic set of political and economic reforms threw open the doors to industrial development. Today, though the economy continues to rely on agricultural exports, Myanmar is in the midst of industrialising, with the involvement of a wide range of foreign players.

OVERSIGHT & REGULATION: As of late 2015 a variety of organisations were involved in regulating, developing and promoting the industrial sector, though the nation's political structure is widely expected to change in 2016 as the new government takes control. As mentioned, the MNPED plays a key enabling role in terms of attracting and promoting investment. The MIC, which was initially established in the early 1990s, has undergone a variety of reforms over the years, most recently under the 2012 foreign investment law, when the institution was reorganised under a newly independent board. The Ministry of Industry (MoI), meanwhile, has a mandate to facilitate industrialisation across a wide range of sectors, from agriculture to heavy industry, primarily by supporting the establishment of private small- and medium-sized enterprises (SMEs) and public-private partnerships. The MoI also manages state-owned enterprises involved in industrial activities, while the Ministry of Cooperatives oversees micro-enterprises and industrial cooperatives.

The 2012 Foreign Investment Law is widely credited with launching the current period of intense foreign investor interest in Myanmar. The regulation allowed for 100% foreign ownership in most sectors, increased the duration of land leases, granted three-year minimum tax exemptions, and reduced taxes and duties on raw materials and imported capital goods. More recently, the government has moved forward with additional legislation. In August 2015 it announced the introduction of a minimum wage of MMK3600 (\$3.24) for an eight-hour workday, ending more than two years of negotiations between labour unions and the garment industry, which is the country's largest manufacturing employer. According to the



The Ministry of Industry has a mandate to facilitate industrialisation across a wide range of sectors

International Labour Organisation (ILO), while the minimum wage will require factory owners to pay their workers more than in the past, Myanmar will remain competitive regionally, with a new minimum monthly wage of around \$67, compared to \$90 in Vietnam and \$128 in Cambodia.

As of late 2015 DICA was in the midst of preparing both a new investment law and a new companies law. According to the World Bank, under the former piece of legislation investment procedures will be streamlined, while the latter aims to strengthen corporate governance practices throughout the country (see Trade & Investment chapter). Myanmar ranked 177th overall out of the 189 countries listed in the World Bank's 2014 "Doing Business" report, and 189th in terms of starting a business. With these new pieces of legislation DICA aims to boost these numbers.

BY THE NUMBERS: Total FDI commitments jumped sharply from March 2014 to February 2015 as compared to the same period in 2013/14, from \$3.2bn to \$8bn, primarily on the back of industrial activity, according to World Bank data. Myanmar's gas sector, which relies largely on raw natural gas exports, accounted for 40% of this increase, due to a number of new production-sharing contracts signed during the year (see Energy chapter). Manufacturing – primarily garments, but also construction materials and other products – made up another 20% of the increase, while growth in telecoms investments accounted for another 20%.

Around 150 new manufacturing projects were launched in Myanmar from March 2014 through February 2015 – by far the largest number of individual FDIs – as compared to around 30 gas and oil FDI projects, fewer than 20 projects in the transport sector and similarly low numbers across a range of other industries, including tourism, real estate, power, agriculture and fisheries, according

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State-owned enterprises' share of industrial production has fallen as the presence of private firms has grown

to World Bank data. In terms of value, gas and oil projects were the largest, bringing in an estimated \$3.2bn in FDI from 2014/15. This was followed by transport and communication, with \$1.97bn, manufacturing, at \$1.72bn and real estate, at \$1.05bn.

For the 2014/15 period, the nation's economy posted overall GDP growth of 8.5%, according to the World Bank. Some 2.5 percentage points of this was the result of industrial activity, while 4.2 percentage points can be attributed to expansion of the services sector and 1.8 points to agriculture. In 2013/14 industrial growth accounted for 3.2 percentage points of the total 8.5% GDP growth. Both of these figures are up on 2012/13, when industrial activity represented 2.2 percentage points of overall GDP growth of around 7.5%; and 2011/12, when the sector contributed 2.7 points of overall expansion of 6%.

In 2014/15 Singapore topped the list of sources of FDI in Myanmar by a significant degree, with a total investment of around \$5bn, according to World Bank data. Other major sources of FDI during this period included the UK, with \$700m; Hong Kong, with some \$600m; China, with an estimated \$500m; and the Netherlands, with around \$400m.

The types of industries attracting FDI have shifted in recent years. The small amount of FDI that came into Myanmar prior to the 2011 economic opening went primarily to natural resources, including hydropower projects, with around 40% of the pre-2011 total; gas projects, with 30%; and mining initiatives, with around 8%, for example. Since 2012 in particular, however, a rapidly growing number of investments have been made in light manufacturing, and particularly the garment industry (see analysis). "Even in 2011 some 80-85% of overall FDI was in natural resource sectors," U Aung Naing Oo told OBG. "Today, however, just 30% of incoming FDI is in oil and gas projects, 22% is in

power generation, 15% is in telecoms and around 20% is in manufacturing, with the latter one of our largest sectors in terms of employment."

STRUCTURE: In 2013 the OECD estimated that 60,000 manufacturing firms were registered in Myanmar. Given the amount of FDI that has poured in since then, this number has almost certainly risen considerably. As of 2015 more than 90% of Myanmar's overall economy was composed of private companies, with the remaining 10% made up of state-owned enterprises (SOEs), according to the German Institute for Development Evaluation (GIZ). SMEs and micro-enterprises account for a considerable percentage of private sector activity, with the former – defined as companies with 5-9 employees – making up 67% of the total according to GIZ. Small private firms, with 10-49 employees, accounted for 31%, while medium-sized companies (50-99 employees) made up 2%.

The state has aggressively privatised SOEs in recent years. Since May 2013, for example, bricks have been produced solely by private sector entities, where before the activity was state led. According to the Central Statistical Organisation, in 2014/15 the volume of industrial production by SOEs fell, mainly due to the leasing of government-held factories to private firms. Industrial production by private enterprises jumped over the same period, with large rises taking place in the manufacturing of garments, cooking oil, cement, fertiliser and batteries, among other products.

SITE SPECIFIC: Since 2011 a longstanding plan to build economic zones in an effort to attract FDI has found its feet. In 2012 Thilawa Special Economic Zone (SEZ), located on a 2342-ha plot 25 km south-east of Yangon, was backed by the Japanese government, launching a period of rapid development in the area. In September 2015 the first phase of Thilawa SEZ celebrated its official launch, though the site had been attracting investors for over a year. Indeed, as of the launch, 44 foreign companies were active in the zone, 23 of which were from Japan, four from Thailand and others from China, Singapore, Malaysia, Australia, Hong Kong, Sweden, South Korea and the US, among others. Four domestic firms have also based their operations at the site. Of the 48 total firms that have signed contracts to set up shop in Thilawa SEZ, 37 are involved in manufacturing, including a large percentage of garment companies.

The zone is owned in part by three Japanese industrial firms – Mitsubishi, Sumitomo and Marubeni – which jointly hold 39% of the SEZ's management company, Myanmar-Japan Thilawa Development Company. Additionally, the Japan International Cooperation Agency owns 10% of the project, as does a Myanmar state-owned firm, the Thilawa SEZ Management Committee. The remaining 41% of the SEZ is controlled by a domestic holding company, which is partly publicly held and partly owned by a handful of local businesses.

In 2014/15 Singapore topped the list of sources of FDI in Myanmar, with around \$5bn. Other major sources include the UK, Hong Kong, China and the Netherlands.

In addition to Thilawa, two other SEZs are currently in development. Dawei SEZ, located in the south of the country, 300 km from Bangkok, was initially established in 2008 as a joint venture between Thailand and Myanmar, though financing issues resulted in the suspension of the project soon thereafter. In August 2015 the two governments were joined by Japan to relaunch the initiative. Development is currently under way.

Similarly, Kyaukphyu SEZ, located in Arakan State in the west, was in the early stages of development as of late 2015. The 75-sq-km site is being jointly managed by China and Myanmar, and is expected to eventually serve as a hub for the petrochemicals industry. In addition to the three SEZs currently under construction, the government has announced plans for at least seven others, which are in the early planning stages.

Through the SEZs, foreign investors have access to better incentives than under the 2012 foreign investment law. These include tax exemption for 5-7 years, depending on the type of business, plus a 50% tax exemption for the following five years, and an additional five years of tax relief on reinvested profits. Investors are also allowed to lease land for up to 75 years, and benefit from Customs duty exemptions on imported raw inputs, machinery, parts and construction materials for the first five years of operation. "The SEZs are an important component of Myanmar's push to attract more FDI," said U Aung Naing Oo. "They provide incentives, better power supply and easy access to infrastructure, including ports for export."

GARMENTS: Garment production is one of the largest manufacturing activities in Myanmar in terms of the number of companies involved, employees and, increasingly, export revenues. In 2014 the segment earned \$1.56bn in revenues, according to the Myanmar Garment Manufacturers Association, up from \$1.12bn in 2013 and \$900m in 2012. The majority of production goes to Japan and South Korea, which together account for nearly one-third of total revenues. Since the EU and the US eased economic sanctions on Myanmar in 2013, however, Western apparel firms have begun to show interest. In June 2014 the American retailer Gap became the first US clothing brand to source from Myanmar. Today, while East Asian companies still make up the largest export destination for Myanmar-made garments, a handful of Western brands – Gap, H&M, Marks and Spencer and Primark – have contracts with local garment producers. By July 2015 some 260,000 workers were employed in the domestic garment industry, according to ILO estimates (see analysis).

F&B: Given Myanmar's long agricultural history, it is perhaps not surprising that F&B manufacturing has taken off in recent years. Key products include rice, beans, oils, meat, milk, eggs, bottled water and beer, all of which are currently produced almost entirely for domestic consumption.



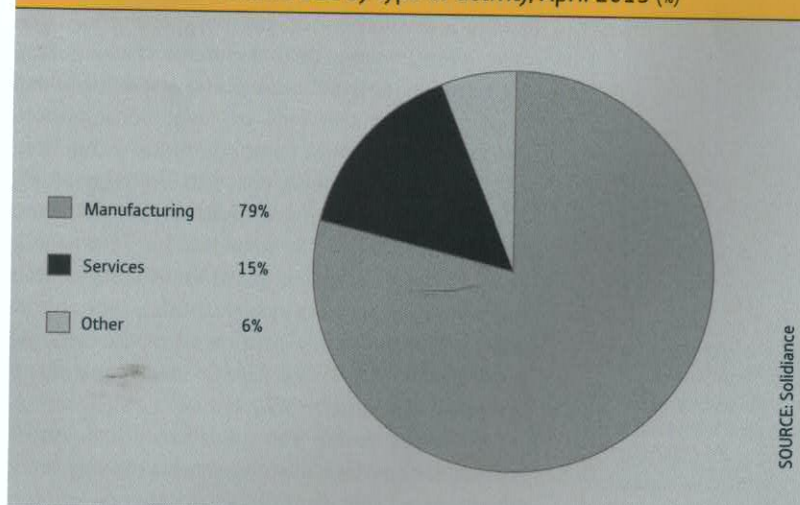
Incentives in the special economic zones include tax exemptions

Lo Hein Company (LHC), the country's largest bottled water manufacturer, is in the midst of a project to triple production. LHC, which also manufactures energy drinks and carbonated soft drinks, has seen rising competition from major foreign players in recent years, including Coca-Cola and Pepsi, both of which have opened bottling plants in the country in the past three years.

The beer market has also become increasingly crowded since 2011. Myanmar Beer, the legacy state-owned brand that is now 55% held by Japanese brewery Kirin, has an 80% share of the \$375m domestic beer market. In the past two years both Carlsberg and Heineken have set up breweries in Myanmar, in an attempt to tap into what is widely regarded as a growth market. Myanmar's beer consumption rate was just 3.2 litres per person in 2013, according to Euromonitor, which is one of the lowest rates in Asia. Some forecasts expect the market to double in size before 2019. "International brands like Heineken and Carlsberg setting

In 2014 the garment production segment earned \$1.56bn in revenues, up from \$1.12bn in 2013 and \$900m in 2012. Exports to Japan and South Korea account for one-third of total segment revenues.

Investments in Thilawa SEZ by type of activity, April 2015 (%)



SOURCE: Solidance



Local food and beverage producers have seen rising competition from foreign players in recent years

up factories in Myanmar is a positive sign. There needs to be more awareness of the potential of the fast-moving consumer goods segment, with the prospect of becoming a manufacturing hub for South Asia," Daw Win Win Tint, managing director of City Mart Group, told OBG.

AUTOMOBILES: In April 2015 Japanese automobile manufacturer Suzuki announced that it planned to open a vehicle assembly plant on a 20-ha site at Thilawa SEZ, at a cost of more than \$10m. The company plans to produce 10,000 vehicles per year in the country once the new plant is completed in 2017. This follows a similar project launched in 2013 by the Tan Chong Group, the regional distributor of Japan's Nissan, which involves constructing a plant to produce 10,000 vehicles annually in Myanmar's Bago Region. The factory, which will assemble cars and small trucks from imported, pre-manufactured parts, is expected to begin production in the near future.

PHARMACEUTICALS: Given the government's increased spending on health care in recent years (see Health chapter) and rising incomes, the pharmaceutical segment is trending upwards. Low-cost generic importers dominate the industry, with producers from India, China and Bangladesh accounting for the bulk of local consumption, though no individual company holds more than 10% market share. Recent growth has been largely government driven, with the Ministry of Health and related firms placing large orders for pharmaceuticals since 2011. As of late 2015 only state-owned firms manufactured drugs in-country, though this is expected to change as a result of the ongoing privatisation efforts and foreign majors setting up factories of their own in Myanmar.

Challenges facing the pharmaceutical industry include the lack of intellectual property laws, which encourages counterfeit producers; and the

relatively porous borders, which facilitate a high amount of drug smuggling. "The government is making progress against smuggling. However, the grey market is well established so it will take time to eradicate," Lester Tan, managing director of APB Alliance Brewery Company, told OBG.

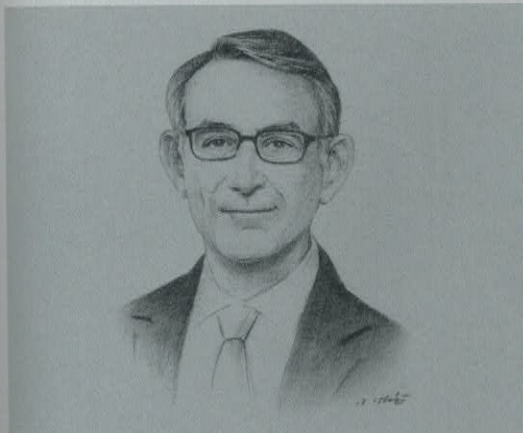
OUTLOOK: Myanmar's burgeoning industrial sector faces a number of hurdles to continued expansion. The poor state of infrastructure is an issue, particularly for export-orientated manufacturers, which comprise a growing percentage of sector output. Most industrial exports are moved domestically by road and internationally by port. The fact that almost 80% of Myanmar's roads are unpaved and 90% of international trade moves through a single port, the outdated Port of Yangon, therefore, represents a key challenge. Despite improvements to the power infrastructure in recent years, many manufacturers continued to rely partially on generators for electricity. Similarly, though the business environment has improved rapidly, most local players agree that the regulatory framework is not yet at international standards.

Nonetheless, given the rapid pace of change in recent years, and taking into account the historic late-2015 elections and the subsequent change in government, industrialisation is expected to grow substantially and continuously over the foreseeable future. A large, youthful population and a nascent middle class point toward significant potential for the expansion of domestic consumption of manufactured products of all kinds. Additionally, Myanmar's location in South-east Asia, between China and India, means that the country is well-placed to export regionally. "We have traditionally exported only primary products," said U Maung Aung, advisor at the Ministry of Commerce. "Now, however, we are investing heavily in value-added activities. The industrial sector is central to Myanmar's economic policy moving forward."

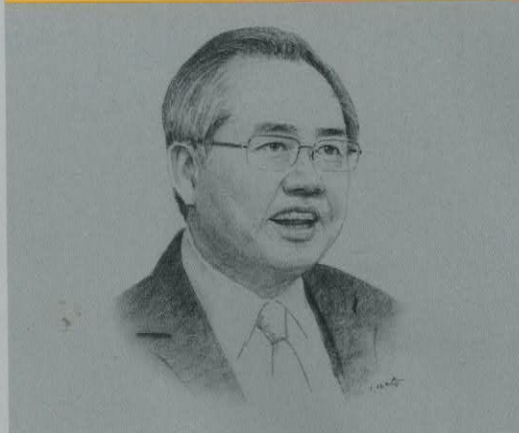


Additional production capacity is on the way in the car industry

Low-cost generic importers dominate the pharmaceuticals industry, with producers from India, China and Bangladesh accounting for the bulk of local consumption.



Jean-François van Boxmeer



Yoshinori Isozaki

Roll out the barrel

OBG talks to Jean-François van Boxmeer, CEO and Chairman of the Board, Heineken NV; and Yoshinori Isozaki, President and CEO, Kirin Holdings Company

The relaxation of sanctions has bolstered foreign interest in the fast-moving consumer goods (FMCG) sector. Why are international brands eager to re-enter the beverage segment?

VAN BOXMEER: Myanmar is an exciting place to be. It has all the ingredients to become an attractive destination for significant foreign direct investment: a stable political environment, as demonstrated in the recent elections; economic growth; a young and growing population; a trend of urbanisation; and an ambitious government and aspiring people. It is reminiscent of Vietnam 20 years ago. Today Vietnam is one of our largest markets.

More international brands will recognise this potential and, like us, invest ahead of the curve. Our new business recognises the potential. We want to grow with the country. We want to add value to Myanmar's economy through our operations by supporting small and medium-sized enterprises (SMEs), such as millers, but also the smallholder farmers we buy rice from for our local beer brand.

Myanmar is a new opportunity for many firms. There is a limited number of local players in most industries, and big global companies are testing the waters. We moved quickly when the opportunity to invest in the country presented itself. We wanted to have first-mover advantage. We are building a business from scratch, in line with our global standards and ways of operating. We want to raise the bar in Myanmar in terms of safety and quality standards. This requires investment in our employees and our suppliers. We are committed to doing this.

YOSHINORI: This market has huge long-term potential. We were lucky to be able to invest in Myanmar Brewery (MBL), which has been established for over 20 years here with a market share of around 80%, excluding smuggled beer. MBL has a very dominant position, and is well structured and well managed. However, although Myanmar has huge potential,

it is very difficult for us to start a business from scratch here. That is why we were lucky to have an opportunity to invest in this company.

Myanmar has a very good beer culture for an emerging market with not necessarily 100% refrigerator ownership. They prefer to drink their beer cold but they don't put ice in their glasses. So I like the beer culture of Myanmar – they serve beer chilled and also their quality is high.

The other thing is that usually the beer market grows according to GDP growth per capita in every country. However, in this market people drink a lot of beer. Usually in an emerging market, rich people drink beer and others prefer local, high-percentage alcohol. The more the economy grows, the more people shift to lower-alcohol products like beer. But in Myanmar, even though their income is not as high as in other countries, some of them drink as much beer as other countries' consumers, so that is why I think we have a lot of potential here.

If those people had more money they would probably spend more on beer. They are not wealthy people but they drink a lot of beer. That's a unique point of Myanmar's beer culture. For MBL, we still have a lot of potential as well in terms of the population and also maybe economic growth.

Are rising incomes having an impact on the medium-term outlook for the beverage market?

YOSHINORI: There is a strong correlation. The more the economy grows, the more beer consumption will rise. For the last few years beer consumption has increased at a rate higher than GDP growth. We estimate that the market size is around 3m hectolitres, which is 300,000 kilolitres, so around 4 to 5 litres per capita per year. With income levels on the rise, consumption will increase by maybe one or two beers per capita in a relatively short period. You also have to factor in smuggled goods: as the

market becomes more developed the government will be able to control the import of products more rigorously, which will translate into a bigger market for local producers. If you think about the per capita consumption levels of 30 or 40 litres in Thailand or Vietnam, you can see the huge potential here.

So I think that the growing economy will help in two ways. One is the simple correlation between beer consumption and market growth. The other is that market growth will definitely provide new types of outlets that will attract younger people, including women, to consume alcohol products.

VAN BOXMEER: Our experience in countries at a similar stage of development shows that as income rises consumers want to spend more on brands. Urbanisation is happening. The retail and hospitality sectors will grow, particularly new restaurants and bars. This creates opportunity. People will be looking for new experiences and high-quality, aspirational brands that they have an affinity for.

It will not happen overnight. Myanmar is a long-term investment. We entered Vietnam in the 1990s, and it took more than a decade to build a strong profitable business. Myanmar has the same potential. The country must continue to engage, learn and share ideas with its neighbours and the wider world. This will help ensure that its people will fully benefit from the opportunity.

Investing in education is vital. To grow, companies like ours need people entering the labour market that are willing to learn and have the capacity to excel in the roles we will offer.

In addition, the government must continue its focus on fighting bureaucracy, creating an investment environment that encourages long-term commitment from companies and being open with all parties on shared issues of concern. It must also put in place laws to facilitate trade and economic growth. It is important to continue to invest

in infrastructure and encourage openness. We are seeing this in action. It needs to continue.

We are highly optimistic as there appears to be a drive to work towards a better future for all. Our experience in emerging markets is that there will be highs and lows; sometimes it will be two steps forward and one step back. A long-term view is needed. Myanmar will be an important country for Heineken for many years to come.

How will the operating environment in the beverage sector evolve with rising competition?

VAN BOXMEER: Competition is healthy. It makes us all work harder to win the minds and hearts of consumers. In Myanmar we are the challenger. There is already a large, well established player with strong brands that enjoys roughly 80% market share, but this does not dampen our enthusiasm to win in the areas we choose to compete in. We have a strong brand portfolio. Our success around the world has been based on building brands that connect with the lifestyles of consumers, on bringing innovations to the market and encouraging responsible consumption of alcohol. We will do this in Myanmar.

YOSHINORI: The competition will get more and more fierce, and we have to get ready for this. Globally in most markets there are only two or three players. Recently in the mature markets there are many craft beers, but the typical market situation is that there is a duopoly or three players.

Here we have Myanmar beer, Dagon beer, Mandalay beer, and now Heineken and Carlsberg, five major players. Fierce competition. However, it is good for consumers to have choice. It is not a big market yet, so perhaps unnecessary competition is a waste. I hope that we are going to have more healthy drinking. I personally would like to create a situation where beer can help people enjoy themselves with friends to make the world more sociable.

How can SMEs capitalise on expansion in FMCG?

VAN BOXMEER: SMEs can ride the wave of investment by multinational companies. They should quickly adapt and provide the quality of products and service that these companies demand. It is not easy, but it provides a fantastic opportunity. This often requires an upgrade of safety measures, quality checks and product specifications, but once an SME passes these tests it will have large numbers of potential customers. It is worth the investment.

We are contributing to this through our local operating company, and are training and supporting local SMEs. We also work with our suppliers, like rice farmers and millers, to upgrade their standards. We make joint action plans and support them with our knowledge and international best practices. We also implement our Supplier Code, which provides clear guidelines on what is expected of any company that works with Heineken anywhere in the world. All business partners need to sign the Supplier Code, and are audited. Those in Myanmar that meet these international standards are likely to be inundated with business opportunities. Those that don't will find themselves on the outside looking in.

YOSHINORI: If major manufacturers grow, supporting industries can benefit. To capitalise, it is important that infrastructure – especially roads, bridges and connectivity – is improved. Beer is a mass-production industry. Even MBL has to sell a lot to make profit. It is a mass-production business.

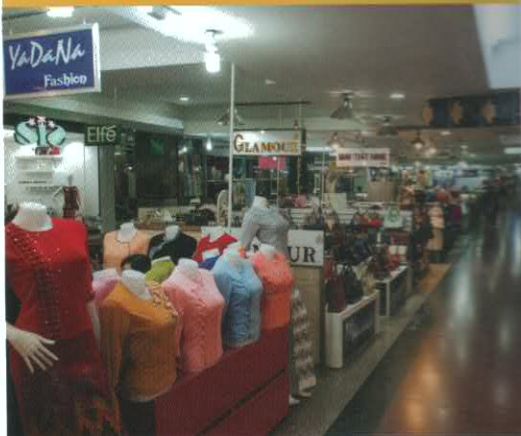
So we have to produce more and in that sense, big suppliers can benefit. But for small enterprises like transportation and retail outlets or distribution companies – especially for the end-user or outlets and retailers – I think our effort to expand the whole beer industry would benefit them by stimulating consumers to try new beer. Unless we get better infrastructure, transporters and distributors will struggle from the cost point of view.

Wages have been increasing significantly for the last couple of years. I think the worst-case scenario is that we deliver or distribute more products but less profits. That is a business-to-business concern.

What can be done to strengthen manufacturing levels prior to ASEAN economic integration?

YOSHINORI: There is room to improve. Decades of sanctions meant that people could not move around globally, so there is a lack of exposure. In terms of information, knowledge and skills there is still ground to make up. Beer is a very interesting product. There are many types of beer in the world, and people's choice will become wider and wider. Myanmar will experience that as well. But at the moment it is difficult for us to brew different kinds of products. We don't have as much flexibility as other global players. So we have to be careful because we have limited capacity to introduce very innovative products. However, in the future this market will follow others, and we need innovation in terms of quality, taste, packaging and so on.

VAN BOXMEER: It comes down to quality, reliability, safety and speed. This may appear straightforward but it is hard to get right. It isn't about cheap prices. If the products are not reliable or safe, eventually you will lose. Myanmar needs to invest in production facilities and produce quality products in a safe environment. It has the ability to benefit from a lower cost base than many of its competitors in the region, but that is only relevant if it supports this with a steady supply of well educated workers and an investment-friendly regulatory environment. This can be achieved by engaging with companies that are willing to invest, discussing their needs, identifying issues and finding solutions for all. Spending time now on getting this right will ensure that Myanmar's future will be one of sustained growth from which everyone can benefit.



The industry employs around 260,000 people in over 200 factories

Sewing the seeds of growth

The garment manufacturing segment has posted growing export revenues in recent years

The industry has posted record expansion in recent years, with export revenues reaching \$1.56bn in 2014. This was up \$300m on 2013, and nearly double the \$900m earned in 2012.

In the wake of the nation's historic election in November 2015, Myanmar's garment manufacturers have expressed cautious optimism about the potential for new business and continued growth. The industry has posted record expansion in recent years, with export revenues reaching \$1.56bn in 2014, according to the Myanmar Garment Manufacturers Association (MGMA). This was up \$300m on the previous year, and nearly double the \$900m earned in 2012. In early 2015 the MGMA announced that exports for the year may top \$2bn, despite investment in the sector leveling off over the year due to political uncertainty.

Myanmar's garment producers face various challenges, including intensifying regional competition, rising labour costs, and regulatory and economic risks, the latter of which have contributed to slowing foreign direct investment recently. Nonetheless, these issues have not stopped the rapid expansion, nor dampened enthusiasm. "The garment industry in Myanmar produces high-quality products at a fraction of the cost of neighbouring exporters like Bangladesh and Vietnam," Alexander Jaggard, the Myanmar country representative at Mekong Economics, a Vietnam-based consultancy, told OBG. "So long as the industry can maintain its competitiveness as labour standards and pay improve, it has the potential to grow dramatically, particularly as the industry's main players look for alternative production bases."

HISTORY: The industry dates back to the late 1980s, when a handful of state-owned and military-related firms partnered with Hong Kong and Korea-based manufacturers to set up production facilities in Myanmar. From around \$200m in foreign sales in 1997, sector exports grew to more than \$700m in 2000 and \$800m in 2001, before falling to around \$650m in 2002/03, according to the International Labour Organisation (ILO). In 2003 the US brought sanctions against Myanmar, and this was followed a year later by EU sanctions, pushing sector exports

down to less than \$300m by 2005. In the mid-2000s, however, local manufacturers began developing export relationships with new trade partners in East Asia. Over the ensuing decade this strategy paid off. The major export markets today are Japan and South Korea, each of which account for more than \$250m of Myanmar-manufactured garments. With the US and EU sanctions regimes loosening since 2013, Western firms are once again looking to Myanmar.

As of mid-2015 the industry employed around 260,000 people in 210-250 factories, according to ILO estimates. These figures are still quite low compared to Myanmar's major competitors in garment manufacturing: Bangladesh, which has 3200 garment factories, and Cambodia, with 447. Furthermore, almost all of Myanmar's garment manufacturers operate a cut, make and package business model, with garment design and raw material input sourcing managed by the client brand. The factory, in turn, is responsible solely for assembling the material into garments.

LOOKING AHEAD: In 2015 the MGMA published the industry's 10-year strategy, which was drawn up with input from local factory owners, trade unions and international brands. The industry aims to improve working conditions and pay in factories, ensure the long-term stability of production lines and competitiveness of the market and, as a result, boost tax revenues, employment and GDP. The blueprint lays out objectives – from increasing access to technology and training to building a local supply chain to developing local brands – and a detailed implementation plan. The long-term objective is to turn the garment industry into "the highest revenue earning industry in Myanmar, penetrating the global market by offering high-quality, value-led products". The MGMA forecasts considerable expansion in the garment production industry. The strategy document noted that by 2020 it has the potential to hit \$8bn-10bn in exports and domestic employment of some 1m-1.5m workers.

The Myanmar Garment Manufacturers Association's 10-year strategy was drawn up with input from local factory owners, trade unions and international brands. It targets improved working conditions and pay, and the long-term stability of production lines and market competitiveness.



open your world





The retail industry has yet to catch up with those of regional peers

Buying time

Increasing wages mean discretionary expenditure is on the rise

From 2012 to the end of 2014 Myanmar's retail sector expanded by 7-15% per year, in line with overall GDP growth in excess of 7% over the same period.

With a thriving economy and a youthful, burgeoning middle class, Myanmar is poised for rapid growth in retail spending. In the four years since the nation's emergence from a lengthy period of economic isolation in 2012, disposable incomes have increased rapidly, and a handful of local retailers have stepped up their operations to meet rising demand for fast-moving consumer goods (FMCGs), automobiles and other retail products. According to the Myanmar Retailers Association (MMRA), from 2012 to the end of 2014 the retail sector expanded by 7-15% per year, in line with overall GDP growth in excess of 7% over the same period. "Our only constraint at the moment is production capacity," said Christoph Steinwehe, CEO of domestic drinks manufacturer Lo Hein Company (LHC). "On the demand side we see huge potential."

HURDLES: Nonetheless, the local retail sector faces challenges. For example, the FMCG segment, which has been touted as a key growth area in recent years, is dominated by small-scale retailers, which operate primarily out of informal kiosks, groceries, convenience stores or traditional "wet market" stalls. These sites accounted for 90% of FMCG sales in recent years, according to MMRA estimates. The remaining 10% was generated by Western-style supermarkets, which are a relatively new development in Myanmar. Boosting this figure will require new, high-quality retail space, a large amount of financing, and investment in workforce development and training. "Building our employee base is a key challenge," said Ronald Lee, a project director at City Mart Holding (CMHL), a local retail conglomerate. "We need more investment in education and teacher training in Myanmar." Other hurdles facing retailers include the depreciation of the kyat, weakening consumer sentiment over 2015 and rising rents, particularly in Yangon.

EXPANSION: Despite these and other hurdles, most local retailers expect to see considerable expansion for the foreseeable future. According to the World

Bank and the UN, per capita income in Myanmar rose from just under \$800 per annum in 2010 to nearly \$1200 by the end of 2014, an increase of 50%. Rising purchasing power has seen the spending habits of some more affluent consumers shift towards international retailers and brands. Assuming that current restrictions on foreign investment in the sector are liberalised in the coming years – as they are widely expected to be – domestic retailers will likely see increased competition from international players, which has the potential to benefit consumers.

IN NUMBERS: While the retail market has posted substantial expansion in the past half decade, it began from a low base, and has yet to catch up to its regional peers. With GDP per capita of around \$1300 in 2014, according to CMHL, purchasing power among locals was well below that in neighbouring Vietnam, with GDP per capita of \$2000 in 2014, and Thailand, at \$5900. Given these disparities and Myanmar's positive indicators, most domestic retailers expect to see a high rate of growth across numerous business lines for the foreseeable future.

According to CMHL data, in 2010, just after the country's current economic liberalisation drive began, 71% of consumer spending, measured as a percentage of real GDP, went toward necessities like food; while 13% went on semi-necessities, such as household products, health care and utilities; and 14% went toward discretionary spending, which includes personal items, recreation, education, cultural activities, transportation and communication.

However, by 2014 around 33% of monthly household expenditure went toward food and groceries, around 35% went toward semi-necessities and the remaining 32% was spent discretionally, according to survey data from Nielsen, a US-based market research firm. Given that these two sets of data (2010 and 2014) came from different sources and were calculated in different ways, comparing them

In 2014 around 33% of monthly household expenditure went toward food and groceries, 35% went on semi-necessities and 32% was spent discretionally.

directly is problematic. Nonetheless, the striking shift in consumer spending habits over a relatively short period of time suggests a positive trend.

Rapid growth in the telecoms and IT sectors also points toward rising consumer expenditure. As of mid-2015 household mobile penetration was at 44%, according to Nielsen, and this jumped 19 percentage points in 2014 alone. Some 81% of mobile phone users communicate with SMS, 24% are active on social media and chat applications, and 20% browse the internet on their phones. Rising uptake in telecoms usage is widely considered to be a major advertising opportunity for local retailers.

KEY PLAYERS: CMHL, which launched its first supermarket in 1996, is Myanmar's largest retail chain. The privately owned firm operates various brands, including City Mart Supermarkets, Ocean Supercenter (large-format hypermarkets), Seasons Bakery and Café, Popular Bookstores, City Care pharmacies and City Express convenience shops. Additionally, City Mart operates six shopping centres, each with more than 100,000 sq feet of leasable retail space, plus 10 smaller neighbourhood centres, which vary in size from 16,000 to 30,000 sq feet.

Since 2014 CMHL has been expanding into smaller urban areas that remain underserved by modern retail outlets. In October 2015 the firm announced that it had secured a \$25m investment from the International Finance Corporation, which will finance the bulk of the retailer's \$46m expansion plans.

In addition to new hypermarkets in regional centres like Bago, Mawlamyine and Monywa, CMHL plans to construct a handful of new hypermarkets and supermarkets in Yangon to meet continually growing demand. According to CMHL, as of 2014 the company's brands accounted for more than 50% of modern retail space as measured by selling floor area and for more than 66% of branded FMCG goods, although these numbers may have changed.

Other major domestic retail players include LHC, UMG Myanmar, the Ga Mone Pwint Group (GMPG) and Seing Gay Har. LHC, the largest bottled water manufacturer in Myanmar, also produces carbonated soft drinks and energy drinks. UMG, a local conglomerate, which established its Win Food brand in 2013, oversees the Wasuka wafer brand in Myanmar, in addition to manufacturing tapioca-based snacks. GMPG, meanwhile, was launched in 1991 and currently operates four department stores in the country, aimed at middle-income consumers.

DIVERSIFIED BUSINESSES: Most of Myanmar's leading retailers were either launched under a conglomerate or have worked to diversify their business lines recently. In addition to its retail operations, for example, CMHL operates a major internal logistics business to ensure it can maintain a steady supply of products. "Logistics are two to three times more expensive in Myanmar than in neighbouring countries, due largely to the poor quality of the roads and other transport infrastructure," Lee told OBG. "Consequently, all major retailers run their own logistics



International firms are increasingly likely to enter the market as the quality of retail property improves

operations here." The Lo Hein Distribution Company, an independent subsidiary of LHC, provides logistics and distribution services to its parent company, but also as a business to third-party clients.

UMG, meanwhile, was established in 1998 as a construction equipment distribution company. In addition to its food business, today the firm is active in mining, financial services, property development, telecoms, information technology and education.

QUALITY SPACE: A key hurdle to continued retail expansion is a widespread lack of high-quality retail space. According to Collier's International, demand for grade-A retail space has been strong in recent years, with vacancies of just 3-5% pushing up rents, particularly in Yangon, which is home to the bulk of Myanmar's retail establishments.

At the end of the first half of 2015 Yangon had approximately 150,000 sq metres of leasable retail space. Though no new space has come onto the market since early 2014, a handful of malls have been refurbished, and a raft of new projects are under way, a number of which will likely be completed early in 2016 (see Construction & Real Estate chapter).

As the quality of retail property continues to improve in the coming years, and given Myanmar's large population and rising incomes, international retailers are increasingly likely to enter the market. A key future demand driver for high-quality space in Yangon, in particular, is international food and beverage franchise restaurants, according to Collier's.

According to the McKinsey Global Institute, rising discretionary expenditure and increased market efficiencies could push consumer spending in Myanmar to more than \$100bn per year by 2030, which would represent a near-tripling of the current figure of \$35bn. "The middle class has grown rapidly and incomes have risen dramatically," Lee told OBG. "While it will take time for a full-fledged consumer society to develop here, the process is under way."

Rising discretionary expenditure and market efficiencies could push consumer spending to over \$100bn per year by 2030, triple the current \$35bn.



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Transport

Key connecting infrastructure is being laid down

Urban areas are being targeted with transit upgrades

Ports are paired with economic zones to boost output

The domestic airline industry is getting a facelift





Improvements in transport may help increase GDP by 21% by 2030

Linking it all together

Better nationwide transport set to boost economic growth

Public-private partnerships are the preferred means of executing infrastructure projects in Myanmar. It is estimated that planned improvements will cost \$433bn through 2030.

Once a sleepy capital where cars were rare, Yangon is now a bustling urban centre. The spike in activity has been very positive for economic growth, but has placed pressure on infrastructure. Myanmar's government has recognised the need to modernise transport capacity and update the legal framework that governs the sector. To that end, international experts, notably from Japan, have gathered in Yangon to plan and guide transport development of Myanmar's largest city. Their expertise is also being applied to major national logistics challenges, and they are poised to get support from many public-private partnerships (PPPs) that will pay the estimated \$433bn bill for transport improvements between 2014 and 2030, assuming the economy grows at the expected annual average of 7% from 2011 to 2035.

RIISING TO THE TASK: The country's rapid pace of modernisation has brought with it several challenges that are common to developing markets, including congestion on the roads and at major gateways. The commercial capital's international airport is feeling the strain of handling more passengers than it was designed for and it is still subject to occasional blackouts. Trains bump along warped tracks on short journeys that last hours, and while port infrastructure is one of the country's brighter spots, poor road connections hamper the flow of goods and supplies.

Decades of isolation limited investment in the transport network and left it underdeveloped. Now that the economy is no longer centrally planned, institutions are learning how to adapt to market forces and grapple with new financing mechanisms – like PPPs – which, while common in much of the world, are new to Myanmar.

The government is learning quickly. Work is already under way on key projects, with a bus rapid transit scheme planned for Yangon by 2018

and an overhaul of the city's 35-km circular railway by 2021. Still, haphazard progress on other major developments, like the new airport at Hanthawaddy, underlines the challenges that lie ahead for modernising outdated transportation.

ACCESSIBILITY: The Asian Development Bank (ADB) estimates that by simply improving international and national transport, Myanmar could increase its GDP by 21% by 2030. Making rural areas more accessible would also make the country's agricultural products, like rice, more competitive and boost government efforts to improve the living standards of the more than 70% of the population who live in rural areas, according to the bank. "Investment needs are large mainly because of the low quality and poor condition of existing infrastructure," the ADB wrote in its report. "Meeting them will take time, and transport institutions need strengthening to delivery better outcomes."

The National Transport Development Plan, designed in consultation with the Japan International Cooperation Agency (JICA) and approved in December 2014, brings together the three ministries involved in transport issues – the Ministry of Construction, Ministry of Road Transport and Ministry of Transport – to improve coordination among them. The plan proposes the development of transport networks along ten corridors. Five priority corridors have been identified for urgent investment, including the central north-south corridor involving the three major population centres of Yangon, Naypyidaw and Mandalay, the east-west corridor from Myanmar to Yangon and the northern corridor between Mandalay and Muse.

The scale of the challenge is enormous. Compared with its neighbours in ASEAN, Myanmar's transportation network is grossly underdeveloped. Road density is about 2 km per 1000 people in Myanmar, compared with 11 km per 1000

Road density is just 2 km per 1000 people in Myanmar, compared with about 11 km per 1000 people for ASEAN nations as a whole.

people for the group as a whole. In the World Bank's 2014 Logistics Performance Index, which is released every two years and considers Customs procedures, infrastructure, international shipments, tracking and other factors, Myanmar ranked at 145th out of 160 countries, just ahead of Gambia and Mozambique.

Myanmar's 2014 performance was worse than in 2012 when it came in at 129th. In ASEAN, which is in the process of creating a single market and production base, Myanmar was the worst performer, behind Cambodia (83rd) and Laos (131st). By focussing on the country's strategic routes, JICA estimates the improved transportation network will benefit as much as 61.7% of the population by 2030; that is 65.7m people out of a population that is expected to rise to 73.9m in 2030.

OPPORTUNITY FOR AVIATORS: Myanmar has enjoyed double-digit growth in air traffic every between 2010 and 2014, according to the Department of Civil Aviation (DCA). The number of international passengers rose to 3.2m in 2014, compared with 2.7m the year before. At the same time, the numbers flying domestically rose to 2.2m in 2014 over 1.9m in 2013. Combined growth in passenger numbers was 18% in 2014, compared with 17% in 2013.

The expansion has put pressure on Myanmar's airports and the country's three main gateways at Yangon, Mandalay and Naypyidaw, but especially in Yangon, which is the country's busiest airport by a considerable margin. Facilities and crucial support services such as navigation, fuel supply and maintenance are feeling the strain.

Myanmar liberalised its airspace in 2011, allowing new companies to start airlines provided they met a set of minimum requirements. It now has nine domestic airlines operating services to 27 domestic destinations and two more were given regulatory approval in 2015. Two airlines, Myanmar Airways International and Golden Myanmar Airlines, operate services to seven regional destinations, according to the DCA. Myanmar National Airlines resumed international services in August 2015, following a 22-year hiatus, flying seven days a week to Singapore, an extremely competitive route, which the Centre for Aviation has warned already suffers from over-capacity. The number of international operators, predominantly from Asia, has increased since 2010 with flights connecting Yangon to major centres such as Singapore, Bangkok and Kuala Lumpur as well as Beijing and Guangzhou. Qatar Airways operates a direct service three times a week with its hub in Doha. According to the Centre for Aviation, at the end of June 2015 there were 39,740 seats a week with Thailand – the top market – and 14,960 with Singapore. Malaysia was third, with 11,054 seats.

FLYING IN FOCUS: The government strategy to deal with the rapid rise in demand has four main thrusts, according to U Ne Winn, director of

transport at the DCA: the gradual liberalisation of air transportation in line with ASEAN's Open Skies Agreement, the upgrade of aviation infrastructure, the improvement of airlines' business capability and the strengthening of connectivity. Legislation is also being updated – some of the laws governing aviation date from the 1930s – for institutional reform the DCA, under the Myanmar Airports' Authority Law, will be split in two, creating a regulatory agency and an airport and air navigation services provider.

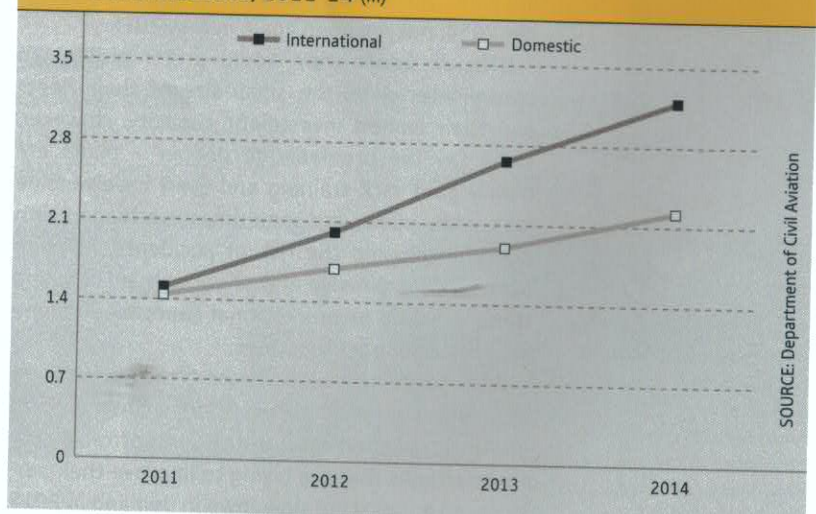
Foreign investment is welcome in 20 segments of the aviation sector, including the airline business, where foreigners can own up to a 49% stake. Needs are broad and include training, particularly for pilots, engineering and maintenance. Investment in navigation is closed to outsiders, but the DCA said it is working with its neighbours in ASEAN to modernise the country's air traffic operations and bring systems in line with International Civil Aviation Organisation requirements.

The DCA and Yangon Aerodrome Company signed a 30-year concession for the development, management and operation of the Yangon International Airport in January 2015 and construction work is set to be completed by March 2016. The \$199.5m project includes expanding the apron and upgrading facilities both airside and landside. Meanwhile, the modernisation of Mandalay International Airport was awarded in November 2014 to a venture involving two Japanese companies – Jalux and Mitsubishi – and a unit of local firm Yoma Strategic Holdings. Jalux and Mitsubishi together own 90% of the venture which has a 30-year agreement to upgrade and operate the airport, which first opened in 2000. The upgrade in Mandalay is designed to boost both passenger and cargo traffic with the intention of turning the facility into a regional logistics hub.

SLIGHT TURBULENCE: While some plans have advanced rapidly, progress at the Hanthawaddy airport has been less smooth. Conceived as the country's new international gateway, given the

The number of international passengers rose to 3.2m in 2014, compared to 2.7m in 2013. The number of domestic passengers rose from 1.9m to 2.2m in the same period.

Air travel statistics, 2011-14 (m)





The government is hoping that the domestic airline industry will see some consolidation in coming years

Train travel is presently quite slow, at about 30-40 km per hour. Updating infrastructure to improve speeds is a key priority for the government.

lack of space for expansion in Yangon, construction is not expected to start until 2016 with completion targeted for 2022, four years later than initially planned. The \$1.5bn airport is to be built by a consortium from Singapore and Japan – Yonnam and Changi Airport Planners and Engineering and JGC Corporation – and half the funding will come through official development assistance. Concluding that part of the agreement has taken longer than anticipated. U Ne Winn said that is partly because PPP structures are new to aviation officials. “We did not have such a practice before,” he told OBG. “We are, in the Chinese phrase, ‘crossing the river, feeling the stone.’”

Even as the government seeks to improve aviation infrastructure, the domestic airline market remains challenging. While some operators, such as Myanmar National Airlines, are buying new planes and starting new services, Air Bagan, which was down to only two planes after a series of accidents, suspended services in August 2015 for what it said was a “maintenance check and restructuring plan.” Air Mandalay stopped flights in December 2014, but resumed again in May 2015.

Officials admit they would prefer airlines to consolidate, given the small size of their fleets and their limited investment capacity. However, some say the problems go deeper – pilots are poorly paid, lack training and even have outside jobs, while planes are sometimes overloaded with cargo, increasing the risk of accidents. Aviation fuel is also expensive and of variable quality, and there is a lack of professional expertise in some key airline support functions.

With so many airlines chasing the roughly 2m passengers a year, competition is intense and domestic aviation is currently unprofitable. For those airlines that are trying to improve their services, an anticipated slowdown in demand in 2015

may give operators some breathing space, even as the government pushes forward with reforms. The Centre for Aviation predicts growth in Myanmar’s aviation market will slow to single digits in 2015, after expansion of 20% in the past five years.

KEEPING ON TRACK: Myanmar has an extensive rail network, with nearly 6000 km of tracks connecting Yangon to the country’s main cities and smaller communities – much of it built under British colonial rule. Like much else in the country the network fell into decline during the period of military rule. Tracks do not meet modern standards and signals are almost obsolete. Bumping along at about 30-40 km per hour even on an express train from Yangon to Mandalay, it can take some 17 hours to complete the journey.

Updating the rail network is a key element of the National Transport Plan; experts say rail is a more efficient way of moving freight than road, and trains can move more people, more quickly, than cars. JICA analysis of travel and freight patterns show that in 2013 most people, and most goods, travelled by road. Between Yangon and Naypyidaw, for instance, 93% of freight was transported by road even though lorries have to use the old national route because they are banned from the highway. Just 7% of freight was transported by rail and the onward journey from Naypyidaw to Mandalay showed a similar breakdown. For passengers, 83% of those travelling between Yangon and Naypyidaw in 2013, went by bus while 13% went by car. Just 3% took the train. Again, the numbers were similar from Naypyidaw on to Mandalay.

As part of the north-south corridor, the Mandalay Yangon railway will be upgraded under a three-phase programme, according to JICA. The 267-km first phase, with 44 stations from Yangon to Taung Oo, will cost \$200m and is being funded by the Japanese. The tracks will be improved, bridges rebuilt and reinforced, and signalling equipment installed. The trains should also get new rolling stock.

TRUCKING ALONG: Even as the rail service is upgraded, roads will also be improved. Myanmar’s road network extends to some 142,395 km. Daw Tin Aye Han, director of the Directorate of Investment and Company Administration, told the Myanmar Infrastructure Summit in April 2015. The Ministry of Construction is open to build-operate-transfer and joint venture proposals to build and upgrade not only these roads, but airports, ports and cargo depots as well, she said.

The master plan analysis of the key roads between Yangon and Mandalay shows as many as 2000 private vehicles and 370 buses used the expressway every day in 2013. About 1500 large trucks used National Highway 1 and 270 used National Highway 2. The number of trucks using National Highway 1 is expected to exceed capacity during 2016/17, according to growth projections.

Road congestion has also become an increasing issue within Yangon, Myanmar’s commercial hub

An analysis of the key roads between Yangon and Mandalay indicates that as many as 2000 private vehicles and 370 buses used the expressway between the two cities every day in 2013.

and largest city, following the decision to relax car import limits in 2011 and the ADB has warned traffic jams – a feature of life in so many South-east Asian cities – could impede economic growth. Some 430,000 of the 640,000 vehicles registered in Myanmar are on Yangon's streets,

ADDRESSING CONGESTION: The Comprehensive Urban Transport Plan of the Greater Yangon (YUTRA) aims to modernise and expand urban transit in a city whose population is expected to increase 1.7 times by 2035, to 9.7m. Household income is also forecast to rise by four times, giving more people the means to own cars.

"Good transport infrastructure can help cut down traffic bottlenecks and is critical in helping cities develop faster," Gareth Wong, general manager of Surbana International Consultants (Myanmar), which works in urban planning, told OBG. "It can help facilitate the efficient movement of goods, improve the quality of life and reduce environmental pollutants from traffic jams."

YUTRA focuses on mass transit systems and envisions a phased development process to move from buses and the existing rail system to the introduction of a mass transit railway and ring roads. The target is to ensure at least 60% of the population is using public transport by 2035.

A tender for local and international companies was called in August 2015 to provide buses for

a proposed bus rapid transit network, which will include 11 routes covering 244.9 km. According to Yutaka Araki, a representative at JICA in Yangon who is involved in the implementation of the city's urban transport development plan, the bus rapid transit system will be the first in a series of measures to address the city's increasing traffic problems. Built by a joint venture between the government and a number of local companies known together as the Yangon PPP Company, the new bus system is expected to launch in 2018.

URBAN RAIL: Another early measure will involve improvements to the rail line that loops around the city. About 70,000 people use the service each day, according to Myanmar Railways, the state operator. A full circle takes about three hours to complete. Having secured parliamentary approval, Myanmar Railways expects to sign the memorandum of understanding for a \$207m loan from JICA in the final quarter of 2015. Under the agreement, the circular railway will utilise Japanese-made trains, an automotive train stop system and improved tracks. U Ba Myint, the general manager of Myanmar Railways, told the *Global New Light of Myanmar* that the upgrade was likely to cut journey times in half. Ten air-conditioned carriages were delivered from Japan in September 2015.

The government is also considering whether to build the two mass rapid transit lines proposed in

The Circular Line that loops around Yangon is used by some 70,000 people each day. A full circle on the loop requires about three hours to complete.



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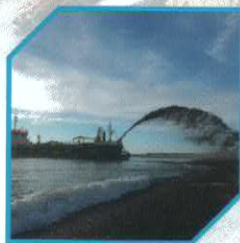
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Some of the country's most important ports are located along inland rivers, rather than on the coast

YUTRA as longer term solution to Yangon's transport needs. The projects would be completed by 2035, if they get approval and secure funding.

"Given the projected population increase we believe that a metro rapid transport system is absolutely a necessity for Yangon," Araki, a representative at JICA, told OBG. The system will be built in two stages, with the first line running north to south to connect the city with the airport. The second line will run south to east. Feasibility studies have yet to be completed on whether the trains would run above or below ground, but the cost of the first line is estimated at about \$2.25bn and the second, including an extension to the south, is set at \$3.42bn. The high cost means the project would be unlikely to receive grant aid and would probably be constructed under a public-private partnership. Japan would be willing to provide maintenance and service support, Araki indicated. Given the high cost of a mass transit railway, Araki said trams are also under consideration.

LINKS TO BOOST PORTS: Yangon's ports lie at the heart of the country's trade routes, handling approximately 90% of the country's international trade. There are about eight ports positioned along the Indian Ocean coast towards Sittwe, but the action is centred on Yangon.

The city hosts three major terminal operators – Asia World Port Authority Terminal and Myanmar Industrial Port (both of which are in the city centre) and Myanmar International Terminal Thilawa (25km outside Yangon). Until 1996, there were no privately-owned terminals and those that existed were under state control. The largest terminal is at the Thilawa special economic zone about 25 km south of the city centre. The facility is operated by Hong Kong-based Hutchison International as Myanmar International Terminals Thilawa. One of the biggest issues – both for those moving freight

as well as port regulators – is that Yangon's ports are not positioned on the coast, but on the river.

"Night navigation is not possible due to significant tidal and draft restrictions," Dawid Sold, the country manager for Maersk in Myanmar, told OBG. "We are using small vessels which are limited to 1100 TEUs (twenty-foot equivalent units) for our three weekly services to Myanmar. Our direct service from Shanghai has proved popular with customers but we are not able to deploy bigger ships due to the limitations."

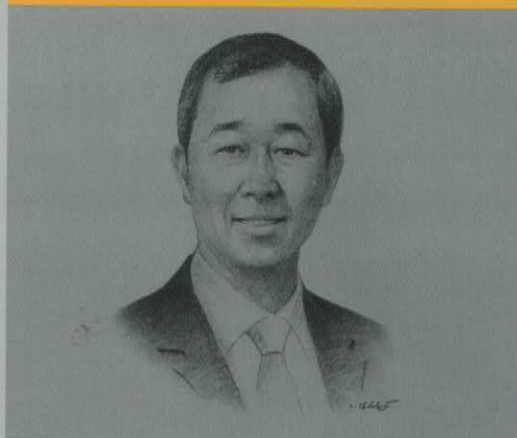
"Yangon is still the premier port for Myanmar," U Kyaw Than Maung, managing director at the Myanma Port Authority (MPA), told OBG. "It is only a river port, but it is safe and we do not need to worry about rough seas and storms. The disadvantage is the depth of the water. We have to rely upon the cycle of the tides."

Port authorities recognise that the shallow available draft, which is exacerbated by a difference of more than five metres between high and low tides, means that the ports simply cannot cater to larger vessels. There have been discussions with companies from China, Japan and Singapore about deepening the channels, but the work would require the construction of breakwaters and retaining walls and would be costly. For the moment, regular dredging keeps the channels clear.

Yangon's ports handled between 24m and 25m tonnes of cargo in 2014, about the same amount as in 2013, according to the MPA. The limited growth was in part due to the ban on exports of raw timber, which took effect on April 1, 2014. Yearly growth in container traffic is about 10%, with total market volumes rising to 700,000 TEUs in 2014, compared with 640,000 TEUs in 2013. The country's main imports are cement, iron bars, steel, construction materials and consumer goods, but close to 80% of containers leave the country empty. Efforts are under way to upgrade the port in Mandalay, and diversify Myanmar's port network, which is also expected to benefit from the modernisation of road and rail transport infrastructure outlined in the National Transport Development Plan.

OUTLOOK: Like much else in Myanmar, the transport sector is going through a period of enormous change and officials are learning to understand the machinations of the market economy and the needs of foreign investors. The completion of projects to improve airports, roads, railways and ports will be a big step forward for Myanmar and seeks to integrate itself into the global economy. New legislation, like the Myanmar Port Act passed in April 2015, gives port authorities increased autonomy, which could improve efficiency. These changes should make it easier to move goods in-country and across borders, relaxing bottlenecks and providing a more conducive climate for investment. The key to success will be locating funding and the government's ability to negotiate agreements with private companies and donors.

Yangon's ports handled between 24m and 25m tonnes of cargo in 2014, about the same amount as in 2013. Yearly growth in container traffic is about 10% and total volume rose to 700,000 TEUs in 2014, compared with 640,000 TEUs in 2013



U Htun Myint Naing

The shipping forecast

OBG talks to U Htun Myint Naing, Chairman, Asia World

Where should investment be prioritised in order to bolster the capacity of the country's ports?

HTUN MYINT NAING: Myanmar's transport infrastructure has been stretched by economic development. The recent election will also boost the economy and demand for better transport infrastructure. Ports have been one of the main arteries for goods imports and exports, and will likely remain so in light of the deficiencies in road and rail transport.

Port of Yangon has sufficient capacity to handle the expected increase in cargo. Stakeholders such as the Myanmar Port Authority, Customs and service operators need to work together closely to maximise the benefits of port use. The immediate priority should be to focus on technology advancement, both software and hardware, with trained manpower. Both the authorities and service operators need to adopt the use of new technology. Where possible, document processing should be cleared online, be it Customs, immigration or service operators, via the use of the updated terminal operation system and the electronic data interchange (EDI) system. New hardware technology investments, expertly handled by trained manpower, will also improve efficiency.

What types of cargo do you expect to dominate shipping activity over the next few years?

HTUN MYINT NAING: We are likely to see more imports than exports. Construction materials, factory equipment, processed food, fertiliser, medical supplies and consumer goods will see the greatest growth in imports. These are essential for the development of infrastructure and the new era of manufacturing in the early stage of Myanmar's economic growth. The growth of the economy will also bring a rise in demand for consumer products.

Exports will likely be dominated by agricultural produce, so long as it meets international standards. In time they will be supplemented by labour-intensive

goods such as garments and processed wood products. We view the imbalance in import and export as a gestation period for Myanmar in developing its infrastructure, technology, policies and capabilities.

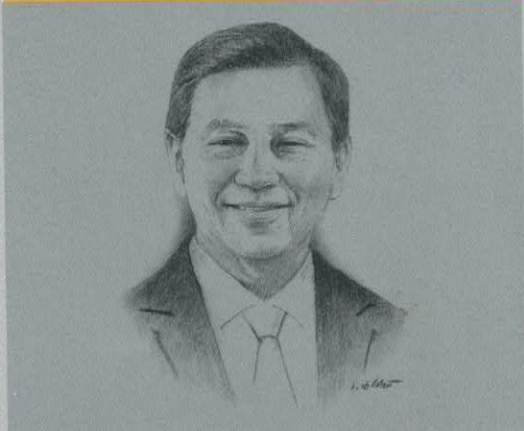
What is your assessment of the adoption of technology within the logistics sector?

HTUN MYINT NAING: It is a must, but we should not forget that humans control the full utilisation of the benefits of technology. Prioritising education, training and certification is the way any industry is able to develop further with technology. It is pointless to invest in the best technology without the pool of people capable of using it and maximising the benefits. Well trained and experienced people will drive the use of technology in improving quality and efficiency.

What improvements are needed to ease the movement of cargo over land?

HTUN MYINT NAING: Movement of cargo is initiated mainly from Yangon as the entry point to other parts of Myanmar via roads, rail or river. Constant upgrading, including the building of flyovers on Yangon's main roads to ease traffic, has improved cargo movement but it is not a long-term solution.

A comprehensive road transportation review is needed. Be it road expansion, building of new roads or alternative ring roads to ease congestion in and out of Yangon, a long-term view must be taken in tandem with Myanmar's development. This also applies to rail transport. Other stakeholders, such as logistics and transportation companies, will need to increase their capabilities. Mergers, pooling of resources or government initiatives may encourage the growth of larger logistics and transportation firms. Economies of scale are required to invest in a more efficient logistics management system, new and more environmentally friendly heavy vehicles, training, and the EDI system to ensure the smooth movement of cargo.



Liew Mun Leong

Planning and growth

OBG talks to Liew Mun Leong, Chairman, Surbana Jurong and Changi Airport Group

How has urban infrastructure developed, especially in transport, since the economy opened?

LIEW: Since the introduction of broad-based economic reforms in 2012, Myanmar has been steadily urbanising year-on-year at a rate of 2.5%. However, infrastructure development remains challenging, with the World Economic Forum ranking Myanmar 141st out of 148 countries in quality of infrastructure in 2014. The Asian Development Bank has also estimated that the shortfall in infrastructure investments in Myanmar is at least \$240m.

Recently, the Myanmar government's attention has been focused on improving the country's existing highways, roads and railways, as well as building new bridges, elevated highways and ring roads. This is a move in the right direction and can be further enhanced with an overarching transport planning framework, which should be implemented in tandem with larger urban development guidelines.

History has shown that proper urban planning and consistent infrastructure development are key success factors for any emerging country. To ensure sustainable development in the long term, Myanmar will require strong agencies to champion integrated urban and transport policies.

In what ways will the establishment of Hanthawaddy Airport enhance Myanmar's growth?

LIEW: The aviation industry plays a critical role in facilitating trade and business, and contributes significantly towards global economic prosperity. Today, more than 58m people are employed worldwide in aviation-related industries; contributing \$2.4trn to the global economy, the equivalent of 3.4% of the world's GDP. In 2014 the world's air passenger traffic also crossed the 3bn mark, nearly half of the world's entire population. Aviation facilitates connectivity on a global scale; not only by bringing people to the markets, but also by bringing the markets to the people.

Similarly, the establishment of Hanthawaddy airport will further stimulate Myanmar's economic growth and development. As a greenfield international airport with a capacity to handle 12m passengers a year, Hanthawaddy will radically boost passenger and cargo operations and open a new gateway to the country. Hanthawaddy's development will also be a catalyst for other supporting industries, and will encourage more foreign investment to support Myanmar's larger economy.

In terms of urban planning, what does Myanmar need to prioritise, and how can traffic congestion be alleviated in Yangon city?

LIEW: Successful urban planning is about creating a "liveable" environment. To ease traffic congestion, there are a few core areas Myanmar needs to address; namely housing, infrastructure and the creation of new city centres.

As Yangon's economy grows, more people will be drawn from rural to urban areas. Proper housing and distribution of the growing population will ensure that the population base is evenly spread across the city and not concentrated in a few localised areas that would worsen congestion.

An efficient public transportation network (light rail, bus or tram) will also need to be established to cater to the large populations commuting within Yangon. This relieves pressure on private transportation options, which can overload existing infrastructure, and creates accessibility and equity, which are important components of a "liveable city".

Secondary business, commercial and/or industrial centres could also be established along the peripheries of Yangon city, so that the city centre can be expanded further. The creation of such regional sub-centres will allow the central core to take on much more focused functions, and facilitate the redistribution of traffic away from the central area.



The government has sought to make Myanmar a key regional centre

Bypassing the competition

Combined port and road infrastructure can link key ports in Myanmar and Thailand

The development of Dawei is an ambitious project that, if successful, will enable goods to be shipped to Bangkok without travelling around the Malaysian peninsula through the ports of Singapore and Malaysia. They will instead be shipped directly to or from Dawei and then transported by road to Bangkok. **PUBLIC PROJECT:** The development of Dawei is overseen by a joint company owned by the governments of Myanmar and Thailand: the Dawei Special Economic Zone (SEZ) Development Company. In 2015 Japan, Myanmar and Thailand signed a memorandum of understanding that recognised, according to the statement, "the importance of the three countries in the comprehensive development of the Dawei SEZ project to promote integrated economic development and enhance connectivity in and around Mekong sub-region," giving momentum to the effort.

The following month, Thailand signed a \$1.7bn agreement for the first phase of the initiative. That work, to be carried out by an Italian-Thai consortium, will include a 27-square-km industrial estate and will begin with the construction of a 138-km road from Dawei to Kanchanaburi province at the Myanmar-Thailand border. JICA said it has been asked to undertake a feasibility study for the highway.

POWER & WATER: The first phase of the project will include a basic port, a small power plant and the provision of water supplies and fixed and mobile telecommunications. Work on the latter was expected to start at the end of the 2015 rainy season. The Myanmar Port Authority said the development of a deep sea port will come later, possibly not until 2019, and will take into consideration the structure of maritime trade and the availability of other infrastructure, including roads. "You may think it is far from Yangon and that there is not enough road infrastructure, but, at the same time, Dawei and the SEZ will be very important," U Kyaw Than Maung of the Myanmar Port Authority, told OBG. "Myanmar is part of the Greater

Mekong sub-region and Dawei will be its western corridor. If we finish, it will change maritime freight routes and cut out the need for ships to go from Thailand around Malaysia and up the Strait of Malacca."

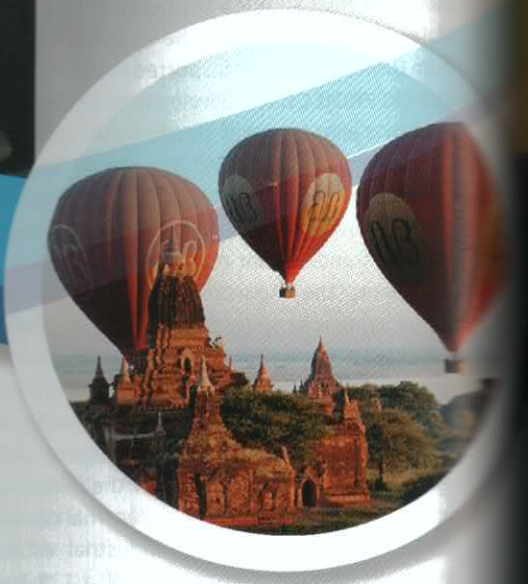
Dawei will become Myanmar's third SEZ after Thilawa, which is 23 km south-east of Yangon, and Kyaukphyu, on the Indian Ocean coast. Work on the 2400-ha Thilawa SEZ, a joint venture between Japan and Myanmar and driven by Japan's Mitsubishi, Marubeni and Sumitomo, started in November 2013. The zone became operational in 2015. Investors include clothing companies and manufacturers of electronics components. Kyaukphyu is a joint venture between China and Myanmar. With its \$2.5bn oil and gas pipeline to China, Myanmar hopes the port can rival Singapore as a petrochemicals hub.

UNDERSTANDING ISSUES: With Dawei, there is both greater awareness of the challenges and greater determination to see the development succeed. U Minn Thu Aung, managing director of Helio International, told OBG, "The establishment of the Kyaukphyu and Dawei SEZs will increase the potential of Myanmar becoming a trans-shipment hub, but before that happens rules and regulations need to be in line with international standards. Some regulations are outdated and have been used since independence."

Japan, Myanmar's leading foreign investor, has identified the country as one of the "missing links" in the logistics network across South-east Asia, particularly in the Greater Mekong sub-region. With the greater appreciation of Dawei's place in the region, it remains an immense project and funding continues to be an issue. "It is essential to boost infrastructural developments locally to support trade and economic growth," David Sold, the country manager for Maersk in Myanmar, told OBG, "The project sounds interesting but also challenging. It may be a game changer for the country if it works out and leads to much-improved and well-connected roads and railways."

The first phase of the Dawei special economic zone project involves a \$1.7bn agreement with the government of Thailand to create a 27-sq-km industrial estate and a 138-km road from Dawei to the Myanmar-Thailand border.

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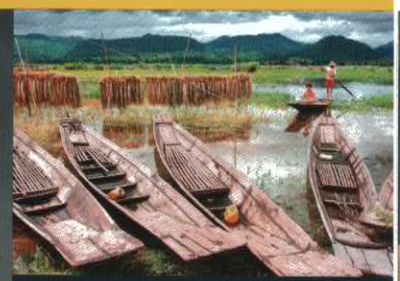
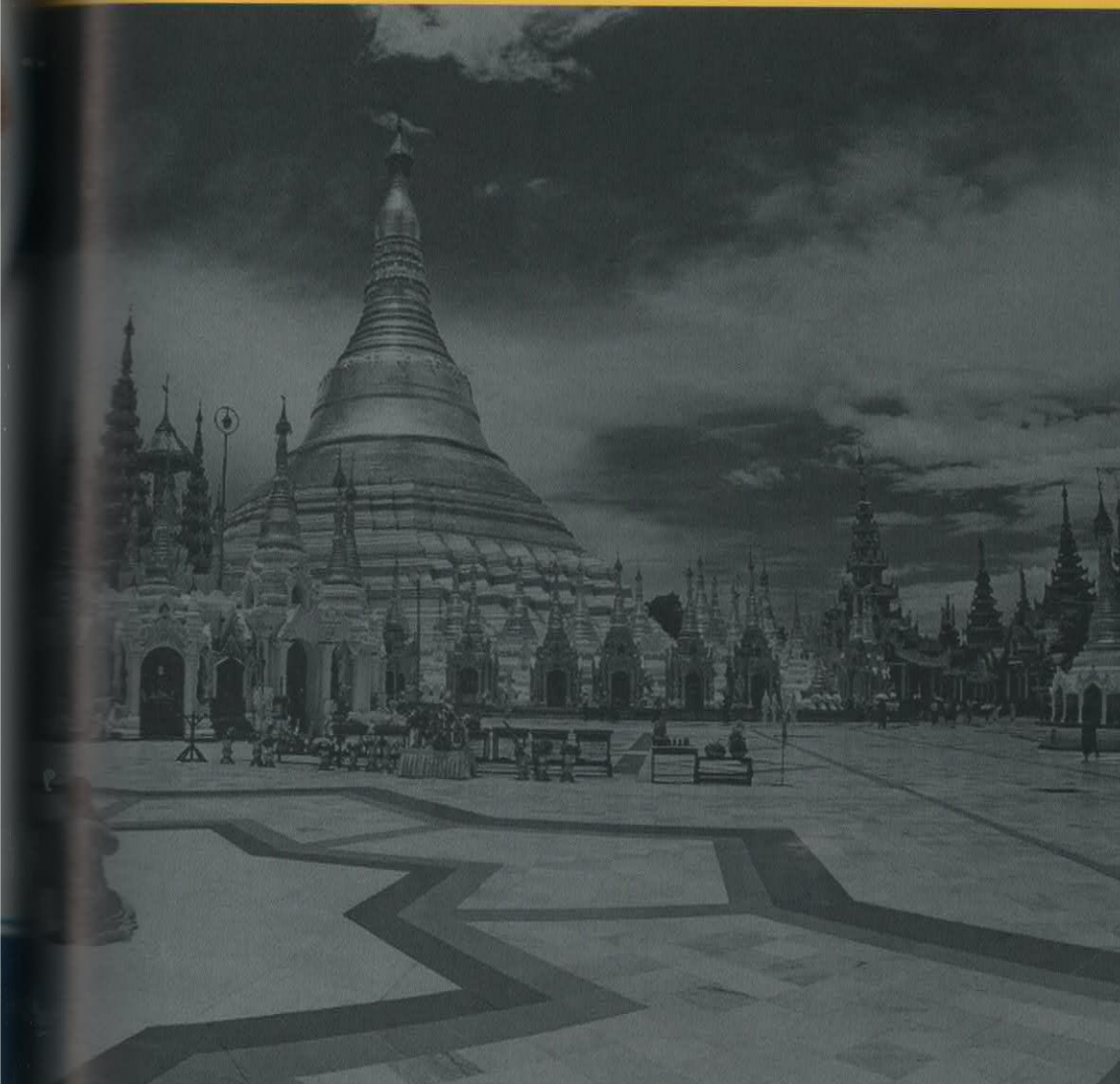
Tourism

Sector development driven by ambitious master plan

Unspoilt beaches of Mergui set to attract investors

The number of hotel rooms is growing significantly

Heritage buildings of Yangon rival other great Asian cities





The country is home to a number of cultural and religious sites

On the map

The authorities look to lay stronger foundations for growth

A total of 38 priority projects, with an indicative cost of \$486.8m, have been earmarked under the Myanmar Tourism Master Plan 2013-20.

Hundreds of thousands of foreign tourists have visited Myanmar since relations with the West thawed and the country began to open up to the outside world in 2010. While some are eager to experience the South-east Asian nation's rich culture and heritage, others are simply curious to see the once isolated country before it changes forever. At the same time, economic development is expanding the market of domestic tourists with the resources to explore their country's varied destinations.

Growth is thus creating impetus to update and expand sector resources. To meet its tourism goals, it will be necessary for the country to deliver on plans to modernise antiquated infrastructure: crucial not only to tourism, but also the wider economy. The challenges ahead include improving land, sea and air transport, and ensuring a reliable supply of electricity (see Transport & Energy chapters).

DESTINATIONS & DEVELOPMENT: Most tourists follow a well-trodden route through Myanmar's varied historic and cultural sites, from the sacred Shwedagon Pagoda in Yangon to the archaeological wonders of Bagan, the beaches of Ngapali and the unique culture of the fishing communities of Inle Lake. Myanmar is also now encouraging foreign visitors to explore new destinations and working hard to improve the overall travel experience, from hotel accommodation to aviation links.

The Myanmar Tourism Master Plan 2013-20 (MTMP), sets out the framework for the industry's development. Among other things, it focuses on sustainable growth to ensure environmentally sensitive sites are protected and that the country's different ethnic groups are respected as visitor numbers grow. Targets for expansion are ambitious. At the top end, the MTMP, which will be reviewed and updated as necessary, anticipates arrivals to reach 7.49m by 2020. More modest estimates in the plan suggest 2.82m by the plan's end.

FINANCING & ECONOMIC IMPACT: The MTMP includes a commitment to improve sector infrastructure, detailing 38 priority projects with an indicative cost of \$486.8m. These are expected to be financed by the government, private investors and Myanmar's development partners.

Officials have made tourism one of seven priority areas for private sector development, and, if the country meets its top targets, tourism receipts are expected to reach \$10.2bn in 2020, by which time the authorities estimate for as many as 1.5m people to be working in tourism-related jobs, up from just 293,700 in 2012, and contributing much to economic activity. The main employment areas for tourism by 2020 are expected to be food and beverage, transportation services, accommodation, recreation and entertainment, and travel services.

"The goal of this master plan is to maximise tourism's contribution to national employment and income generation, while ensuring that the social and economic benefits of tourism are distributed equitably," U Htay Aung, minister for Hotels and Tourism, wrote in his foreword to the report.

Licensed tour guides, 2014

English	2296
Japanese	384
French	282
German	268
Thai	138
Chinese	131
Spanish	110
Russian	69
Italian	68
Korean	30
Regional Guides	1070
Total	4846

SOURCE: Ministry of Hotels & Tourism

Besides the main sites of Shwedagon Pagoda in Yangon, the archaeological wonders of Bagan and the fishing communities of Inle Lake, the authorities want to attract visitors to new areas elsewhere.

VISITOR NUMBERS: Myanmar has seen an unprecedented increase in the arrival of tourists over the past five years, reaching 3.08m in 2014, up from 2.04m in 2013 and 791,505 in 2010, according to the Ministry of Hotels and Tourism (MHT). Although impressive, figures for 2015 suggest a more modest expansion amid uncertainty over the country's first democratic election, which took place in early November 2015. Daw Aung San Suu Kyi securing victory for the National League for Democracy, with the new administration to take office in March 2016 (see Country Profile chapter). Visitor numbers have also been affected by political developments in Thailand, especially Bangkok, which is the main gateway for visitors to reach Myanmar.

Opening the ASEAN Tourism Forum in Naypyitaw in January 2015, outgoing President U Thein Sein expressed hope that as many as 5m tourists would visit the country in 2015. U Phyo Wai Yar Zar, president of the Myanmar Marketing Committee and secretary of the Myanmar Tourism Federation (MTF), told OBG that achieving such a target was likely to be "quite challenging". Yet he is optimistic that Myanmar will remain open to outside investment after the new administration takes power in March 2016. "We believe they will be able to make the climate more agreeable for investors," he said.

The MTF's numbers show that roughly 1.58m people visited Myanmar in the first six months of 2015, using the country's three main airports and border crossings. From the period January to May about 61% of travellers entered through land borders, of which there are three with Thailand, 13 with China, three with India and one with Laos. A number of these visitors may well have stayed less than 24 hours, which under UN World Tourism Organisation (UNWTO) definitions means that they should not be counted as tourists.

The bulk of tourists coming by air travelled via Yangon International Airport, which saw 875,854



Some 1.58m people visited the country in the first six months of 2015, with the bulk of these arriving via Yangon

international arrivals between January and July 2015. It was followed by Mandalay-Bagan with 77,881 arrivals, and Naypyitaw with 9859, according to the Department of Civil Aviation (DCA).

VISITOR PROFILE: Total tourism expenditure in 2014 reached \$1.79bn, nearly double the level of 2013. Foreign visitors are staying longer and spending more. The government reports that average expenditure per tourist per day rose to \$170 in 2014, compared with \$145 in 2013. Since the reform drive began in 2010, daily average spend has grown by 42%. Official data for 2014 shows that foreign visitors made up roughly 37% of all tourists, with markets in the Asian region making up the majority at 71%.

The top source market was Thailand, at 198,299, followed by China (125,609) and Japan (83,434). The figures reflect the large number of day-trips for either business or tourism made at key borders, such as the crossing at Mae Sot in northern Thailand. Many Thais also travel to Myanmar for religious reasons, visiting key temples such as the Golden Rock Pagoda. Road improvements and more relaxed visa conditions introduced in 2015 should encourage greater tourist numbers.

Visitors from Western Europe, meanwhile, comprised about 17% of the international total in 2014, led by France, the UK and Germany. North Americans made up around 7% of foreign visitors.

DOMESTIC: Recent growth in Myanmar's own economy, and the increased disposable income that has come with this, has also given the local population more means to travel. The Asian Development Bank estimates that national GDP will expand by 8.3% in the 2015/16 fiscal year and 8.2% for 2016/17 (see Economy chapter).

Pilgrimages are popular with local travellers, and guest houses, hotels and transport services have sprung up to cater to their needs. The government

Rapid GDP growth, which is forecast to hit 8.3% in 2015/16, has led to a higher volume of domestic tourists, with an estimated 2.2m locals visiting sites in the country in 2014.



More relaxed visa conditions should encourage greater tourism

The aviation sector is key for tourism. Some 3.1m people took an international flight in or out of Myanmar in 2014, up 20% on figures from 2013 and a jump of 157% from passenger traffic in 2010.

puts the total number of domestic tourists at 2.2m for 2014, with spending on hotels and guest houses reaching MMK650.87bn (\$585.8m). There were no numbers released on domestic tourism for 2013.

The MHT has said that the total contribution of travel and tourism to the national economy was around \$3.2bn in 2014. The World Travel & Tourism Council (WTTC), meanwhile, put the total at MMK3.03trn (\$2.7bn) for 2014, or 4.8% of GDP. According to the WTTC, this total will rise by 6.7% in 2015 and reach approximately MMK7.22trn (\$6.5bn), or 6.1% of GDP, in 2025.

DIFFERENT ACCOUNTING: The discrepancy in contribution figures stems from the differing ways in which the MHT and WTTC collect and collate their data. The former reports income in terms of "total earnings", which refers to income derived from tourism activities, while the latter reports, "direct contribution to GDP", which means total income plus the government's expenditure on travel and tourism services. The WTTC also maintains its own proprietary database on tourism spending, so its figures may differ from those of the ministry.

The MHT is also being encouraged to remove day-trippers from its arrivals data in order for figures to adhere to UNWTO standards and more accurately capture the number of genuine tourists. The most recent figures from the WTTC noted that travel and tourism provided 823,000 jobs in 2013,

or 3% of the total number of jobs in the country, with this total forecast to reach 4% by 2024.

MODERNISING INFRASTRUCTURE: At 676,578 sq km, Myanmar is the 40th-largest country in the world by area and the biggest in mainland South-east Asia. However, years of isolation have left it with deteriorating rail services, a limited and poor quality road network, and unreliable aviation services (see Transport chapter).

In its 2015 "Travel and Tourism Competitiveness Index", the World Economic Forum ranked Myanmar 134th out of 141 countries, behind Haiti, Sierra Leone and Lesotho, among others. Apart from its commitment to prioritising the tourism industry, the country scored poorly in a range of areas, particularly transport networks and ICT readiness. The government is responding to the need for improvements via various policy agendas. The MTMP, for example, makes an explicit commitment to enhancing transport infrastructure, while an Air Transport Policy is also being drafted with a view to "support developments of tourism and trade".

AIMING HIGHER: According to the DCA, international passenger traffic in and out of the country stood at 3.1m people in 2014, up 20% on the 2.66m passengers recorded in 2013, and a 157% jump on 1.25m for 2010. As well as bringing visitors to the country, the importance of air travel to the tourism industry is highlighted by the number of people



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taking domestic flights, which surged to 2.22m in 2014, up 31% on 1.69m for 2012. There were no figures recorded for 2013.

Given the poor state of the country's roads and railways, many tourists choose to take local flights to visit the key sites. Myanmar currently has nine domestic airlines providing services to 27 destinations, but paper tickets are still the norm, and flights are often cancelled or combined if the carrier does not sell enough tickets.

Yangon International Airport remains the main international gateway to the country and is currently being expanded to cater to as many as 6m arrivals per year by 2017. Some 31 airlines including Malaysia's AirAsia, Thai Airways, Singapore Airlines, China Eastern, China Southern and Qatar Airways, offer international connections to Yangon. Four airlines also offer direct flights to Mandalay, while three provide flights into the capital Naypyitaw.

NEW AIRPORT: Even as Yangon is upgraded, work is also progressing on the new international airport at Hanthawaddy (about 70 km north of Yangon), which will have the capacity to handle 12m passengers a year once it is completed in 2022. The \$1.5bn airport will be built by a consortium from Singapore and Japan, and is what the DCA calls a "hybrid public-private partnership", involving both foreign direct investment matched by official development assistance. Delays in finalising the official development assistance component of the financing have held up the construction of the airport, which was originally scheduled to open in 2018.

The Ministry of Transport has budgeted MMK23.4bn (\$21.1m) for aviation upgrades and construction for the fiscal year 2015/16, with Japan providing a significant investment of \$12m as part of this financing (see Transport chapter).

CARRIERS: There were 14,759 flights in 2014 compared with 12,205 in 2013, according to the MHT. Load factor averaged 63.5%, little change on 63% recorded for 2012. Myanmar remains mostly reliant on foreign airlines to bring people to and from the country, although some domestic carriers are now starting international services.

In August 2015 Myanmar Airways International began flying between Yangon and Singapore three times a week, competing with Singapore Airlines and its regional unit, SilkAir, as well as low-cost carrier TigerAir and JetStar Asia.

Safety concerns have long been an issue. In August 2015 Air Bagan suspended operations after a series of incidents. To address this, some tour operators in Yangon are willing to change airline bookings if clients express concern about travelling on particular carriers. The DCA is committed to raising standards and is updating laws and regulations to improve oversight.

IMPROVING ACCOMMODATION: Even under military rule, Myanmar attracted a steady crowd of older, well-heeled tourists, but in 1995, then-opposition leader Daw Aung San Suu Kyi, urged tourists



In 2014 there were a total of 43,243 hotel rooms, up 24% on 2013

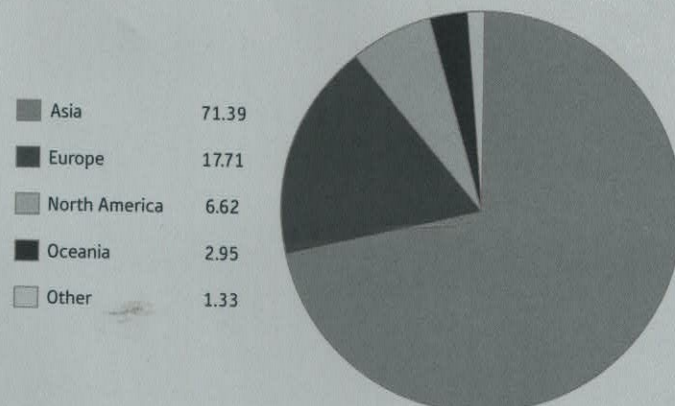
to, "stay at home and read some of the many human rights reports". Visitor numbers dwindled. Along with the rest of the country, the already limited number of four- and five-star hotels fell into decline as Western sanctions kept investors and most international hotel management companies away. Even now older properties, including those marketed as five star, are reminiscent of hotels in other parts of South-east Asia two or three decades ago, and often do not live up to their billing.

However, in the past couple of years expansion has accelerated and international hotel companies are beginning to make their mark. Increased competition has forced existing hotel operators such as Sedona, part of Singapore-based Keppel Land Hospitality Management, to renovate their properties. Room rates have also started to come down, amid complaints from tourists that hotels were too expensive and did not offer value for money.

According to the MHT, Yangon had 287 hotels in 2014, offering 13,146 rooms. For the country as a

While the majority of visitors reach Myanmar via foreign airlines, domestic carriers have begun international services, including routes to Singapore.

Foreign visitors by nationality, 2014 (%)



SOURCE: Ministry of Hotels & Tourism



Around one-third of visitors in 2013 and 2014 travelled independently

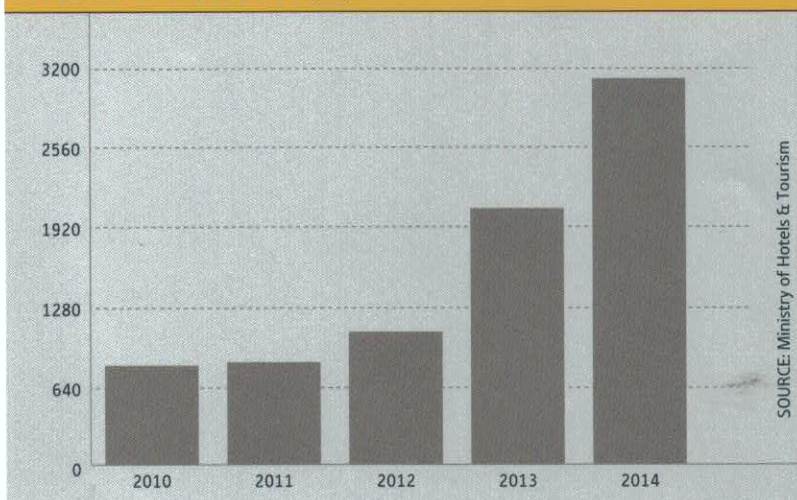
Foreign investment in the hotel segment stood at \$2.56bn in 2014, which included 46 projects and 9443 rooms. Singapore accounted for \$1.53bn and 20 projects, followed by Vietnam and Thailand.

whole, there were 1106 hotels with 43,243 rooms, 24% more than in 2013. That follows a similar rate of expansion in 2013 and growth of 13% in 2012. The trajectory is set to continue, with more than 1000 new hotel rooms expected to become available in Yangon in 2015, according to real estate consultancy Colliers International.

NEW ENTRANTS: French group AccorHotels, the biggest hotel operator in the world, with some 3792 properties globally, is expanding its offerings in Myanmar's largest and most dynamic city, Yangon, as well as other major tourist destinations. The 366-room Novotel Yangon Max opened in 2015, joining the Lake Garden in the administrative centre of Naypyitaw and the Novotel Inle Lake, which opened in 2014.

AccorHotels is developing its portfolio in Myanmar through local joint ventures, with its domestic business partner owning the land and the French firm managing the properties. It is also expected to open two budget Ibis properties in the country.

Tourist arrivals, 2010-14 (000)



Meliá, the Spanish hotel group, which operates more than 350 hotels internationally, will open the luxury Meliá Yangon in 2016, as part of the \$550m Hoang Anh Gia Lai (HAGL) Myanmar Centre project. The hotel, a partnership with Vietnamese developer HAGL, will include 400 rooms, as well as a spa, several restaurants and a number of meeting rooms, and is Meliá's first hotel in Myanmar.

HIGH-END PROJECTS: Construction on the glass-clad Daewoo-Amara Hotel Project near Inya Lake began in February 2014. The \$200m complex, which is due to open in 2016, will include 661 rooms in two towers: one a five-star hotel and the other a serviced apartment building. Korean investors, Daewoo International and Lotte Hotels & Resorts, own 85% of the development, which is being built under a build-operate-transfer contract with the Myanmar government.

Meanwhile, German hotelier giant Kempinski, is working with partners from Thailand and Myanmar to transform the colonial-era State House building on Strand Road into a luxury hotel. Kempinski, which already operates a 141-room hotel in Naypyitaw, will manage the new property. The facility is expected to open after 2016.

Despite the interest of European and East Asian developers, hotel investment continues to come largely from the Asia-Pacific region, with Singapore, which is also Myanmar's biggest foreign investor overall, leading the way. Foreign investment in the hotel segment reached \$2.56bn in 2014, involving a total of 46 projects and 9443 rooms. Singaporean companies were behind nearly 60% of that sum, investing \$1.53bn in 20 projects, followed by Vietnam (the single HAGL development) and Thailand, with 10 projects valued at \$339.75m.

OFF THE BEATEN TRACK: More intrepid investors have begun to open smaller boutique properties to cater to independent travellers. According to government data, about one-third of visitors travelled independently in 2013 and 2014, including domestic visitors looking to explore and get off the beaten track. Others are partnering with local communities to develop projects that directly help the residents of the area. Such projects tend to be welcomed by central government, which is keen to promote sustainable tourism. However, securing the necessary permits from the local authorities can be time consuming, taking at least a year and, in some cases, as long as two years.

Myanmar is also looking to investors to open up some of the country's more far-flung locations. From hiking in the mountains to the white-sand islands of Mergui (or Myeik) Archipelago in the far south (see analysis), Myanmar has the potential to offer visitors far more than the heritage and culture that are currently the mainstay of the country's tourism industry. Comprising more than 800 islands dotted across the Andaman Sea, Mergui has particular appeal, and great potential. While many of the islands are uninhabited and lack basic

ilities or infrastructure, others are home to the Moken, a group of people known as “sea gypsies”, who live a semi-nomadic lifestyle at sea.

Getting to Mergui is difficult and requires a special permit. Many visitors to the archipelago choose to enter Myanmar through the Thai border at Ranong where they receive a visa that allows a short visit only to Mergui, rather than fly through Yangon. Tour operators are urging the authorities to ease visa provision at the border post and allow visitors to travel elsewhere in the country.

Currently, there is only one sizeable hotel in the archipelago – the Myanmar Andaman Resort – which underwent major renovation in 2014. The hotel has 22 chalets on Macleod Island and defines itself more as an ecolodge than a luxury resort. Another project is under construction, and in 2015 the central government was considering whether to approve construction of up to 30 hotels. One of the most ambitious is a \$1.2bn project by Singapore-based Zochwell Group to create a “new Phuket”, which will include a casino.

GREAT OUTDOORS: Travel agents are also keen to highlight potential outdoor adventures in the north and west of the country, in places such as Chin State, where the foothills of the Himalayas begin and mountains and rivers carve through the landscape. Official permits are required for some areas and, for now, conditions are basic. A select

few tour operators have also begun to offer trips to the Hukaung Valley Wildlife Sanctuary, the world’s largest tiger reserve, and also home to endangered animals such as leopards, sun bears and elephants.

RAISING ITS PROFILE: Myanmar’s status as the “last frontier” of South-east Asia has meant that the country has needed to do little in the way of marketing to attract intrepid foreign tourists. Nonetheless, sector players contend that officials now need to develop a comprehensive strategy to entice a wide range of visitors to the country, as well as encourage return travellers. “Thailand is not Myanmar’s competition”, Achim Munz, a resident representative of the Hanns Seidel Foundation, a German political foundation, and someone who has worked closely with the authorities on developing sustainable tourism, told OBG. “It is the country’s big brother. Myanmar can learn from it.”

Myanmar hosted the 34th ASEAN Tourism Forum in January 2015 and stepped up international marketing campaigns during the year. The country’s tourism representatives attended the three largest travel shows globally in 2015, namely ITB Berlin, World Travel Market in London and the Japan Association of Travel Agents Expo.

The MTMP also recognises the need for Myanmar to spread arrivals across the year and many hotels now offer steep discounts during the monsoon, which generally lasts from May until October.

Myanmar stepped up its international marketing campaign in 2015 by hosting the 34th ASEAN Tourism Forum and sending representatives to ITB Berlin, the World Travel Market in London and the Japan Association of Travel Agents Expo.

Location & Surrounding

Hotel Yangon beautifully sits on 8 acres of landscaped garden, ideally located in 8th mile junction area, just 4.5 km away from Yangon International Airport, 3 minutes walk to Junction 8 Shopping Center, across the road to Myaing Hay Wun Food Center and 5 minutes drive to Ocean Super Center.

The hotel proposes 136 rooms and suites, including 80 Deluxe rooms, 24 Executive Suites, 17 Executive Lounge Deluxe, 11 Executive Lounge Suites and 4 Royal Suites.



Resolution Facilities

- Telephone
- Central controlled Air-condition
- Cable TV
- Elevator
- Hot Water
- Gold Shower
- Tea making Facilities
- Internet Access
- Deposit Box

Guests Facilities

- Welcome drinks upon arrival
- 24 hours reception
- Shopping Arcade
- Doctor on call
- Airport Limousine & Car rental service
- Business Center
- Laundry Service
- Fitness Center
- Spa
- Bar

Dining

- Café Yangon International Restaurant (Ground Floor)
- Daily International Buffet Breakfast for all guests
- Set menu and A La Carte menu available for lunch and dinner
- Yangon Seafood Restaurant (12th Floor) For lunch and dinner only with A La Carte menu

Business & Conference Facilities

418 sq-meters Royal Ball Room for Wedding, Conference, Theater, Class Room and Standing Cocktail Reception

Contacts:

Hotel Yangon
 No. 91/93 Corner of Pyay Road & Kabaraye Pagoda Road,
 8th Mile Junction, Mayangone Township, Yangon, Myanmar.
 Tel: (95-1) 9667 708, 9667 688
 Fax: (95-1) 9667 752
 hotelyangon@hotelyangon.com.mm
 www.hotelyangon.net



The 1993 Myanmar Hotel and Tourism Law provides guidance on investment in tourism and licensing procedures

The 2012 Foreign Investment Law identified tourism as a priority sector for development and outlines where and how foreigners can invest.

RAISING STANDARDS: Efforts are also under way to boost service standards, which often do not meet the expectations of tourists used to the exemplary treatment they receive elsewhere in Asia. Very few young people currently have a strong command of English, though many are eager to practise and learn.

"It is very important [for us] to train our people to give quality service to visitors," U Phyo Wai Yar Za told OBG. "We need people with the right attitude and skills to run the show." Most leading hotels now employ foreigners or Myanmar citizens who have lived and worked overseas as general managers, or in other senior positions of responsibility, to run their operations. This also allows them to mentor their staff more effectively. AccorHotels, for example, operates its own academy to train staff for its properties and operations in Myanmar.

SECTOR REGULATION: Decades as a centrally planned economy have left Myanmar with many antiquated laws, some of which date from colonial times, as well as bureaucracy of a sometimes daunting scale. In tourism this can make planning and logistics somewhat time-consuming and expensive for travellers to visit certain areas of the country. Moreover, it creates unpredictability for investors, particularly foreign.

The sector is governed largely by the 1993 Myanmar Hotel and Tourism Law. It defines the functions of the MHT and provides guidance on investment in tourism and licensing procedures. The Myanmar Responsible Tourism Policy, meanwhile, details the country's ambition to create an industry that provides jobs for local communities, while also preserving Myanmar's unique array of cultures and diverse natural environment.

New laws passed by Parliament since reforms began in 2011 also have an impact on tourism. The 2012 Foreign Investment Law made tourism

a "priority" sector for development and maps out where and how foreigners can invest. In addition, the Minimum Wage Law, which sets out a threshold of \$2.80 for an eight-hour working day, came into force in September 2015.

EASING TRAVEL RESTRICTIONS: The government has also moved to reduce red tape associated with visas. The introduction in 2014 of an online eVisa for tourists entering through Yangon, Mandalay and Naypyitaw has been widely welcomed.

Visitors can now apply for their visas online and secure approval within five days. The programme was expanded to business visitors in July 2015, but is not available at land crossings.

Officials are also working to secure bilateral immigration agreements to ease travel not only for visitors to Myanmar, but for citizens from Myanmar who want to go overseas. An agreement with Thailand was finalised in July 2015 allowing visa-free visits for citizens of both countries for up to 14 days. However, Myanmar has not yet implemented the ASEAN Framework Agreement on Visa Exemption, which, among other things, is aimed at boosting the tourism sector and provides a 14-day exemption to citizens of ASEAN member states from tourist visa requirements of other ASEAN states who are also party to the agreement.

A growing network of automated teller machines and wider acceptance of credit cards is also making life easier for international visitors. Cash, however, remains the preferred means of payment, even when purchasing items such as plane tickets.

OUTLOOK: The year 2016 has been designated "Visit Myanmar Year" by the MHT and will provide an opportunity for the country to step up its international marketing campaigns to encourage people to visit. With significant hotel capacity and new transport infrastructure needed, the challenge will be to manage the expansion of the tourism sector in a sustainable way so that all parties can benefit.



Preserving the country's diverse cultures is a key policy objective

The authorities are continuing to explore bilateral agreements to ease travel both for visitors to Myanmar and for Myanmar citizens who want to travel overseas.



U Yan Win

Open for business

OBG talks to U Yan Win, Chairman, Myanmar Tourism Federation (MTF)

Where does investment need to be focused to ensure the sustainable development of Myanmar's tourism industry in the coming years?

YAN WIN: Since 2011, the tourism industry has been gaining ground and assisting in the development efforts of Myanmar, with a substantial growth in international tourist arrivals and foreign direct investment. The MTF recognises that tourism is a labour-intensive industry, employing workers with low to high skillsets, and can provide one of the most accessible ways to reduce poverty. However, we can only achieve this if the quality and standards of our tourism products and services match what international visitors expect when they come to our country. Encompassing all aspects of inclusive growth and sustainable development over the medium to long term, our vision is clearly defined. It focuses on promoting Myanmar as a tourist destination, assisting in the process of sustainable tourism development, encouraging private investment and developing human resources in the sector.

How will the promotion of ecotourism assist the government in developing a green economy?

YAN WIN: The outcome of the International Conference on Ecotourism in Protected Areas, which was organized in Naypyitaw by the International Centre for Integrated Mountain Development (ICIMOD), and jointly hosted by the Ministry of Hotels and Tourism and the Ministry of Environmental Conservation and Forestry, focused on ecotourism as a mechanism to strengthen livelihoods, adaptation and conservation. We now have the Myanmar Ecotourism Policy and Management Strategy, which was launched during the opening day of the conference. This prioritised 21 areas in our policy and management strategy, including response to climate change, regional environmental and economic challenges, contribution to capacity building, research, and the development of

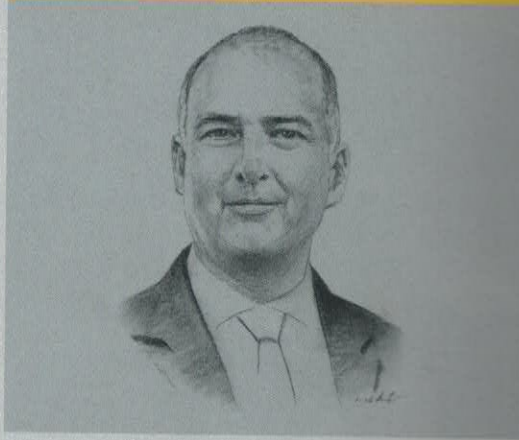
green technologies. It also outlines strategies for promoting national and international cooperation and defines how ecotourism can finance nature conservation with the help of host communities. Promoting ecotourism in Myanmar is a vital component of the government's effort to develop a green economy.

What can be done on a government-to-government level to increase tourism and connectivity between ASEAN members?

YAN WIN: The MTF is actively involved in ASEAN integration and in preparation for the ASEAN Economic Community (AEC). The recent ASEAN Tourism Forum, which we hosted for the first time since we joined the organisation, was a milestone achievement for our tourism industry. We gained experience as the host country and had the opportunity to let the region and the world know that Myanmar is a "must visit" destination for all international visitors. To increase tourism and connectivity between ASEAN members, there is an urgent need on a government-to-government level to implement the ASEAN Tourism Strategic Plan which focuses on travel facilitation, enhancing market awareness, diversification of destinations, improving tourism worker service skills and the adoption of innovative approaches to destination planning and product development.

In your opinion, why is Naypyitaw best suited to foster the meetings, incentives, conferencing and exhibitions (MICE) segment?

YAN WIN: Naypyitaw is the administrative capital of Myanmar and it has already successfully hosted the South East Asian Games in 2013. Naypyitaw also hosted the ASEAN Summit and related ASEAN high-level meetings during 2014. Naypyitaw is an excellent MICE destination because we have the right logistics in place to support existing central government ministries and many international level venues.



Anders Aeroe

New horizons

OBG talks to Anders Aeroe, Director of the Division of Market Development, International Trade Centre (ITC)

How will the ITC's Inclusive Tourism project enhance the tourism sector in Kayah State?

AEROE: Myanmar is emerging as an important new trade and investment partner, as well as travel destination in South-east Asia. It is estimated that 5m visitors will visit the country in 2015, up from 3m in 2014. Myanmar offers tourism experiences that cannot be found elsewhere. Beyond Myanmar's top destinations (Bagan, Mandalay, Yangon and Inle Lake), there are many authentic places to discover. Kayah State is one of them. Endowed with pristine nature plus cultural diversity, Kayah is one of the states in Myanmar with the greatest potential to attract visitors. Despite this, it is one of Myanmar's poorest states, with limited infrastructure. These factors led the ITC, in collaboration with the government of Myanmar, to set up an inclusive tourism project in Kayah State. The project, funded by the Dutch government, runs from 2014 to 2017 and focuses on cultural and ecotourism as a platform for job creation in poor rural communities.

Thanks to excellent collaboration with Myanmar and great interest from the tourism community, it is expected that the value of tourist spending will increase 20% in Kayah State along with a 30% rise in local products and services supplied to the tourism sector in the state. Two new cultural tourism tour packages are being created. Tourism performance will be strengthened and tour operators will have better insight into export market operations. The aim is to boost the tourism infrastructure's ability to cope with and, at the same time benefit, from an anticipated growing influx of tourists to the country.

What measures are being taken by the ITC to ensure that the history and the landscape of the Kayah region remain intact?

AEROE: Finding the correct balance between economic development and the environment is critical.

To mitigate the impact on the environment, the project will focus on supporting tourism-related activities in a sustainable and participative way, while ensuring there is awareness of responsible tourism and ecological preservation.

With these principles in mind, ITC helped develop, with local communities, cultural tourism tours in six traditional villages and put in place creative activities for tourists in weaving centres in Loikaw and Demoso and at the Ethnic Museum in Loikaw. Local knowledge and culture is celebrated, and what communities are ready to show to tourists is fully respected. Sustainability training with hotel and restaurant businesses is being carried out, and codes of conduct for excursions to the different communities in the state are being developed in a thoughtful and constructive fashion.

What are some priorities that have been identified in terms of increasing the export capacity of tour operators in Kayah State?

AEROE: The tour operators in Myanmar which cater to foreign tourists are eager to include the new Kayah State tourism products in their offerings. Some 16 of these tour operators have worked to develop an export marketing plan and have already begun implementing it, and 25 tour operators are being coached by ITC to better reach international markets and increase their capacity in order to engage with these markets.

ITC has also supported the development and growth of Myanmar's tourism marketing and branding guidelines, enabling a strong, culturally significant, yet simple and dynamic brand to emerge. It is training private tourism sector associations and staff in the Ministry of Hotels and Tourism on the use of these guidelines. ITC is committed to working with Myanmar to make sure that Kayah State remains a "must-see" destination for years to come.



The 800-island Mergui Archipelago is home to just 2000 people

A hidden gem

The natural beauty of Mergui has caught the eye of developers

Deep in the south of Myanmar, the Mergui Archipelago is almost off the map. Mostly uninhabited, the islands are home to around 2000 people, mostly Moken, known as “sea gypsies”, many of whom are skilled divers and fishermen living a semi-nomadic lifestyle. Some of the roughly 800 limestone and granite islands are just rocks jutting out of the sea, while others are clad with untouched forest and fringed by white sandy beaches. With its natural beauty, this Andaman Sea archipelago is attracting attention and could be the next frontier in Myanmar tourism.

ATTRACTIVE: Although the Myanmar Tourism Master Plan 2013-20 (MTMP) makes no reference to developing Mergui, with its coastal plans focussed on the Indian Ocean coast, the authorities are nevertheless considering whether to allow developers to build as many as 30 new resorts on the island chain. If they give their backing to the proposals, it will mark a huge step forward for the region’s fledgling tourism industry.

Until 20 years ago, the area was completely off limits to foreigners, and even now every international visitor is required to have a special permit, which costs about \$100 per person, depending on the length of the trip and the location, and takes at least two weeks to secure. The necessity for permits reduces flexibility for tour operators and makes it difficult to allow changes to bookings or sell products “last minute”.

There is currently just one hotel in the archipelago, Myanmar Andaman Resort, a rustic facility with 22 chalets on Macleod Island (many of the islands retain the names given to them by the British). For the Mergui area as a whole, including the mainland, the Ministry of Hotels and Tourism (MHT) reports that there were five hotels, motels and guest houses offering a total of 196 rooms at the end of 2014, which is more than double the number in 2013. By contrast, Ngapali, the country’s premier beach destination, around 400 km north-west of Yangon, had a total of 23 hotels and 826 rooms at the end of 2014, according to the MHT.

SAILING: For now, most visitors to Mergui arrive on sailing holidays, spending a few days aboard a yacht travelling around the archipelago, swimming, diving and soaking up the sun. Joining a group tour makes it easier to manage the red tape associated with a visit to the area. Sailing is also one of the best ways for tourists to appreciate the natural beauty of the archipelago. The islands are so sparsely populated that it is possible to sail for days without meeting anyone else.

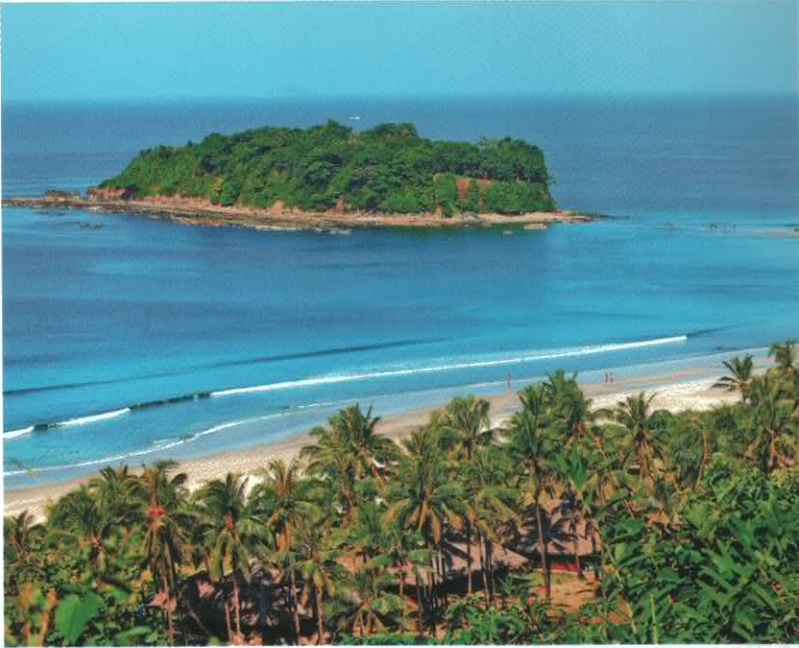
Burma Boating, which started its third season in Mergui in 2015, expects as many as 600 people to join its sailing trips in the archipelago in 2016. Adrian Zdrada, sales director at Burma Boating, told OBG. In the company’s first season, he estimates that this number stood at about 80, with most customers coming from Europe and the US, with a few Australians.

ON THE LIST: At a high-level tourism conference in Naypyitaw in early 2015 the MHT declared the islands, “on the list” of locations to be developed for tourism, according to Zdrada, who was in the audience and managed Myanmar Andaman Resort before joining Burma Boating. However, there have not been any announcements of incentives specifically for investments in the Mergui. “The situation is going in the right direction, but the part that is missing is a very clear message that the government wants to make Mergui a major tourist destination, that it will be developed in a sustainable way,” Zdrada told OBG.

Initial steps have been taken. In 2012 Myeik Public Corporation was set up to invest in new resorts in the Mergui, which is also known as Myeik in Myanmar. After initially proposing four developments, it is now focussing on a \$4m project on Kadan Island, the largest in the archipelago and a 45-minute boat ride to the mainland and the town of Myeik, the commercial centre for the region. Work started in March 2015 and the company hopes to welcome its first visitors in 2018.

AMBITIOUS: The most ambitious plans come from property developer Zochwell Group, which wants to

In 2014 there were five hotels, motels and guest houses across the Mergui area, offering a total of 196 rooms. Though this is more than double the number in 2013, it is significantly less than the 23 hotels and 893 rooms serving tourists in Ngapali, the premier beach resort.



The authorities are being urged to consider the sensitive marine environment when planning development

build a \$1.2bn marina, luxury hotel and casino complex on Victoria Island, only two nautical miles from the mainland. Further ahead, Zochwell intends to build a bridge linking the island to Kawthaung. It also plans to upgrade the local airport.

The LuxDream project, if given the go-ahead, will be developed under a build-operate-transfer agreement with the Tanintharyi Regional Government. Zochwell Salon Development, the company undertaking the project, is awaiting approval from the Myanmar Investment Commission, with the first phase, involving the marina and the 120-room hotel, expected to take around three years to complete. "We want to create the next Phuket, the maritime tourism hub of Myanmar and the Mergui," Gareth Chin, chief executive of Zochwell Group, told OBG. "We expect 60% of our tourists to be domestic and 40% international. Myanmar has a huge population of 51m and, in time to come, the middle class will increase in numbers and form the mass of our visitors," he added.

ECO-SENSITIVE: The authorities are being urged to introduce strict environmental guidelines for developers and investors in the archipelago. Environmental groups are concerned about the impact on an area which remains pristine and home to a sensitive ecosystem. Burma Boating hopes that legal protections currently given to Lampi Island and the seas around it, can be extended so the entire archipelago is recognised as a marine national park. Mergui's isolation means there is next-to-no infrastructure to support large-scale construction. All materials would need to be transported across the sea from the mainland and work would only be possible during the dry season as the islands are all but cut off during the monsoon.

LOGISTICS: Zdrada told OBG that building new resorts will require deep pockets, not only to complete construction, but also to cover the cost of operations. New investors will also need to consider power and energy sources, with solar one option (see Energy

chapter). Transport for both guests and supplies, communications (especially in case of an emergency) and potable water are other key issues for discussion. The bigger the hotel, the greater the need and the higher the cost, particularly given the short season.

Experience also shows how challenging it can be to get a project off the ground. While the Htoo Group, a local holding company working in the sector, has been given permission to develop a number of resorts in the archipelago, no work has yet taken place.

Holiday companies operating in the area require licences, which cost \$4000 for two years. Boats sailing around the islands also require an MHT guide on board, although as a sign of how times have changed, in recent years the guides are no longer provided by the military or armed forces.

WEATHER THE WEATHER: The weather is another significant factor for potential investors. The best time of year to visit Mergui is between November and April. The sea and the wind start picking up in May, when there is also a risk of hurricanes. The monsoon rains arrive in July and last until October. At sea, the swells can reach as high as three metres. The resort closes and boats stop sailing during this time. "The dream is to make this the new beach destination," Achim Munz, a resident representative of the Hanns Seidel Foundation, a German political foundation, told OBG. "The biggest problem will be the weather. The whole of Myanmar is plagued by the rainy season. In Ngapali many of the resorts close for months and Mergui is even more remote and out in the open sea," he said.

ACCESS: The nearest domestic airport is at Kawthaung, which is currently served by Yangon-based Air KBZ and Mandalay-based Mann Yandanaporn Airlines. The flights, which stop in Dawei and Myeik, take three hours and cost about \$200 for foreign travellers. Most tourists, especially those coming to sail, currently choose to enter Myanmar via the Thai border crossing at Ranong, which has direct flights and express bus services to Bangkok, and good road connections to Phuket. Zdrada estimates about half those joining Burma Boating trips enter the country this way. Those arriving through Ranong have to take a boat across the river to Myanmar after clearing Thai immigration, and unless they apply for a visa ahead of time, their entry permit will allow them only to travel in the archipelago, limiting the options for onward travel.

While Mergui has attracted interest from foreign tourists, the potential from the local market may be more subdued. As well as the expense involved pricing out many domestic travellers, the archipelago may not offer the type of exciting atmosphere people from Myanmar want. Daw Su Su Hlaing, managing director of Ayarwaddy Travel and Tours, told OBG. Those who can afford it will go to Phuket or Koh Samui.

Mergui may have significant potential as a beach destination, but the mass tourism that has spurred the development of neighbouring Thai resorts looks unlikely to unfold in the archipelago. Its future is thus more likely to remain a niche destination appealing to those with the means to get "away from it all".

The tourist season in Mergui is short, with the best time to visit being between November and April, with monsoons lasting for the bulk of the remaining months.



A total of 189 buildings in Yangon are listed as "historically important"

Heritage city

Rich architecture offers visitors to Yangon a glimpse into the past

As little as five years ago, Yangon was a dark and crumbling city, the roads largely quiet apart from the occasional decrepit taxi. Now the streets of Myanmar's biggest city are filled with second-hand Japanese saloons, mostly used as taxis, and the sky punctuated by cranes adding high-rise buildings. Despite rapid development, and unlike other South-east Asian cities, Yangon has retained many of its heritage buildings; an unparalleled collection of 19th and early 20th century architecture. "I do think the heritage buildings of Yangon play a very important role for tourism in Myanmar," U Phyo Wai Yar Zar, president of the Myanmar Marketing Committee and secretary of the Myanmar Tourism Federation (MTF) told OBG. "There are more churches than pagodas in Yangon!"

PIONEER: The Yangon Heritage Trust, which is based in a 1920s building that once housed the Ministry of Information, is leading efforts to maintain and restore heritage buildings. The trust started offering walking tours of the city in September 2014, with more than 1000 tourists having joined so far. Private guides are also available for architectural students, and there are free tours for local residents to help them learn more about their city. The trust's tour guides, who all speak English, focus not only on the city's history, but the often colourful stories behind the buildings. The walks are rated highly on the online travel platform TripAdvisor. "People are becoming more interested in our heritage tours," Daw May Thway Ko, special assistant to the chairman at the Yangon Heritage Trust, told OBG. "Previously, Yangon was just a stop-over on the way to the rest of the country," she said.

PARTNERSHIP: The trust works closely with the government and city authorities. Some 189 buildings around the city have been listed as "historically important" and are protected by law. Where developers once found it easy to get buildings demolished by labelling them as too dangerous to live in, there is now greater awareness about the benefits of preserving

the past. A blue plaque project, sponsored by Philips Consumer Lifestyle, the electronics and appliances arm of the Dutch giant, has also been initiated. There are currently eight plaques located around the city, including at City Hall, the Fire Station and Armenian Church. "Yangon city (centre) should be kept as it is," U Win Khaing, president of Myanmar Engineering Society, told OBG. "Tourists do not come here to see what they can see in their home countries. We cannot build a better skyscraper than they have."

A DIFFERENT MODEL: Other cities in South-east Asia, notably George Town in Malaysia, Hoi An in Vietnam and Luang Prabang in Laos, which are listed as UNESCO World Heritage Sites, have struggled with maintaining their authenticity without becoming trapped in the past. A public forum organised by the Asia-Europe Foundation in June 2013 titled "Conservation Strategies for Yangon's Heritage" recommended that the municipal authorities leverage on the city's architectural heritage to create a "great, liveable city with unique, urban characteristics". The transfer of many government departments to Naypyitaw in 2005 left some of Yangon's largest heritage buildings empty. While some are slowly being reclaimed by the jungle, developers have negotiated leasing agreements for others, to allow for their reuse as museums and hotels. SPA, in partnership with its Singapore-listed arm Yoma Holdings, announced in 2012 a \$350m plan to develop the site of the former head office of Myanmar Railways into a five-star hotel among a sprawling complex of shops, offices and residential homes.

A luxury Kempinski Hotel is also due to open in the former Police Commissioner's Office at the end of 2016. Other buildings are so vast, and dilapidated, that it is difficult to come up with solutions. The expansive State Secretariat building remains largely abandoned, although the room where independence hero U Aung San was assassinated has been preserved. It is estimated that it will cost as much as \$100m to restore.

As part of efforts to maintain the character of Yangon, a number of colonial and historical buildings are being redeveloped as galleries, museums and luxury hotels.

The authorities are seeking lessons learnt from other heritage centres in South-east Asia to ensure that Yangon achieves a balance of authenticity and urban dynamism.



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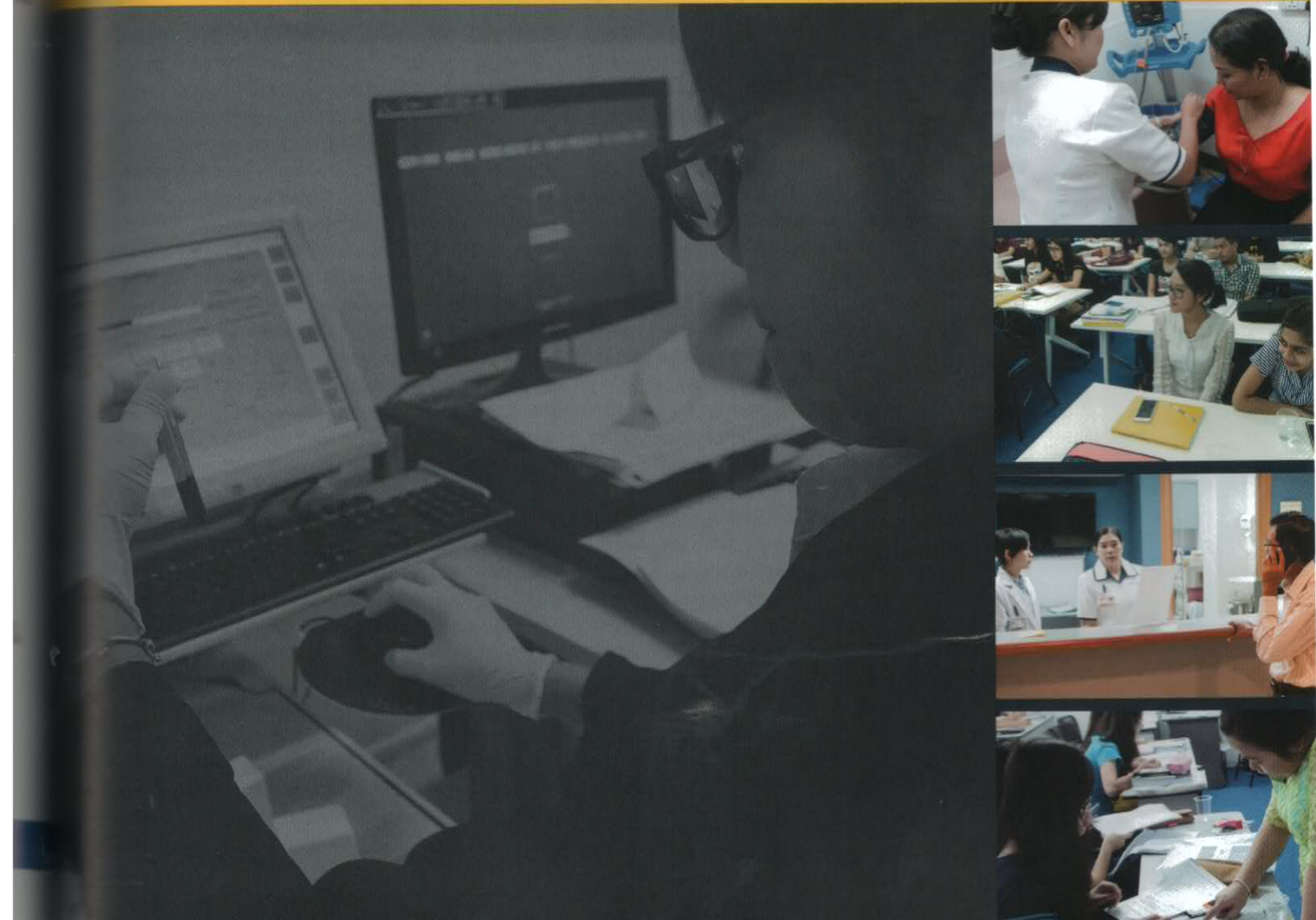
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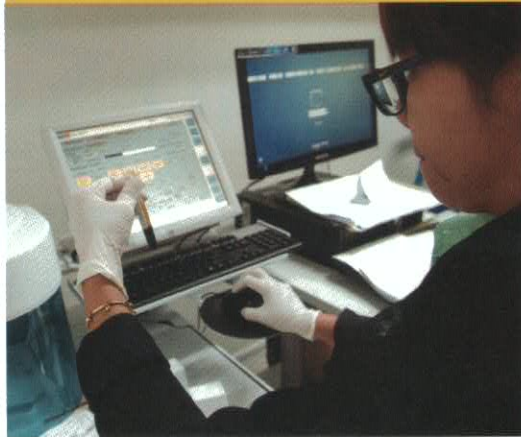
Facility upgrades are under way in local hospitals

International pharmaceutical firms eye the market

Government expands the reach of free schooling

Increased funding helps tackle education challenges





Specialised tools and equipment are often undersupplied in hospitals

Social developments

An overstretched system is set to receive more funding

The government is focusing on health care development in an effort to reach the ambitious national goal of achieving universal health coverage by 2030.

For the most part, Myanmar's resilient economy has grown dramatically since the easing of international sanctions, while health care expansion has been modest at best. Although the outgoing government under U Thein Sein increased spending on the sector from K92bn (\$71m) in FY 2010/11 to K691bn (\$533.5m) in 2015/16, Myanmar remains behind its ASEAN counterparts by this measure.

NEW MANAGEMENT: As a result, access to basic health care is lagging, with preventable diseases such as malaria, acute respiratory infections and diarrhoea among the top causes of death. However, the landslide victory by the National League of Democracy (NLD) in the November 2015 general election bodes well for the industry. Under the leadership of the NLD's chairperson Daw Aung San Suu Kyi, health care is key to the national agenda.

Over the last few years, gradual progress has been made in the overhaul of Myanmar's medical framework, and for the first time many rural communities are benefitting from the expansion of the nation's health care budget. However, after decades of neglect due to mismanagement and very low public spending under military rule, the challenges of achieving universal health coverage by the 2030 government deadline remain vast.

FRAMEWORK: Health care is provided by six groups: the public sector, private hospitals or clinics, donor agencies, clinics not run by the central government, NGOs and, in some cases, the military. The Ministry of Health (MoH) is the primary public-sector provider of health care in the country. The MoH is responsible for 2020 hospitals nationwide, 16 of which are dedicated to traditional healing methods, with a combined total of 55,305 beds nationwide, according to 2013 statistics.

Specialised tools and basic diagnostic equipment are often lacking. The reach of the MoH is considerably restricted, with specialist hospitals (only in

the business capitals of Yangon and Mandalay) significantly overstretched and patients far exceeding the number of available beds. Rural hospitals and clinics under the MoH offer no specialist services and are not present in most of the country's conflict zones. Instead, these no-go zones, which have the lowest standard of living, are often manned by ethnic health organisations and community-based health organisations, which rely on the support of NGOs and international donors.

Certain ministries also provide medical treatment for their staff and families, with most of these located in the urban centres of Yangon, Mandalay and Naypyitaw. The Ministry of Labour manages three hospitals under the social security scheme. The Ministry of Defence, under the control of the military, operates the Myanmar Defence Directorate of Medical Services, which provides services to active military members and their families through a relatively extensive network.

INROADS: The number of private hospitals and clinics has been growing steadily in recent years, particularly in Mandalay and Yangon. Given the limited size of the country's working class, these facilities are mainly targeted at the upper class. This trend is changing, however, as the gradual creation of a middle class and the dramatic increase in disposable income has amplified the interest of multinational health care companies.

By mid-2015, agreements to build 14 new hospitals had been signed by two foreign firms with a combined investment value of \$520m. The first of these was Thailand's Thonburi Hospital Group, which signed a \$100m deal in June 2014 for a 40% stake with local company Ga Mone Pwint to build two hospitals – one in Yangon and the other in Mandalay – with a combined capacity of 400 beds.

The second was Lippo Group from Indonesia, which also entered a joint-venture agreement with

First Myanmar Investment (FMI) for \$420m. So far, the group has upgraded the facilities and services of FMI's Pun Hlaing Hospital, and has plans to build 12 hospitals over the next five years.

Bumrungrad Hospital, Thailand's second-largest health provider, was also granted a business permit in October 2015 from the Myanmar Investment Commission to operate a private clinic. According to local media, the Thai giant will hold an 80% share in the venture, while a 20% stake will be held by Yangon International Medical Services. Other international hospitals have publicly announced their interest in Myanmar, such as Malaysia's IHH Healthcare and Bangkok Hospital Group, which already has more than a dozen representative offices across Myanmar to fuel the appetite of the country's growing outbound medical tourism.

CHALLENGES AHEAD: Prior to the collapse of social investment when the military took charge in 1962, the health industry was on par with its South-East Asian peers. Nearly 50 years of poor governance left the health system in dire need of reform. Fortunately, the appointment of a semi-civilian government, coupled with the easing of sanctions and support from international donors, has enabled the health sector to gain some momentum. However, major obstacles remain in providing adequate medical services to a diverse population of more than 50m people, of which more than two-thirds live in rural areas, including geographically isolated communities and no-go zones due to ethnic conflicts.

With the highest rate of out-of-pocket health expenditure in Asia, the vast majority of people who cannot afford private health care rely on a medical industry that is overstretched and lacks basic infrastructure. In addition, Myanmar is faced with increasing rates of both communicable and non-communicable diseases (NCDs) and an alarmingly high rate of maternal mortality, with more than 80% of women delivering their infants at home.

HEAVY BURDENS: According to the World Health Organisation (WHO), Myanmar belongs to the global list of 22 countries with the highest burden of tuberculosis (TB), with a prevalence of 473 cases per 100,000 people in 2013. This included a high rate of both artemisinin-resistant malaria and multidrug-resistant TB. HIV/AIDS accounts for some 18,000 deaths a year, while malaria is prevalent in 284 out of 330 townships in Myanmar.

NCDs, however, are the leading cause of mortality, accounting for nearly 60% of deaths in 2014, with growing cases of strokes, diabetes and heart attacks resulting from a combination of unhealthy lifestyles and rapid urbanisation.

According to Dr San San Yi, chairman of Okkar Thiri company, a small talent pool is also hindering the sector's progress. "Local doctors are stretched far too thin, particularly in rural areas," she told OBG. "One of the biggest challenges for the industry is not the ability, but rather the limited amount, of health professionals." Of the nearly 1m people



Many international players are moving in to begin building and managing local hospitals and clinics

employed by the public health sector, only 7% work for the MoH. There is one doctor for every 1800 people and four nurses for every 10,000 people in the country. While official records show less than 18,000 qualified doctors are actively employed, almost 30% are either seeking employment, further tuition or applying their trade abroad. According to official statistics, there are only 62 oncologists in the country, and due to a lack of equipment, cardiovascular diagnostic capabilities barely exist.

Human capital is clearly in short supply, particularly at public hospitals and rural health centres, where average staff salaries are far below regional norms. This shortage is even more apparent in isolated areas, such as the eastern ethnic-controlled border regions where the public sector has little if no reach. The Karen state, for example, is home to the highest number of internally displaced people (IDPs), who have to rely on community-based health organisations such as the Burma Medical Association. These institutions are essential components of the health system due to the absence of official public health services in these areas. Efforts are, however, being made to expand the reach of medical provision in minority areas (see analysis).

GOVERNMENT SPENDING: In an attempt to tackle the problems of an outdated national health framework, the Myanmar government has increased its annual spending by \$51.72m for FY 2015/16, to \$533.5m – a 10.6% rise from the previous year. A large portion of this will be dedicated to improving human resources, supplying more medicines and upgrading hospitals and medical centres.

According to a statement released by the MoH in May 2015, some \$50.2m was allocated for the provision of medicines in public hospitals. The increase in available medicines at these facilities has led to overcrowding. To assist with the overload, the MoH is upgrading rural health centres and public

A lack of skilled medical workers has been a problem for the sector, with many trained doctors and specialists seeking further education or employment abroad.



Public hospitals and rural health centres are being upgraded

Aid from international organisations has helped the Ministry of Health improve health outcomes and fight communicable and neglected tropical diseases.

hospitals – such as Yangon General, which will add 1000 beds – and is hiring a significant number of staff, all while raising salaries for medical professionals, who have a history of leaving the country in search of higher remuneration.

INTERNATIONAL SUPPORT: In an effort to support the social development of rural and urban communities, foreign aid donors and their implementation partners have been entering Myanmar on a growing scale. According to a Devex release, there were approximately 20 international donors and 59 listed international NGOs working across the country in mid-2015, while according to the MoH there are 14 active national NGOs.

Aid to Myanmar reached an impressive \$4.5bn in 2013, almost an 800% increase from the \$504m issued in 2012. According to USAID estimates, in late 2013, donor aid from the Global Fund, the World Bank and the Three Millennium Development Goal (3MDG) Fund will total approximately \$1bn in the period from 2014 to 2018, and will be

specifically dedicated to improving the country's outdated health infrastructure and the provision of care. According to a report by the Centre for Strategic and International Studies (CSIS), the three funds will contribute some 10% of total health expenditure in the country over five years.

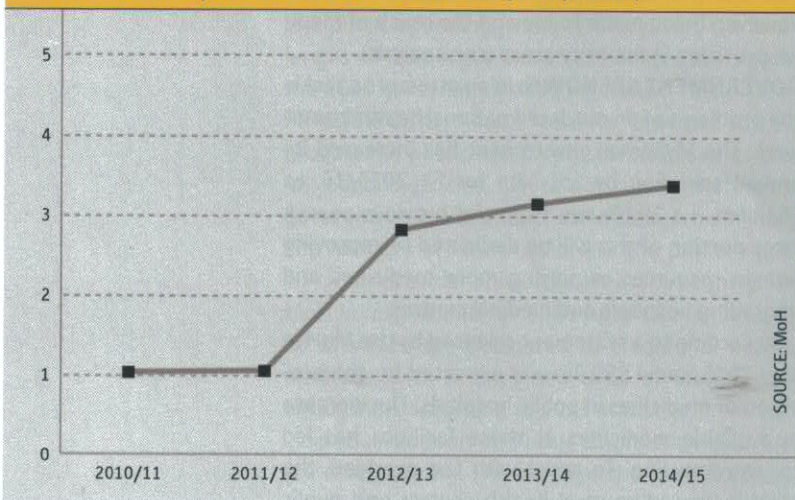
MAJOR SOURCES: The Geneva-based Global Fund is primarily concerned with the fight against AIDS, TB and malaria. The fund initiated grants in 2004 but pulled out a year later due to donor concerns, only to re-enter in 2011 after the easing of international sanctions. Over the next three years the Global Fund became the largest donor, contributing \$380m for the prevention of communicable diseases. The 3MDG Fund, established by Australia, the Netherlands, Norway, Sweden, the UK, the European Commission and Denmark, is focused primarily on maternal, newborn and child health (MNCH) development, with a combined commitment of \$300m over 2012-2016, targeting 42 of the poorest townships nationwide. Valued at \$1.6bn in credits, loans and grants, the Country Partnership Framework was signed by the World Bank in May 2015 from the International Development Association, the bank's fund for low-income countries. According to local reports, 3m pregnant women and children will benefit from improved health services, and 6m people will receive better access to electricity.

Until recently, international donors distanced themselves from local government bodies to comply with international sanctions. However, the national elections in November 2015 may act as a catalyst for bilateral donors and multilateral agencies to reduce their dependence on international NGOs and UN agencies to act as implementers. Instead, the combination of relaxing of sanctions and a democratic society will enable them to work directly with the public sector, which has been prohibited in the past. This potential shift in external partners has been noted by health analysts as a major breakthrough which would enhance efforts to strengthen the national health care framework. One existing example is efforts by the World Bank to channel funds through the MoH into the lowest-income regions to promote MNCH development and access to adequate health care (see analysis).

According to the CSIS report, this approach may be difficult for others to duplicate. If, for instance, the pace of progress is too rapid, too much pressure will be placed on the MoH due to capacity constraints. If the pace of change is too slow, though, the current UN and NGO implementers may be reluctant to cooperate in the shift of focus.

SIGNS OF CHANGE: There is still room for improvement, but in recent years the MoH has shown its ability to join forces with international aid providers to combat the spread of disease. A recent example is the partnership between the WHO and UNICEF in November 2015 to support a mass polio vaccination by the MoH across 102 townships, targeting 1.4m children under five years of age. The MoH has also

Gov't health expenditures, 2010-15 (% of total gov't expenditure)



partnered with global health organisation END7, with the WHO, which is supported by medicine donations from international pharmaceutical companies, and with volunteer workforces, in an effort to combat the spread of certain neglected tropical diseases within Myanmar.

While the country is faced with chronic health challenges, the efforts of NGOs and community-based clinics on the prevention of disease and distribution of medicine are ever more present. This is most apparent on the eastern border with Thailand, where preventable diseases such as malaria, acute respiratory infections, and diarrhoea continue to be the top causes of death, largely due to ethnic conflict and land confiscation resulting in the massive displacement of local people.

Improving child health services remains a top priority, and an influx of aid is being channelled to combat the causes of under-five mortality, which in Myanmar is considerably higher than the world average. However, with more NGOs entering the country, ethnic and community-based health organisations have been able to collaborate with international aid workers to evaluate and improve maternal health, antenatal care, child nutrition and disease prevention initiatives, among other areas.

INSURANCE: Health insurance first came to Myanmar in July 2015. Issued by local insurance companies, the long-awaited product marked a milestone in the evolution of the country's insurance services. Launched as a one-year test phase, local insurers have been tasked with educating potential clients about health insurance.

Patients are not the only ones in need of information, however, as brokers are also seeking guidance. Until 2013, state-owned Myanmar Insurance held a monopoly on the insurance industry, and did not offer health coverage at all. Now, along with 11 private insurers, the company has been offering policies to people between the ages of 6 and 65 at a rate of K50,000 (\$45) per unit (up to five units), with each unit entitling the policyholder to up to K15,000 (\$13.50) a day (up to 30 days). Designed by the Insurance Business Regulatory Board, the payment and application process is the same for all 12 insurers, which are required to pay out an amount of K1m (\$900) in the case of accidental death.

PHARMACEUTICALS: With the majority of medicine imports coming from India, Myanmar's pharmaceuticals market was estimated to be worth approximately \$570m in 2015. With the Asian Development Bank expecting per capita income to triple by 2030 and the demand for modern medicine on the rise, it is no surprise that international medicine brands have swarmed into the country.

Per capita pharmaceutical expenditure was at \$8 in 2013 – extremely low compared to neighbouring countries. However, given increased government expenditure on health and the proposed universal health coverage target of 2030, the rapid growth of the market is expected to continue, though



There are now 11 private insurers and one public insurer offering health coverage in the country

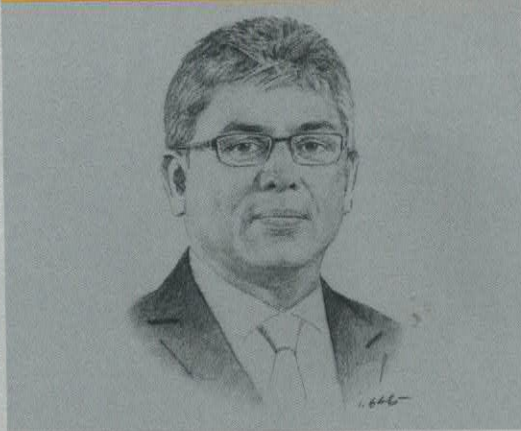
not without challenges. "The market has immense growth potential, but fundamentals don't change overnight," Girish Wadhwa, country manager of MEGA Lifesciences, told OBG. "The last few years have been very encouraging and we expect continuous improvements, but it will take time for the government to address all the issues, as they have inherited a wealth of challenges."

To improve provision of medicines, the NLD will need to address several shortcomings. Smuggling is one major issue, accounting for 20% of the local pharmaceuticals market – particularly those from China, Thailand and India. In addition, Myanmar's Food and Drug Administration is short-staffed, lacks basic equipment and has limited handling abilities such as cold storage facilities. This limits its ability to keep new medicines for testing and approval before national release.

The recent rise in hospital tenders for pharmaceuticals has made competition fiercer, with multinationals playing an increasing role. Local players are also jostling to take advantage of the changing landscape. State-owned Myanmar Pharmaceutical Factory has received 20 offers from private firms to update their production facilities. Of those, five will be selected to commence the project, valued at \$24.62m, in 2016. According to the Medical Equipment Entrepreneurs Association, six foreign investment proposals to build pharmaceutical manufacturing factories have also been approved.

OUTLOOK: As the country's health system matures, the sector promises to be one of Myanmar's most dynamic over the next few years. The concept of health insurance is a sign of things to come, as locals become accustomed to better patient services. Progress in access to health care over the next 18 months will be a key stepping stone for the MoH. With a new government expected to ramp up spending on health, growth is all but guaranteed.

International pharmaceutical companies are rapidly setting up shop in Myanmar, though the government is encountering difficulties in ensuring access to and quality of medicines.



Dr Gershu Paul

Forward steps

OBG talks to Dr Gershu Paul, CEO, Pun Hlaing Hospital

How would you assess the development of the health sector since the easing of sanctions?

PAUL: There are indications that the changes in the political and military system in recent years have led to a positive impact on the health care sector in Myanmar. For example, life expectancy at birth for both sexes was 55 years in 1980, but in 2011 it was 65 years. There has also been an increase in child immunisation coverage, a decline in the infant mortality rate, under-five mortality rate and maternal mortality ratio. We have seen good progress, and this augers well for the future. However, the country is still at the bottom of the pyramid when we compare ourselves to other ASEAN countries, simply because we started at a much lower base. How will the country provide health care equity and health care access to all social economic segments? Around 70% of Myanmar's population live in rural areas with minimal or literally no access to health care services, which are primarily concentrated in the big cities such as Yangon, Mandalay and Naypyitaw. Paradoxically, in the urban areas, due to the increasing rural-urban migration, the challenge is to make affordable health care.

These are key challenges that the incoming government will have to manage over the next decade. Fortunately, we are in a very unique position where Myanmar can learn from its neighbours. We have the opportunity to be realistic and pragmatic of the challenges of the health sector and the opportunity to leapfrog on all areas from policy, regulation, infrastructure investment, population based funding, service delivery, human capital and development to create national equity and access.

What should Myanmar do to achieve its health care goals and improve on its Human Development Index (HDI) metrics?

PAUL: One of the biggest challenges for health care in Myanmar is inadequate government funding. The

country has the lowest health care spending in South-east Asia. Only 2.7% of the total government budget was allocated to health care in 2014, whereas other countries in the region spend an average of 4.5% of their GDP. Health care education, early detection of diseases and access to clean water can also work together to help the country achieve its health care goals. For example, diarrhoea remains among the top five causes of death, and the incidence rate of cervical cancer in Myanmar is 2.5%, while South-east Asia's average is 1.7%, mainly due to lack of early diagnosis. There is still a lot to do to improve the health sector in the country from both the public and private sector perspective. We need to drive the harmonisation of infrastructure systems and human capital to be on par with other top-performing ASEAN countries. We also need to have clear government policy and corporate governance in the sector, supported by effective structural changes in technology, delivery systems and processes, as well as the training and equipping of doctors, nurses and health administrative staff with the correct mind-sets and skills. Finally, critical for sustainability is the development of the health workforce human capital, particularly nursing and allied health. There are less nurses than doctors in this country in terms of the annual output which is a major problem for the government to overcome.

What role do you expect multinational corporations to play in the development of the country's health sector in the coming years?

PAUL: Not only do multinationals play a key role in the development of the sector as a whole; they also have an obligation to see how they can create a realistic and affordable price point, particularly for medical devices and pharmaceutical products. I would like to see a few of the leading health care multinationals take that lead in getting involved in driving down prices and creating affordability and accessibility.



Communities along the eastern border remain underserved

Open doors

New initiatives aim to increase access to health services

Despite top-down economic and political shifts in recent years, Myanmar's health sector still has significant ground to cover, particularly in rural communities that lack access to basic services. The government has pledged to ramp up efforts by dramatically increasing health expenditures, building new facilities and strengthening the talent pool.

As a result of political strife in certain geographically isolated parts of the country in the past, there are a number of neglected zones that suffer from little or no access to medical care. This is particularly true along the country's eastern border, where the elimination of malaria is one of the highest priorities for public health, with the disease accounting for 17.7% of all deaths. In the absence of public health care options, these areas have relied on the support of donor agencies, NGOs and makeshift clinics.

According to official statistics from the MoH, the most frequent sources of care for the poorest communities have been in the form of home visits of unknown quality, private clinics and rural health centres. One-third of the poorest opted not to seek medical care when they were sick due to financial constraints, though 80% of low-income households received care from the private sector.

PROGRESS: Myanmar is far behind its ASEAN counterparts in regards to health indicators, with the lowest life expectancy in Asia. The country's health network requires significant national and international investments in infrastructure, human resources and essential medical equipment.

The November 2015 election has been widely acclaimed as a major victory for the development of Myanmar's social welfare, with local experts predicting shifts in policy and investment that will significantly increase the access of essential health services. The World Bank-financed Essential Health Services Access Project (EHSAP), is also a major boost to the MoH target of implementing universal

health care by 2030. With a total cost of \$100m, the project will promote adequate health care with a focus on maternal, newborn and child health.

EHSAP will have three key components. Strengthening service delivery at the primary health care level will be achieved by channelling funds through MoH to selected regions, states and townships. Support for capacity-building and project management will aim to establish a cost structure for an essential health package for the entire population. Setting social assessment objectives, meanwhile, will help to identify vulnerable and underserved population groups, including women, children, ethnic minorities and internally displaced persons.

MEDICAL TOURISM: While there are an increasing number of private hospitals in Yangon and Mandalay, most wealthy families opt to fly to other countries in the region to receive specialist medical treatment. These patients travel to hospitals in Thailand, Singapore, Hong Kong and Malaysia to undergo cardiac and orthopaedic procedures due to the lack of local experts in those fields. The vast number of outbound medical trips has resulted in increased interest from international operators, who are eager to begin operations in Myanmar in an effort to improve the capabilities and expertise of the domestic health sector.

SPENDING POWER: Initiatives led by the World Bank and other international donors, coupled with a dramatic increase in government expenditure, has placed the 2030 target for universal health care in reach for the public sector. Increased disposable income and public tenders are attracting international medical firms, which will raise the standard of private health care in the country. The government has also committed to significantly increase salaries for health professionals, which is expected to reduce the number of health professionals choosing to search for employment abroad.

Along the country's eastern border, the elimination of malaria is a key priority, with the disease accounting for 17.7% of deaths in the area.



A major reform of the education system is currently under way

Learning curve

Changes are needed to revitalise the country's schools

The government is seeking to address a number of issues, including ethnic discrimination, overcrowding and a lack of qualified teachers.

With an increasing need for human capital, the government of Myanmar has made the overhauling of the education system a national priority. With an enlarged budget, a new national education law and the removal of public school fees, major reform of the entire education sector is well under way. However, significant challenges remain.

While the education sector was largely dismantled by the military, leading to student uprisings in 1988, there is a growing sense of enthusiasm for the sector, fuelled by the overwhelming victory of the National League for Democracy (NLD) in the November 2015 election. The NLD's chairperson, Daw Aung San Suu Kyi, has often highlighted the importance of revitalising the local education landscape.

BUDGET INCREASE: In an effort to bolster the development of the education system, spending significantly increased during the tenure of the outgoing president, U Thein Sein. In his last approved budget, spending on education increased to \$1.3bn, accounting for more than 5% of total government expenditure and up from \$1bn in fiscal year 2014/15. This is a significant step up from the days of the military regime, when education only received 1.3% of total expenditure on average over a 50-year period. The latest increase in funding has been earmarked to employ an additional 50,000 teachers, while the free education system launched in recent years has been extended to higher education to assist in the drive to expand the number of graduates entering the workplace. The budget increase will also be allocated to university stipends and scholarships, as well as supplementing fees at technical institutions.

THE CHALLENGES: Many of the current educational reforms are aimed at alleviating the damage caused by the military junta. As it stands, the majority of public schools have limited access to textbooks and supplies, and teaching styles are based on rote learning. On top of those constraints, much of the school

infrastructure is inadequate, there is a shortage of teachers and classrooms are overcrowded.

Discrimination against ethnic minorities also remains a problem for the education system. Community-based schools have a history of being closed by the government, which only serves to aggravate conflict between rebels and the Myanmar army. In the absence of these schools, minorities are forced to choose state-run schools that do not teach in their native tongue.

Overcrowding remains a major problem that hinders effective teaching, with a pupil-to-teacher ratio of 28:1 in primary schools and 34:1 at the secondary level, considerably higher than in neighbouring Thailand, with a ratio of 16:1 for primary schools and 19:1 at secondary schools. However, the Department of Basic Education seems committed to easing the strain. In August 2015, the department announced that it was relaxing high school teacher requirements as a solution to the massive staff shortage of teachers at high school level. Under the new requirement, middle school teachers with a minimum of 10 years experience can be promoted to a temporary high school post, whilst graduates from any field can teach at high schools under a three-year contract, and graduates with a bachelors degree in education will be offered permanent teaching positions.

According to U Tin Latt, the executive director of Chindwin College, execution of policy is a major concern. "The government has initiated important steps to bring education to international levels, but there is still a lot to do in terms of infrastructure and access to resources, such as libraries in rural communities," he told OBG. "Education is moving in the right direction. However, there is a major delay in implementing rules and regulations due to the concerns or actions of certain parties, such as the student union."

Various sector studies and collaborative efforts have been made in the last 25 years to identify key

issues and implementation programmes. Challenges in the management and application of curriculum reform are largely due to the complex nature of a diverse population, which is spread among 330 townships and uses more than 100 languages.

Despite the many obstacles to progress, optimism is on the rise, and the influx of foreign investment across a variety of industries has increased the demand for qualified graduates, who in the past struggled to find employment in their field. Those responsible for setting education reform in motion are also demanding more correlation between curriculum and the skill sets required by businesses.

STRUCTURE: Basic education is divided into four distinct levels, comprising a total of 11 years at the lower primary, upper primary, lower secondary and upper secondary levels. School attendance has traditionally been a problem for students in the country. While basic education at public institutions is free, tens of thousands of children are sent to work on farms and tea shops to support family income. According to statistics in 2000, 85% of children in urban areas attended primary school, compared to 76% in rural areas. Of those enrolled, 26% fell outside the standard age bracket.

At the same time, 69% of children in urban areas attended secondary school – more than double the proportion in rural areas. More recent statistics from the Ministry of Education (MoE) suggest that the situation is improving, with primary enrolment above 98%. However, it is thought that many of those enrolled do not complete the course, with a vast number leaving school around the age of nine to work in the informal sector.

In an effort to integrate young school-leavers back into the system, the MoE is undertaking several initiatives. A noteworthy example is the Non-Formal Primary Education programme, designed to re-engage children who exited the formal system during the primary level. Developed by the Department of Myanmar Education Research Bureau under the MoE in 1998, the program is aimed at children aged 10-14. Students attend classes for 12 hours a week over a two-year period. Upon completion of the programme students can enrol in secondary school.

To assist in this area, the government mandated in 2011 that primary education be completely free, including textbooks and exercise books. Although local laws would suggest that free education was already in place, most families had to pay \$100 in annual fees for each child prior to 2011. Following those progressive changes, lower secondary school was made free in 2014, and free tuition was extended to 40,000 upper secondary schools in June 2015.

FILLING THE GAP: Monastic schools have long offered primary education to ethnic minority groups and orphans. Established by monks and administered through the Ministry of Religious Affairs, the courses follow the government curriculum, though the schools operate autonomously. There are more than 1700 monastic schools nationwide, providing



Basic education lasts a total of 11 years between the primary school and secondary school levels

education to approximately 300,000 pupils, though their facilities usually leave much to be desired.

With little history of government funding, these schools have relied mainly on donations. According to research by the Myanmar Education Consortium (MEC), funded through the Australian and UK Governments, 72% of schools surveyed relied on individual donations the remainder coming from fundraising activities and income generation projects. The MEC has committed \$22m to education development in Myanmar, with a special emphasis on monastic and community schools.

TERTIARY: According to the department of higher education, there are 163 public higher education facilities in Myanmar under 13 ministries, with the majority of institutions in Mandalay, Yangon and the Shan State. The majority (66 in total) fall under the MoE, and 61 are led by the Ministry of Science and Technology (MoST) in the form of technical vocational education and training (TVET) facilities.

The management of the TVET sub-sector is quite fragmented. Established by outgoing president U Thein Sein in 2014, the TVET Taskforce is responsible for reforming the sector under the MoST. However, the Ministry of Labour, Employment and Social Security is in charge of the Employment and Skills Development law, enacted in August 2013, while the National Skills Standards Authority was established to develop skills standards in 2007. This division of authority, according to industry insiders, has led to a lack of clarity and policy formation.

According to the Comprehensive Education Sector Review (CESR), TVET institutions and universities are falling short in a few areas. First, there is a lack of coordination between skills development and the job market; secondly, the existence of overarching policies is quite limited; and finally, there is a lack of trust in the qualifications on offer. However, a number of international organisations are providing technical

The government has removed fees for primary, lower secondary, and upper secondary education in recent years in an effort to increase enrolment and attendance.



International agencies play a big role in the education system

The Ministry of Education is considering passing separate laws for international schools to govern areas such as taxation and curricula.

assistance and funding to further the development of these vocational education units, which will bolster the talent pool in years ahead. Among these is Japan International Cooperation Agency, which has committed some \$24.63m to education colleges. In addition, a number of bilateral agencies have invested large sums in the country's higher education re-emergence, such as Australian aid agency AUSAID, the British Council and the UK Department for International Development, to name a few.

Another notable development is the UNESCO-managed public-private partnership with the MoE and PepsiCo, a first of its kind for Myanmar. The partnership launched its second phase in August 2015 with the aim of providing industry-focused programmes to improve the skill sets of graduates entering the local workforce. The Strengthening Business Skills for Youth Employment in Myanmar programme is a sign of things to come, as more international firms roll out corporate social responsibility projects aiming to bolster education development. The programme helped to establish the Centre of Excellence for Business Skills Development at the Hlaing Campus of Yangon University of Economics.

INTERNATIONAL CERTIFICATES: The market for international schools is expanding fairly rapidly, particularly in the financial capital of Yangon, where there are a growing number of foreign schools and increasing partnerships and collaborations between local entities and universities abroad. Two of many examples are Chindwin College and Myanmar Imperial College, which have partner universities in Singapore, the UK and Malaysia.

With foreign curricula mainly targeted at affluent families and the expatriate community, these institutions offer internationally accredited courses that are in high demand but are out of reach to most pupils due to the high cost of tuition, with fees as high as \$25,000 per year. International pre-schools likewise come with a hefty price tag, averaging around \$11,000 for one year, while the most expensive school is the British School of Yangon with a total cost of \$19,480 a year for pre-school.

Limited government supervision has some industry members calling for a separate law to govern foreign schools, which often impose their own curricula. There is an abundance of so-called international schools in Yangon alone, though the exact number is difficult to attain since they operate outside the control of the MoE. Currently, these schools operate under a company licence issued by the Myanmar Investment Commission (MIC).

The wishes of those calling for a new law seemed to be partially answered when in May 2015 the MoE announced that an international schools law covering areas such as taxation and curricula would be released within a month. However, the draft law was quickly sidelined when the National Education Law was once again met with protest (see analysis). As of early December 2015, no announcement had been made regarding the passing of the law.

PRIVATE SCHOOLS: During the socialist era, aside from a select few international colleges, all forms of private education were banned in the country. This lasted until 2012, when the government of president U Thein Sein allowed them to reopen in his bid to increase schooling options. The response has been enthusiastic. According to a local report in the *Myanmar Times*, a local news agency, as of May 2015 there were 100 new applications filed by potential

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investors to the MIC to build private schools in the Yangon region, adding to the already 160 existing nationwide.

This in turn has led to an influx of native English speakers seeking teaching roles. Locally owned private schools are still too costly for the majority of citizens, but are reasonably priced in comparison to international schools, at least for urban middle-income families, with private primary, secondary and high school enrolment costs averaging around \$400, \$600 and \$800 a year, respectively. Curricula mirror that of the public sector, with extra attention given to English and courses in sport and music. With fewer students per teacher, these schools are an attractive option for the growing middle class.

ALL ABOARD: The erosion of Myanmar's once-prestigious education network began in 1964, when English was abandoned as a core subject under the orders of General Ne Win. This decision to neglect the teaching of English was later reversed, in the late 1980s, yet although it has since remained on the syllabus, the move did little to improve teaching methods.

In the absence of international education standards, many students from wealthy families opted to send their children to schools abroad, with the UK, the US, Australia and Singapore being the most popular destinations. This trend still holds today; however, the rate of departures may well slow, as students previously seeking international qualifications can now obtain them in Myanmar. In addition, many professionals who obtained their credentials at a foreign institution are now returning to Myanmar to capitalise on a growing job market.

CAPACITY: Aside from the Ministry of Defence and a select few public departments, limited funding has for a long time hindered government faculties. However, the management abilities of the MoE have been bolstered by international donor support. One project in particular has been hailed by analysts as a critical step to revive education.

The Capacity Development for Education for All (CapEFA) programme, introduced by UNESCO, is aimed at promoting the skill sets of policymakers within the MoE. The programme focuses on several key areas, including decentralised planning, sector diagnosis, education costing, education statistics and education management information systems (EMIS). According to UNESCO, more than 200 MoE officials had been trained under the programme by June 2015. The programme has also played a leading role in the development of the country's CESR, the first of its kind in 20 years (see analysis).

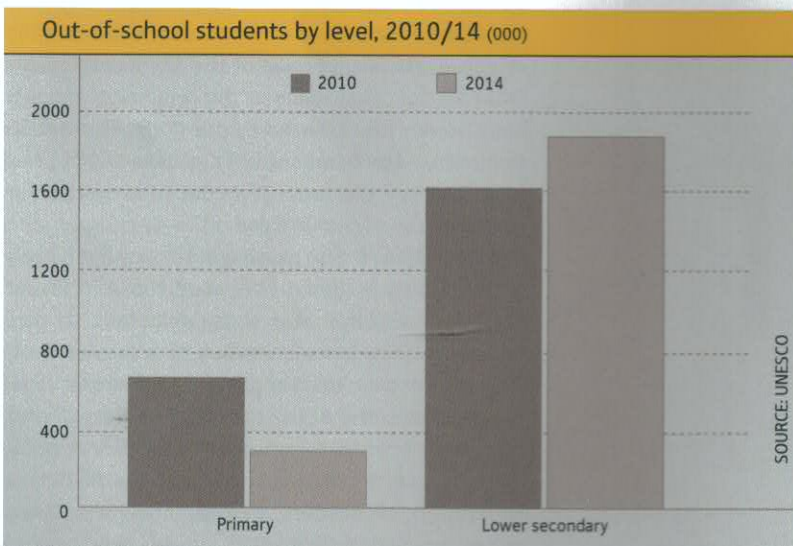
OUTLOOK: The education budget was increased significantly under the outgoing regime, and will continue to do so under the new government. In the short term, the overhaul of Myanmar's education sector will continue to encounter growing pains as the MoE tangles with capacity constraints. However, with the support of international technical aid, the MoE is in a position to negotiate hurdles – a big stride considering the overwhelming tasks of just a few



The number of international schools has risen in recent years

years ago. In the long term, the education system looks set to gain significant momentum, particularly under a government that is determined to increase the amount of graduates and improve the quality of degrees. The future success of Myanmar's schools will, however, greatly depend on the restructuring of the sector under the National Education Law, a vital building block from which development will be measured (see analysis). While the development of basic education is a key piece of the development puzzle, a great deal hinges on the role of TVETs, particularly to align graduate skills with employer needs in the key growth areas of energy, IT and infrastructure. The promotion of these vocational education centres is likely to accelerate as the influx of foreign firms ramps up, with emphasis being placed on governance and demand-driven courses. While appropriate steps are being taken, it will require considerable time before an adequate level of cohesion between educational offerings and the needs of the local job market is reached, particularly in rural areas.

Locally owned private schools are too expensive for the majority of citizens, but remain reasonably priced in comparison to international schools.





The government called for a raft of reforms in the sector in 2011

By the books

Proposed reforms are caught in a decentralisation debate

Students have demanded a wide range of reforms in the sector, including the recognition of student unions and instruction in ethnic languages.

While numerous education policies have been set in motion by Myanmar's outgoing regime, the degree of implementation has varied considerably. As negotiations between lawmakers and education reformists continues to delay legislative change, the decentralisation of the Ministry of Education (MoE) is a key topic of discussion.

REVIEW: By most accounts, steady progress has been made since the decision to overhaul the education sector in 2011, which was shortly followed by the establishment of the Comprehensive Education Sector Review (CESR), a three-phase initiative to rebuild Myanmar's education network. Currently in its third phase, the CESR was initially scheduled to be completed by the end of 2014, but it has encountered some delays, particularly regarding the reform of education laws.

Efforts to pass the National Education Law have been met with well-publicised student protests. The education bill, intended to reform the outdated education system with new policies and quality standards, was initially passed in September 2014. However, it was met with wide-ranging criticism. The disapproval of the law mostly stems from the fact that many of the requested amends are still not represented in the draft. The Action Committee for Democratic Education (ACDE) has also criticised the proposed education system for remaining overly centralised.

UNDER DEBATE: The passing of the law has largely been held up by debate between those in favour of decentralisation and those reluctant to give up control. Students in favour of a less centralised system have been represented by three vocal organisations: the ACDE; the National Network for Education Reform, a coalition of educational, political and religious organisations; and the All Burma Federation of Student Unions. Their combined voices pressed parliament to amend the law, and

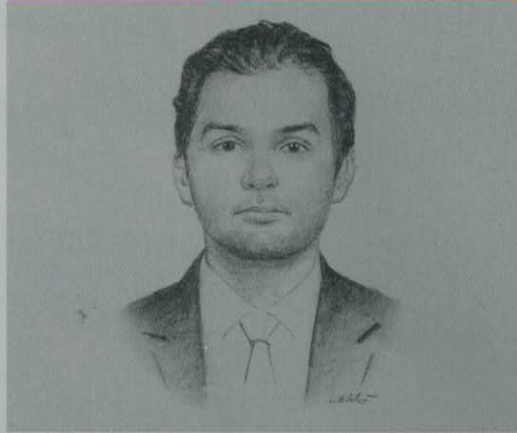
a new bill was signed by the outgoing president, U Thein Sein, in June 2015.

Although it adopted some of the requested amends, such as the recognition of student unions and teaching of ethnic languages, it still failed to address various issues, with funding being key among them. Demands were made that the education budget be increased to 20% of the total national budget within five years, whereas the new bill stated it will try to reach the 20% mark, but gave no indication on time frame.

Another area lacking necessary attention is that of decentralisation, to which there is no concrete commitment in the new law. The main concern the protesters have cited is that the National Education Law will maintain the current central government control over universities through a central university council. However, the outgoing government has tried to reassure the public that the council will only be used to set sector-wide policies, and will have no control over university charters and how university budgets are spent.

CAUTIOUS OPTIMISM: Despite these concerns, there is promise on the horizon. While the law may still be lacking in certain areas, the adoption of other reforms is a major stepping stone for the MoE. The decision to expand free education to the tertiary level and develop ethnic language schooling in marginalised communities is evidence of the changing landscape in Myanmar.

In addition, the new government has publicly announced that it is in favour of institutional autonomy, which will go a long way toward resolving legislative disputes about the educational system. It is clear that the philosophy and implementation of government policies under the National League for Democracy will focus on social reform and development. This should serve as a sign of change to come for the students and scholars in the country.



Sardar Umar Alam

Tools of reform

OBG talks to Sardar Umar Alam, Head of UNESCO, Yangon Office

How is the Capacity Development for Education for All (CapEFA) programme enhancing management skills in the Ministry of Education (MoE)?

ALAM: In 2012, Myanmar took the overdue decision to reform the education sector, and thus to improve access to and quality of education. Through CapEFA and other education sector programmes, UNESCO strengthened national capacity in the priority areas of policy formulation, decentralised education planning, education costs, monitoring and evaluation, financial planning and management. We appreciate the government's lead in the reform process and have supported the MoE by providing tools in order to strengthen the process, as per international standards. UNESCO's focus has been to increase the MoE's efficiency and effectiveness in delivery quality. We have noticed that the steps taken by the ministry have been equally rewarding, as they have restructured the ministry and realigned departments. This includes setting up the new Department for Teacher Education, and the current focus on setting up an Education Management Information System for Myanmar. This, in turn, will empower state and township level officers, who are at the forefront of managing education and education investments, to better prepare plans for school management. UNESCO will continue to support MoE in developing monitoring and evaluation mechanisms that would further strengthen their decision-making, accountability and transparency.

What steps will the Comprehensive Education Sector Review (CESR) take to ensure the long-term development of Myanmar's school system?

ALAM: Myanmar's decision to conduct the CESR was strategic and timely. Based on recommendations, Myanmar conducted a rapid assessment of the education sector, followed by more in-depth diagnostic studies of sub-sectors. There had been a previous information gap within the sector and a lack

of studies available on the sub-sectors. This included information on higher education, basic education, non-formal education, and technical vocational education and training. The consultations, studies and assessments provided evidence-based findings, and allowed Myanmar to identify challenges, gaps and issues within the education sector, to prioritise certain areas, and to determine what needed to be done to improve the sector. With this information, the ministry and its development partners are preparing the National Education Strategic Plan, which is one of the key documents for the ministry to implement.

What is the relationship between civil society and development agencies that are working to develop Myanmar's education sector?

ALAM: Myanmar's civil society is emerging stronger, and this is a very reassuring and positive development. In the past, civil society filled many gaps in the education sector, and it continues to do so. In particular, their involvement in education sector reform has been recognised and acknowledged by all, and UNESCO, along with other development partners, has continuously advocated for consultations with all stakeholders, including civil society, in prioritising the education agenda for Myanmar. For any education reform process to be successful and meaningful, it is mandatory that state and civil society work in coherence and harmony. This helps them not only to understand the broader context, but also to jointly prepare and discuss solutions that address challenges, so that education policies have an impact in improving the human resource developments of the country. I would also like to emphasise the important roles that the private sector can play in skills development, putting education to work and creating more opportunities for youth subsequent generations. It is a pivotal development that we see more result-oriented public-private partnerships in the education sector.

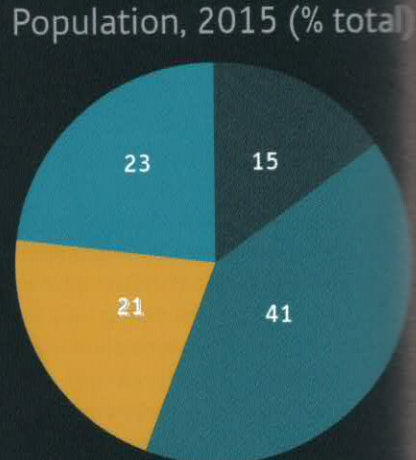


The Oxford Business Group Platform, of which this Report forms a part, contains detailed Foreign Trade and Investment information on 35 of the world's best emerging markets for FTI. Countries covered are shown in yellow above, the yellow growth line below, and the yellow slice of the pie charts.

Advanced economies BRIC OBG-35 Other emerging markets

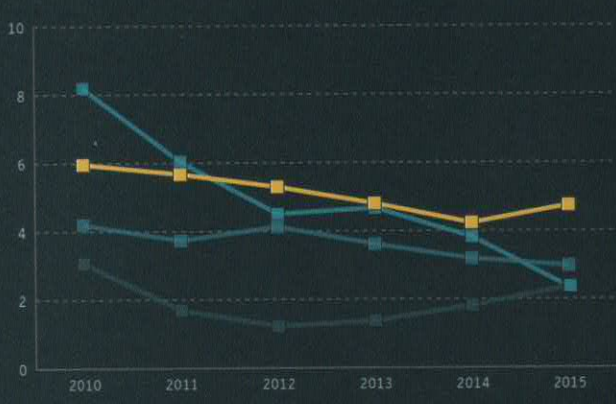


SOURCE: IMF

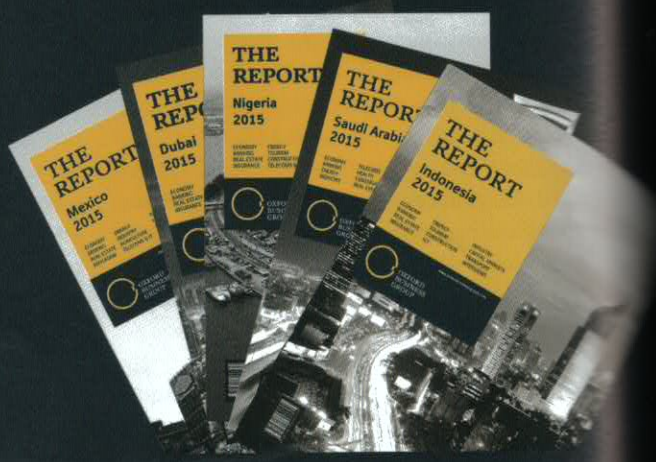


SOURCE: IMF

GDP growth, 2010-15 (% constant prices)



SOURCE: IMF



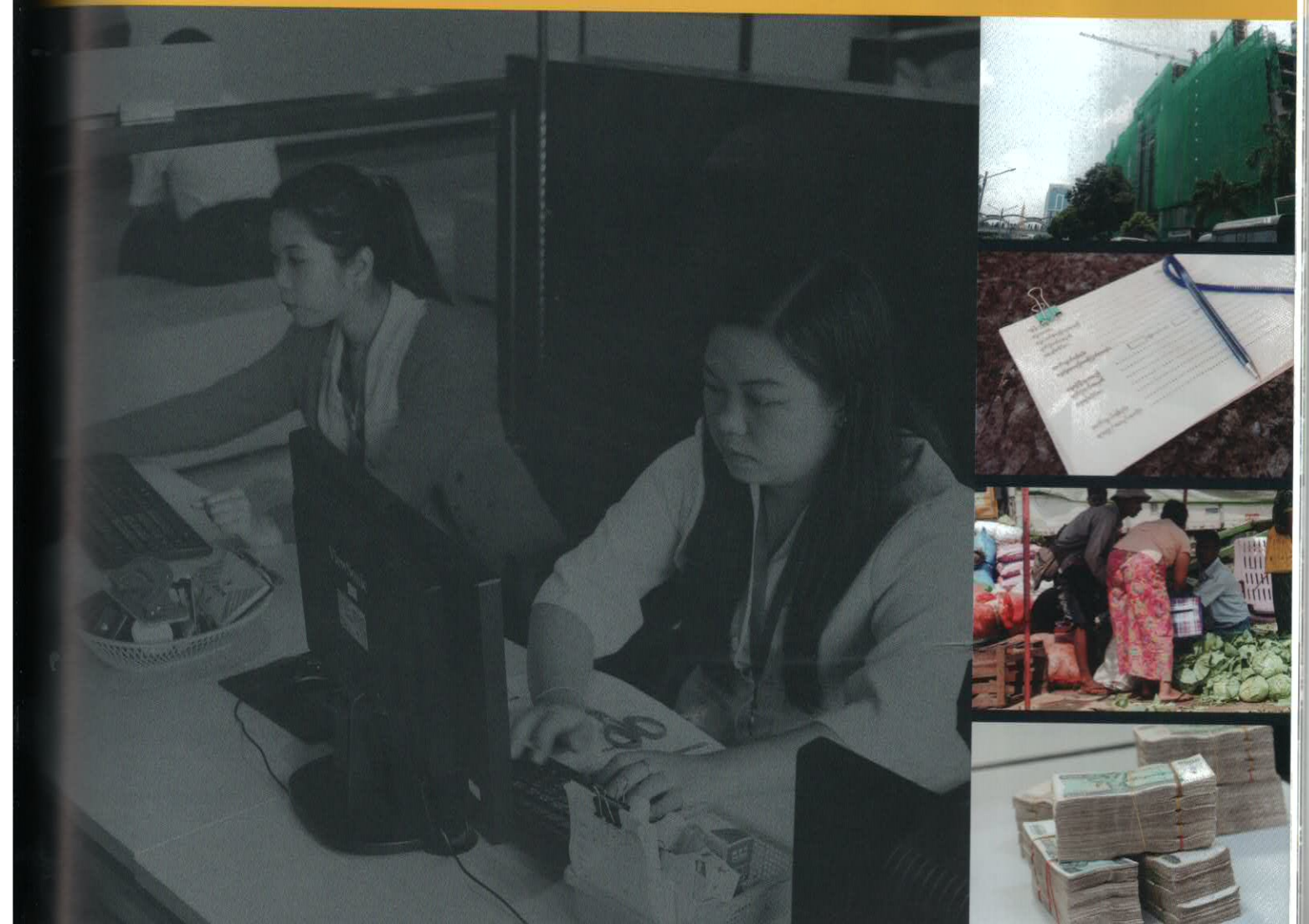
Legal Framework

A guide to the legislative climate for foreign investment

Updates to legal codes expected to open up new sectors

New regulations for the foreign exchange market

Government outlining employers' obligations





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The country's investment framework is being streamlined

To the letter

A legal overview of the climate for foreign investment

Considered by many to be one of the last economic frontiers, Myanmar has been the object of investor interest for the past three years. As of November 30, 2015, data from the Directorate of Investment and Company Administration (DICA) shows that the total amount of foreign direct investment (FDI) for the period from 1988 to November 2015 has reached \$58.2bn, consisting mainly of manufacturing enterprises, with oil and gas companies bringing in one-third of total investment, at \$19.6bn. Since the country opened up in 2012, the influx of FDI reached its peak in 2014 with a total of over \$8bn in approved investment for the year. In comparison, FDI in 2015 was at \$3.9bn, a significant drop from the previous year.

CHANGING TIDES: This decrease in the level of foreign investment may be attributed to investor caution ahead of the first free general election in Myanmar in over 50 years. In November 2015, the international community awaited and monitored these elections, with the results expected to affect existing policies, including the government's attitude towards economic development and foreign investment. With the outcome of these elections generally considered fair and the present government conceding victory to Daw Aung San Suu Kyi's opposition party, the National League of Democracy, and promising a peaceful transfer of power, the investor outlook is expected to shift from a wait-and-see attitude to FDI returning to or even exceeding pre-election levels.

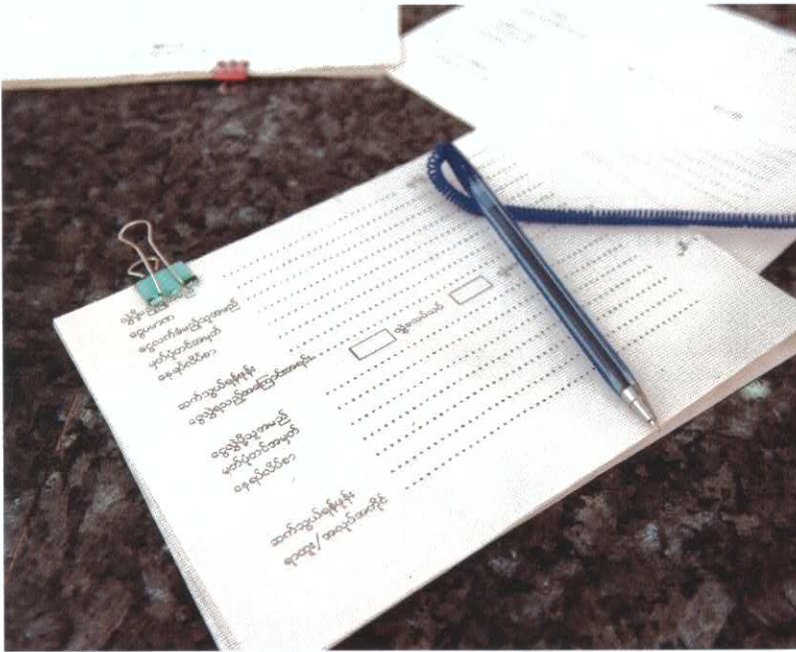
While the latter half of 2015 was focused on the national elections, Myanmar's initial objective of providing a legal framework in line with international standards and best practices remains at the forefront of the government's concerns. New policies have been enacted that relax the previously strict trading rules by opening certain sectors up to foreign participation. Investment permits with

corresponding incentives and benefits continue to be issued under the 2012 Myanmar Foreign Investment Law, as well as investment permits issued under the 2014 Special Economic Zone (SEZ) Law.

New laws and regulations have also been enacted to strengthen the labour market and enhance regulatory oversight of foreign currency transactions, including the ability to register inward capital remittances with the Central Bank of Myanmar (CBM). Regulations have been in place since 2014 providing an effective legal framework against money laundering activities, as well as putting into place rules for the enforcement of foreign arbitral awards. In addition, the government has also taken steps to update and streamline its foreign and citizens investment laws into a single Myanmar Investment Law, and to overhaul the century-old Myanmar Companies Act.

The drafts of these laws have been submitted to Parliament for consideration and it is likely that the discussion on the proposed laws will continue once Parliament reconvenes. The government has since been active in fostering an environment conducive to FDI. What follows is a discussion of the present regulatory framework that underpins the foreign investment system as a whole.

THE LEGAL SYSTEM: Myanmar's legal system draws from a combination of colonial era English common law, traditional Myanmar customary law and modern Myanmar legislation. The result is a collection of rules and regulations, spanning from the late 19th century through to the present day, that overlap and, at times, offer contradictory or incomplete guidance. As the country continues down the path of modernisation, so does its legal system, as more comprehensive legislation is brought forward to supplant, supplement and clarify the existing legal regime. In 2010 the Union Judiciary Law was adopted to set out the structure and



Companies looking to establish an entity in Myanmar may apply for either an MIC Permit or an SEZ Permit

operating guidelines for the nation's court system. The hierarchy of courts begins with the Supreme Court at the top, followed by the High Courts of the Regions and States, the District Courts and Courts of Self-Administered Divisions and Zones, and at the bottom, the Township Courts and other courts specially constituted by law. A separate system of Courts-Martial has exclusive jurisdiction with regard to matters involving military personnel. The Supreme Court holds jurisdiction of cases involving treaties, regional disputes, piracy and other matters as determined by law, while a separate Constitutional Tribunal is responsible for constitutional disputes and vetting laws passed by Parliament. Two classes of attorneys make up the legal practice in Myanmar: advocates who may practice in any court, and attorneys who are restricted from practicing in the Supreme Court but may handle matters in any subordinate courts.

The past 60 years have seen several shifts in Myanmar lawmaking. Until 1954, the Burma Code was the primary source of law throughout Myanmar, though after the 1962 coup drafting of new legislation was stalled. From 1962, when the military regime took power, until the enactment of a new constitution in 2008, only a handful of laws related to economic affairs were passed. Since the enactment of the new constitution, a burst of legislative activity has occurred as the new government works at a rapid pace to bring Myanmar up to international standards. Among these laws, two that had the most immediate effect on the economy was the 2012 Myanmar Foreign Investment Law and the 2014 SEZ Law.

VEHICLES FOR FDI: Foreign investors who wish to undertake specific business activities in Myanmar may rely on the foreign investment framework available under the Myanmar Companies Act, the 2012 Myanmar Foreign Investment Law and the

2014 SEZ Law. Through these laws, foreign investors may choose to establish a foreign branch office in Myanmar; incorporate a private limited company; apply for and secure an investment permit from the Myanmar Investment Commission (MIC), which is also known as an MIC Permit; or apply for and secure an investment permit from the relevant Myanmar SEZ Management Committee, which is also known as an SEZ Permit.

MYANMAR COMPANIES ACT: A branch office is considered an extension of its foreign parent company and is a non-resident entity for the purposes of taxation in Myanmar. It is authorised to engage in revenue-generating activities in Myanmar that are related to the primary business of its foreign parent company. The registration of a branch office is also necessary for foreign investors that wish to establish a representative office in Myanmar, as there is no separate concept of a representative office under existing Myanmar law, except for foreign banks that are permitted by the DICA to establish a representative office. The scope of business for these branch offices is thereby limited to non-revenue generating activities such as marketing, liaison services and market research.

However, unlike a branch office, a private limited company has a juridical personality separate from its shareholders and is considered a resident entity for purposes of taxation. This private limited company may be incorporated as a wholly owned subsidiary of a foreign parent, or may be partly held by a Myanmar partner. Moreover, this private limited company may engage in and provide a myriad of activities and services, although care must be taken to ensure that the scope of business thus applied for and undertaken are not among those that require an MIC Permit.

PERMIT RULES: Both branch offices and private limited companies are required to secure a Form of Permit, previously known as a Permit to Trade, as a pre-condition for carrying out business. This permit enumerates the scope of activities that the branch or company is permitted to conduct in Myanmar and is considered to be the general business licence of the branch or company. The minimum investment capital for both a branch office and a private limited company is \$50,000.

Applicants seeking the registration of a branch or private limited company may also seek the issuance of a temporary registration certificate, which, once issued by the Companies Registration Office, will permit the applicant to operate the business entity while its corresponding application is pending evaluation and approval. The issuance of a temporary registration certificate, however, does not guarantee the eventual approval of the application for registration, and should the application be subsequently rejected, the applicant will thereby be unable to continue business operations.

In any event, any such branch or private limited company allowed to operate in Myanmar does

not generally enjoy the concessions and benefits extended to foreign investors under the 2012 Myanmar Foreign Investment Law and the 2014 SEZ Law. For this, the foreign investor must secure an MIC Permit from the MIC or an SEZ Permit.

MIC PERMIT: While foreign investors establishing a private limited company in Myanmar are generally free to apply for an MIC Permit, the MIC has issued Notification No. 49/2014 which, updating and replacing the earlier Notification No. 1/2013, provides a list of activities for which an investment permit is required before a foreigner may engage in economic activities. This notification enumerates specific economic activities that are generally prohibited to foreign investment, those that must be undertaken through a joint venture with Myanmar nationals, and those that require compliance with certain conditions by the applying foreign investor.

Compared to Notification No. 1/2013, Notification No. 49/2014 streamlined the list of economic activities and removed the following from the list of prohibited activities:

- Economic activities that are deemed to deteriorate the watershed or catchment protection of national forests, religious locations and/or traditional beliefs, pasture lands, shifting cultivation farms and water resources;
- Agriculture and manufacturing activities that are not compliant with the Fertiliser Law, Seed Law and Agricultural Law;
- Installation of a factory utilising imported wastes;
- Manufacturing chemicals that can contribute to ozone depletion;
- Manufacturing of 21 types of organic compounds prohibited by the Stockholm Convention on Persistent Organic Pollutants;
- Manufacturing of hazardous chemicals;
- Manufacturing and marketing of construction materials that include asbestos;
- Trading of electric power;
- Utilisation and importation of methyl tert-butyl ether and tetraethyl lead;
- Activities that may emit hazardous chemicals.

It may therefore be interpreted to mean that foreigners may engage in these activities under the Myanmar Companies Act and the Myanmar Foreign Investment Law. Due to the nature of the activities, however, these are still subject to the rules and regulations of the relevant ministry, which may or may not consent to the planned activity.

In addition, certain activities that were previously permitted only under a joint venture with Myanmar citizens under Notification No. 1/2013 have been removed from the list under Notification No. 49/2014. Therefore, these activities may be conducted by 100% foreign-owned companies. These activities now include:

- Manufacturing of certain vaccines;
- Prospecting, exploration and production of industrial minerals and metallic minerals;



In the past few years the government has outlined minimum wage rates and employers' obligations

- Large-scale production of minerals;
- Establishing factories to manufacture structural metal frameworks for buildings and girders; and
- Engaging in tourism.

Among the prohibited activities that were carried over from Notification No. 1/2013 to Notification No. 49/2014 is the production of minerals on medium scale or small scale.

The establishment and sale of office/commercial buildings must be undertaken through a joint venture with a Myanmar partner. Meanwhile, the importation and distribution of petroleum products and the exploration and production of petroleum and its products require a joint venture with the Ministry of Energy.

In addition to Notification No. 49/2014, the MIC has also issued Notification No. 50/2014, which enumerates business activities that require environmental impact assessments. In addition, Notification No. 51/2014 excludes certain business activities from exemption from Customs duties and taxes. Among the business activities enumerated under MIC Notification No. 51/2014 are: restaurants, food and beverage businesses; rental of vehicles, machinery and equipment; and the construction and sale of buildings.

KEY FACTORS: These latest notifications further refine and clarify previously ambiguous areas of foreign investment and demonstrate the MIC's desire to create a more stable and investment-friendly environment under the Myanmar Foreign Investment Law.

At the same time, as mandated by the Myanmar Foreign Investment Law, the MIC will also evaluate all investment permit applications according to certain key factors, which include whether the investment will result in a significant level of domestic employment; whether the economic activity will involve the import and use of heavy equipment or



Several new notifications have expanded the activities allowed to investors under an MIC Permit

advanced technology; the value that the economic activity will add to the domestic economy; and the degree to which an economic activity will uplift the living standards of Myanmar citizens.

MIC Permit applications that do not sufficiently meet these factors will not be granted; however, a foreign investor whose application for an MIC Permit has been denied may still attempt to establish a private limited company with the Companies Registration Office. The Companies Registration Office may similarly deny such an application if it deems the applicant's intended activities may only be carried out with the approval of the MIC.

LEGAL BENEFITS: Foreign investors granted an MIC Permit are generally permitted to enjoy certain benefits and guarantees under the Myanmar Foreign Investment Law that are not otherwise available to foreign investors registering business entities without an MIC Permit. These include:

- Exemption from income tax for five consecutive years from the commencement of commercial operations;
- Opportunity to lease and develop land for a period not exceeding 50 years, but renewable for two terms of 10 years each;
- Ability to engage in import-export activities; and
- A legal mechanism for repatriation of capital and profits.

The Myanmar Foreign Investment Law also expressly provides that recipients of an MIC Permit will not be nationalised during the term of their investment. While there is no specific rule on the minimum investment threshold for the grant of an MIC Permit under the Myanmar Foreign Investment Law, the MIC has generally expected a minimum investment amount of \$500,000.

The DICA regularly provides information on investment permit applications that have been granted by the MIC. As of November 2015, 1024

enterprises have been permitted to conduct business under the Myanmar Foreign Investment Law.

SEZ PERMITS: Foreign investors may also wish to locate in an SEZ and for this they will need to apply for an SEZ Permit. Foreign investors granted an SEZ Permit are generally permitted to enjoy certain benefits and guarantees under the SEZ Law that are not otherwise available to foreign investors registering business entities without such permit or an MIC permit. The benefits or guarantees available will depend on whether the foreign investor is located in a free zone area, categorised as a free zone business, located in a promotion zone area or categorised as a promotion zone business, which are defined under the SEZ Law.

For free zone businesses, the benefits include an exemption from income tax for the first seven years from the commencement of commercial operations, the opportunity to lease and develop land for a period not exceeding 50 years (renewable for 25 years), the ability to engage in import-export activities, and a mechanism for repatriation of capital and profits. Promotion zone business on the other hand are granted exemption from income tax for the first five years from commencement of commercial operations, the same period for lease of land located within an SEZ, limited exemption from Customs duties and other taxes, and a mechanism for the repatriation of capital and profits.

ELIGIBLE ACTIVITIES: Among the activities that may be established in an SEZ are manufacturing, real estate development, warehousing and logistics services, financial services, and long- and short-term rental/leasing services, among other things. The minimum investment threshold for the grant of an SEZ Permit depends on the type of business to be established.

An export-oriented manufacturing business in a free zone or a free zone business exporting at least 75% of the gross sales of its products to a foreign country is required to have a minimum paid-in capital of \$750,000. However, supporting industries in a free zone that supply at least 80% of the gross sales of its products to export-oriented manufacturing businesses have a minimum paid-in capital equivalent of \$300,000. Eligible businesses, as well as the minimum capital requirements, are provided in the Myanmar SEZ Rules approved on August 27, 2015. There are three SEZs in Myanmar to date, namely:

- Thilawa SEZ, located north-east of Yangon;
- Dawei SEZ, located in the southern region of Myanmar; and
- Kyaukphyu SEZ, located in the western part of Myanmar in Rakhine State.

Among the three zones, only the Thilawa SEZ has commenced operations, with its respective management committee granting SEZ permits to 49 investors as of early January 2016. The firms that have been granted permits are principally engaged in export-oriented manufacturing businesses.

TRADING RESTRICTIONS: Even after registering a private limited company or receiving an MIC Permit under the Myanmar Foreign Investment Law, foreigners are nonetheless and, as a general rule, restricted from engaging in any kind of trading activities. There is currently no specific legal definition of what constitutes “trading activities” for the purposes of this restriction, although it is generally understood that these include the import of goods for purposes of resale and the procurement of local goods for purposes of resale.

Nonetheless, Myanmar authorities have routinely applied policy exceptions, thereby permitting foreigners to engage in trading activities. The policies have been issued by the following: the MIC, the Thilawa SEZ Management Committee, and the Ministry of Commerce (MoC). The MIC for its part has permitted, on a case-by-case basis, foreign companies operating through an MIC Permit to sell and distribute products that a foreign investor has manufactured, in whole or in part, in Myanmar.

The Thilawa SEZ Management Committee has issued Instruction No. 2/2015 providing for guidelines by which firms may engage in trading activities. Under this rule, businesses in the promotion zone may engage in retail trading activities inside the Thilawa SEZ, as well as wholesale trading activities both inside and outside the SEZ. Businesses in the free zone, on the other hand, are not allowed to engage in any retail trading activities, but may similarly engage in wholesale trading activities inside and outside of the Thilawa SEZ, provided that the aggregate value of these wholesale trading activities will constitute no more than 25% of the total value of the free zone businesses’ annual sales.

At the same time, and notwithstanding the ability of such businesses to engage in the foregoing trading activities, the Thilawa SEZ Management Committee has also defined a certain class of “specified products” that may not be sold, whether in retail or wholesale. Instruction No. 2/2015 does not yet provide a definitive list of these specified products, although it does mention “four-wheel vehicles or motorcycles”.

PARTICIPATING IN TRADE: In order to engage in these limited trading activities, Instruction No. 2/2015 prescribes certain pre-qualifying requirements. Free zone and promotion zone businesses, for example, must construct or establish a warehouse for the goods to be sold, with promotion zone firms also required to meet a minimum investment of \$2m and adopt certain value-added activities (such as repacking and quality-control services) to supplement the production, manufacture or import of goods designated for sale.

The MoC also issued Notification No. 19 and 20 in March 2015, and Notification No. 96/2015 in November 2015 that pertains to trading motor vehicles and specific goods. Notification No. 19 and 20 set out the regulations under which foreigners may enter into a joint venture with a Myanmar



Foreigners are generally restricted from engaging in trading activities

national and open a car showroom for the purpose of direct distribution of motor vehicles.

The MoC, through Notification No. 96, has relaxed its trading restrictions on the sale of certain agricultural products and medical equipment. Under the notification, foreign companies are permitted to establish a private limited company under a joint venture with Myanmar nationals, for the specific purpose of importing and on-selling fertilisers, insemination seeds, pesticides or hospital equipment, in the Myanmar market. The percentage of foreign-local ownership allowed in joint ventures is still under consideration.

ALTERNATIVE STRUCTURES: If the foreigner’s proposed business activity is not among those covered by the exemptions previously discussed, foreigners may participate in the retail market in Myanmar by entering into contractual structures such as licensing and distributorship arrangements with qualified Myanmar entities that are 100% Myanmar owned.

Under the alternative structure, a qualified Myanmar entity will be responsible for importing goods for its own account and shall have full control over the distribution of the foreigner partner’s goods. The participation of the foreigner will thus be limited to entering into the contractual arrangement for licensing or distribution.

The foreigner partner may also consider entering into service arrangements with the qualified Myanmar entity to assist in marketing activities to promote the sale of goods. However, the terms and conditions of the proposed arrangement must be negotiated at arm’s length in order to avoid any impression that the foreign investor is indirectly engaging in trading activities in Myanmar.

DEALINGS WITH LAND: There is, at present, no single piece of legislation that governs land ownership and land use in Myanmar. Instead, there exists



As an ASEAN member state the government is keen to facilitate and increase cross-border trade

a patchwork of laws that mainly relate to the type of land regulated, from forest, farmland, fallow land and industrial land, to name only a few. Myanmar law does recognise freehold rights, which are reserved exclusively for Myanmar nationals. “Ancestral lands” were granted during the time when Myanmar was under British colonial rule. The Myanmar government, however, no longer grants such freehold interests, and as a result much of the land held by private individuals in Myanmar is in the form of grants from the state or from other private persons. Grant land exists mostly in large cities and towns, including Yangon and Mandalay, and the grant holder is permitted to use the land for a stipulated period of time, the majority of which usually have a term of 60-90 years. Grant land is transferable and persons with leasehold interests may carve out and divest lesser interests.

FOREIGN LAND OWNERSHIP: An important limitation on land use relevant to foreign investment is found in the Transfer of Immoveable Property Restriction Act of 1987, which generally prohibits any sale, transfer or exchange of land to any foreigner or foreign company. Non-Myanmar nationals and companies are only allowed to lease land for a term of less than one year. Fortunately, the act allows exemptions from these prohibitions if granted by relevant government ministries when extended to foreign governments, diplomatic missions or other organisations. For the purpose of foreign investment, such exemptions are secured through an MIC Permit under the Myanmar Foreign Investment Law or through an SEZ Permit under the SEZ Law, both of which allow foreign investors to lease land for at least 50 years.

Another challenge for foreign investors dealing with land ownership in Myanmar is securing the right to long-term leases, as approved by the MIC under Myanmar law. Until very recently, the Office

of the Register of Deeds did not accept long-term foreign leases for registration. However, there appears to have been a recent positive change in policy as the Office of the Register of Deeds is now receptive to the registration of foreign long-term leases. This does not only provide additional comforts for foreign investors seeking to secure their rights to land, but is also a welcome development that hopefully progresses into a wider range of registrable instruments, including mortgages.

GOVERNMENT-RESERVED SECTORS: While most economic activities are generally open to investment under Myanmar’s liberalised FDI regime, there are specific sectors that have been traditionally reserved for the government and its state-owned enterprises. These include, among others, the exploration, extraction and sale of petroleum and natural gas; postal and telecommunication services; pilotage and air navigation services; power generation and distribution; and the cultivation and conservation of forest plantations.

However, under relevant Myanmar law, including Notification No. 49/2014, the government has the right to allow non-government persons, including foreigners, to participate in some of these otherwise reserved sectors, either through a joint venture with the government or under specified requirements and conditions. Approval for foreign engagement in these reserved sectors usually proceeds from a recommendation from the relevant ministry or government-owned entity granted jurisdiction over the reserved sector. For example, for investments relating to the exploration, extraction and sale of petroleum and natural gas, a joint venture with the Ministry of Energy is necessary in order to secure MIC Permit approval. The government of Myanmar exercised this discretion when it awarded foreign firms telecommunications licences, as well as oil and gas blocks.

The willingness by the Myanmar government to open these otherwise reserved sectors of the economy is an acknowledgment of the limitations of existing government resources in developing crucial industries and recognition of the indispensable role that foreign investors can play in the overall development of Myanmar’s economy. Thus, other foreign investors wishing to enter into such government-reserved sectors do have an open avenue through specific government approval, which involves applying for permit from the MIC.

IP PROTECTION SCHEMES: Current intellectual property (IP) protections in Myanmar are relatively weak, with a Copyright Act first promulgated in 1914, but no subsequent formal laws with respect to the protection of trademarks and patents. The currently applicable Copyright Act is limited in scope and only provides protections for original literary, dramatic and artistic works if they are either first published in Myanmar, or if unpublished, are the work of a citizen or person otherwise inside of Myanmar at the time of creation. Copyright

works from other nations are afforded no protection in Myanmar under this system, although a practice of registering aspects of a foreign work through a trademark, where possible, has developed to provide some semblance of protection.

REGISTERING IP: While Myanmar does not have any law specifically regulating trademarks and their registration, a de facto registration regime has developed. Through the combined regulations of Section 18(F) of the Myanmar Registration Act (1908) and Direction 13 issued by the Inspector General of Registration, parties may assert trademark ownership by filing a Declaration of Ownership with the Yangon Registration Office of the Settlement and Land Records Department (SLRD). Trademark owners may also publish a cautionary notice in an English-language newspaper of general circulation, for the purposes of:

- Notifying the public of trademark ownership;
- Warning the public against infringement; and
- Enhancing a trademark owner's claim of ownership in case of court litigation.

The publication of the notice is usually repeated every three years. The registration of trademarks with the SLRD and the publication of cautionary notices are not compulsory, though they may be presented as *prima facie* evidence of trademark ownership. Registration, therefore, is merely for evidentiary purposes. It does not, by itself, confer any proprietary rights in the mark. Instead, and as recognised by extant rulings of the Supreme Court, prior use of the trademark is the prevailing and definitive standard for ownership. Thus, to establish a valid claim to a trademark, the claimant must show the use of the trademark in Myanmar.

There was at one time a Burma Patents and Designs Act, but it was repealed in 1993 and has not, as of yet, been replaced with any legislation to protect either patents or industrial designs. Despite the lack of a proper patent protection scheme, patent or invention ownership may still be registered with the Register of Deeds. Through this system a patent holder theoretically may apply for a perpetual injunction under Section 54 of the Specific Relief Act against anyone who would violate their patent property rights. Notwithstanding the practice as outlined in theory, the lack of actual IP protection in law and uncertainty regarding the outcome of any request for injunctive relief from the courts results in an unreliable IP scheme.

UPDATING THE LAW: The current system could be politely described as inadequate for the purpose of protecting the valuable IP of major foreign investors. However, a new IP regime presently being drafted is expected to result in redesigned laws for copyrights, trademarks, patents and industrial designs. Based on the present draft of the Trademarks Bill, there will be a definitive shift from the ad-hoc system of trademark registration under a first-to-market principle to a first-to-file system. The proposed shift is geared towards aligning



The Ministry of Labour, Employment and Social Security has set the requirements for employee contracts

Myanmar's legal framework on IP laws with international standards. The Copyright Bill is also being enhanced to align software, electronic rights management and technological protections with modern standards. Most importantly, the proposed law intends to establish a Myanmar IP Office that shall be the central regulatory agency tasked with administering new IP laws. The draft laws have been submitted to Parliament for deliberation and have been designated as among the bills that will be given priority once Parliament reconvenes.

ANTI-CORRUPTION LAW: Myanmar's Anti-Corruption Law came into effect in August 2013, replacing the outdated and underutilised Suppression of Corruption Act. Targeting in particular the bribery of public officials, the new law establishes the Commission for the Eradication of Bribery, which has the power to require asset reporting by certain officials on an annual basis. Members of the commission and public officials ordered by the commission are now required to prepare an inventory of assets and liabilities listed in their names and their family members' names to be submitted to the President's Office. Other powers granted to the commission include: the ability to seize evidence and freeze properties; investigate accounts at financial institutions; and confiscate money and property as part of an investigation. Public officials found guilty under the new law face imprisonment of up to 15 years and the confiscation of properties earned through corruption. The Anti-Corruption Law also applies to non-public officials who have assisted other public officials in corrupt dealings.

ANTI-MONEY LAUNDERING LAW: Myanmar's Anti-Money Laundering Law, which came into effect in 2014, provides for the obligations of reporting entities – namely, banks, financial institutions and non-financial businesses and professions – in order to curb money laundering



New anti-money laundering laws also include requirement to conduct employee training programmes

activities. Reporting entities are bound by law to issue policies and procedures regarding:

- Implementing regulations regarding the conduct of ongoing customer due diligence and evaluation of transactions;
- Employment supervision procedures to raise employees' integrity; and
- Training programmes to enable employees to assist in know-your-customer requirements, among other things.

In connection with the general obligation on reporting entities imposed by the Anti-Money Laundering Law, the CBM recognised the country's need to comply with global standards for banking regulation, supervision and practices under the Basel Core Principles and observe the recommendations of the Financial Action Task Force 40. As a result, the bank published the AML/CFT Risk-Based Management Guidance Note on January 27, 2015, which requires banks and financial institutions to develop effective frameworks to manage money laundering or terrorism-related financing risks, which shall include having a risk management process and framework in place. Subsequent to this, the CBM also issued Directive No. 21/2015, which provides general guidance on know-your-customer procedures, which is deemed part of developing an effective framework to manage risk related to money laundering activities.

COMPETITION LAW: Myanmar's Competition Law, enacted on February 24, 2015, aims to protect the public from trade monopolies, market control and unfair competition by businesses – activities that are deemed to be inconsistent with the policy of the state of promoting a free and fair competitive commercial environment. The law also enumerates acts that are considered to restrain competition, including but not limited to:

- Controlling the market;

- Negotiating and setting the purchase price by business entities;
- Entering into agreements that restrain competition in the market;
- Taking advantage of a business entity's dominant status in the market;
- Restraining or controlling manufacturing market share, technology and technical development and investment; and
- Negotiating prices in an auction.

IMPROVING COMPETITION: The Competition Law authorises the establishment of the Myanmar Competition Commission, which shall be responsible for implementing rules and regulations promoting fair competition. The law also envisions the creation of an investigation committee that shall be responsible for investigating and imposing penalties and fines on businesses that are found to be in violation of the law. Prohibited acts include:

- Disclosing business secrets;
- Discrediting another business;
- Conducting advertising and sales promotions that lead to unfair competition;
- Selling goods in the market with prices below production cost and landed cost; and
- Abusing one's own business influence and persuading or inducing another person/entity to breach agreements made with other businesses, among others things.

While the law was issued in early 2015, it expressly provides that it will go into effect based on a date set by the president by notification. Based on Notification No. 69, the president has designated the law's effective date to be February 24, 2017.

BILATERAL INVESTMENT AGREEMENTS: Apart from a fast-developing foreign investment framework, and to further bolster investor confidence in the domestic market, Myanmar has also entered into bilateral investment agreements with Japan, South Korea, the Philippines, China, Laos, Vietnam, Thailand, Israel and India. As a member of ASEAN, Myanmar is also a party to various multilateral agreements that aim to develop and enhance cross-border trade and investment among ASEAN-member states. This includes the ASEAN Comprehensive Investment Agreement and the agreement on the ASEAN Economic Community.

Myanmar law also recognises various dispute resolution mechanisms, including domestic and international arbitration, to resolve investment-related disputes. Myanmar has, in fact, recently acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which would allow Myanmar's courts to recognise arbitral awards made in jurisdictions party to the same convention. The ratification of the New York convention is expected to give foreign investors an added measure of security in protecting their investments. The country's government also recently enacted the 2016 Arbitration Law that is intended to provide a framework capable of

supporting the recognition and enforcement of foreign arbitral awards by Myanmar courts.

LABOUR & EMPLOYMENT LAW: While there is no overarching labour legislation or employment code in Myanmar, various labour laws are in place that provide the minimum standards for employment in Myanmar. The Shops and Establishments Act of 1951 outlines the maximum hours of work for employees engaged at shops, commercial establishments, establishments for public entertainment and industrial establishments. The Leaves and Holidays Act of 1952 mandates the provision of earned, casual and medical leave days, and the manner by which they may be used by employees. The Myanmar Social Security Law of 2012 requires the remittance of monthly contributions. The Labour Disputes Settlement Law of 2012, as amended in 2014, provides the framework for employer-employee disputes, and the Employment and Skill Development Law (ESDL) sets out the particular matters to be included in an employment contract, as well as requiring an employer to execute an employment contract with the employee within 30 days from the appointment of the employee.

LABOUR UPDATES: In addition to these laws, the Ministry of Labour, Employment and Social Security (MLES) has issued a series of notifications for 2015 to strengthen the enforcement of existing labour legislation or update existing policies to address the needs of the present time. These notifications, which cover matters pertaining to separation pay, minimum wage and procedures for employment contract registration, are discussed below.

The MLES, through Notification No. 84/2015 dated July 3, 2015, has prescribed a schedule of termination payment rates that may be expected by employees. These termination payment rates are based on the employee's last drawn salary (without overtime payment) and the employee's tenure with the employer. Minimum wage rates were also set in 2015. The National Committee for Minimum Wage, under Notification No. 1/2015, set the minimum wage in Myanmar at MMK450 (\$0.41) per hour and MMK3600 (\$3.24) for eight working hours. The minimum wage requirement, effective as of September 1, 2015, applies to all types of businesses and locations, except for small enterprises with 15 workers or less and small-scale family businesses.

Finally, the MLES issued Notification No. 1/2015, implementing the contract execution provisions of the ESDL. The notification, effective as of September 1, 2015, specifically mandates:

- Execution of employment contracts within 30 days from the date of appointment of an employee, mirroring Section 5(a) of the ESDL;
- Mandatory use of a template employment contract; and
- Use of a salary record book in the format provided by the MLES.

While the imposition of terms in a prescribed employment contract is not specially provided in

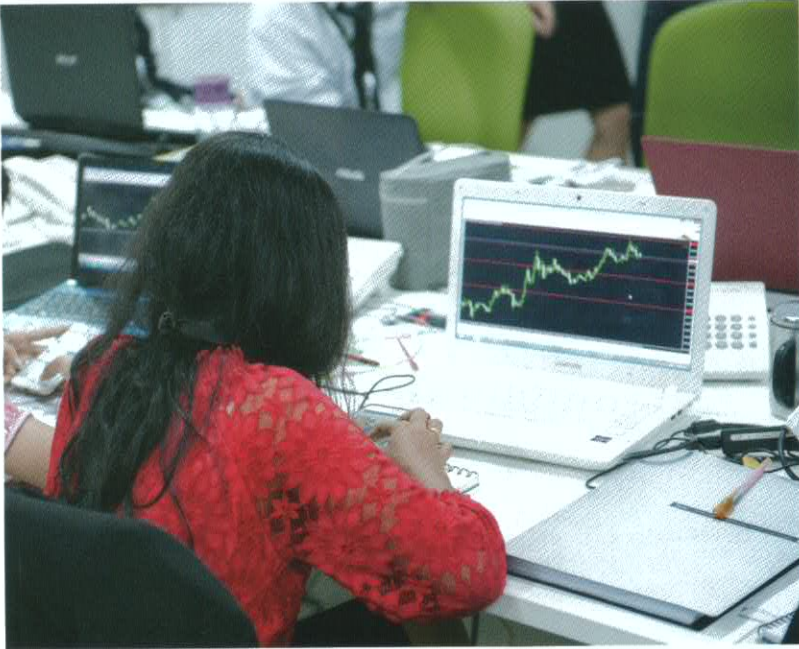


The country has long had labour legislation that regulates working hours and mandatory leave periods

the ESDL, as it only enumerates the general subjects that are required to be covered in employment contracts, Notification No. 1/2015 supplements the ESDL by prescribing an actual template agreement, the terms of which are to be reflected in employment contracts to be signed between all employers and employees. The prescribed template is currently only available in Myanmar. Although the prescribed employment contract attempts to comprehensively cover all terms required in an employer-employee relationship, deviations from the prescribed employment contract may still be necessary to conform to peculiarities to a specific profession and to satisfy the requirements of other applicable laws. Notification No. 1/2015, however, does not clearly state if such deviations will be allowed.

The MLES, with the issuance of Notification No. 1/2015, intends to strictly enforce the ESDL's contract execution provisions and will monitor compliance with both the 30-day execution requirement and the content requirement as set forth in the prescribed employment contract through the mandatory presentation and approval of all contracts to the relevant township labour office. Failure to satisfy the 30-day execution period is punishable with a penalty of imprisonment for a maximum period of six months or a fine, or both. Meanwhile, a failure to comply with the terms and conditions of an employment contract, which may include a failure to include the terms and conditions in the MLES' prescribed employment contract, is subject to a penalty of imprisonment for a maximum of three months, or a fine, or both.

DEALINGS WITH FOREIGN CURRENCY: The promulgation of the Foreign Exchange Management Law in 2012 has significantly liberalised the ability of both locals and foreigners to deal with foreign currency in Myanmar. The law requires all



With new legislation and licences awarded to nine foreign banks, the banking sector is increasingly open

foreign exchange transactions to occur through banks that have been authorised by the CBM to deal in foreign exchange. As such, foreign investors may now open foreign currency accounts at authorised banks within Myanmar and maintain foreign currency accounts abroad, as well as remit foreign exchange abroad, subject to the approval of the relevant government authorities.

For foreign investors operating under an MIC Permit, upon approval from the MIC and the CBM, they may transfer or remit foreign currency initially brought into Myanmar for purposes of the investment. These amounts include net profits, dividends received by shareholders who brought foreign capital into Myanmar, and amounts receivable upon liquidation of the enterprise.

ORDINARY TRANSACTIONS: Apart from the remittance of foreign currency by foreign investors operating under an MIC Permit, the Foreign Exchange Management Law also enumerates foreign currency transactions known as ordinary transferred payments, and which, according to the law, cannot be restricted, whether or not one is operating through an investment permit. Ordinary transferred payments include:

- Trading and services, and payments for short-term bank loans;
- Interest payable on loans, and net profit accrued from investments;
- Repayments of loans in instalments, or depreciations for direct investments; and/or
- Local remittances or those from abroad for an individual's family.

Notwithstanding such language, Myanmar's banks still generally require the approval of the CBM for any loan repayments of any shareholders' or offshore loans, even for those companies that may not be operating under an MIC Permit. The practical effect is that foreign investors, whether

operating under an MIC Permit or not, will be required to obtain the prior approval of the CBM for any intended inward remittance of shareholders' or offshore loans, as well as intended outward remittance of principal, interest and profits.

OBTAINING APPROVAL: The CBM, in its Notification No. 7/2014, otherwise known as the 2014 Foreign Exchange Management Regulations (FEMR), affirms its role in approving any inward or outward remittances of foreign currency. Under the FEMR, foreign investors remitting funds into Myanmar are required to present documents to the CBM reflecting that the remittance was made to a foreign exchange licensee. This requirement applies to all investors, including those that have obtained an MIC Permit or an SEZ Permit.

In addition, internal residents obtaining offshore loans will need to request prior permission from the CBM. The FEMR expressly provides that when obtaining offshore loans internal residents, which includes companies or branch offices established under Myanmar law, shall request prior permission from the CBM and shall therefore present the loan agreement together with such other documents as may be required by the CBM. Among the information to be provided in the application are the objectives of the loan, the terms and conditions for its repayment, and the interest rate. The rule affects all foreign entities including those with an MIC Permit or SEZ Permit.

The Foreign Exchange Management Law was amended in 2015 to strengthen regulatory oversight on foreign exchange flows. The proposed amendment covers issues involving export earnings, offshore loans, capital payments on foreign investments undertaken by internal residents, and the transfer of gold and other jewellery.

RELATED AMENDMENTS: Regarding existing requirements on foreign currency export earnings already found in the FEMR, the proposed amendment reiterates the obligation to deposit such export earnings at an authorised bank within a prescribed period of time. Foreign currency loans contracted by Myanmar residents must also be obtained with prior approval from the CBM, a requirement already set out in the FEMR.

Customs regulations found in the FEMR on dealings with gold, foreign currency and jewellery are also reiterated in the proposed amendment, which confirms the need to obtain Customs approval at the port of entry or exit for the import or export of gold and other jewellery, and foreign currency exceeding \$10,000. Finally, the proposed amendment also seeks to regulate dividends earned by Myanmar residents from overseas investments by requiring that such dividends be remitted into Myanmar only through authorised banks, as opposed to, for example, more informal and thereby unregulated foreign exchange channels.

Penalties range from imprisonment of up to one year, a fine or both for non-compliance in reporting

export earnings, obtaining offshore loans and transacting capital payments on foreign investments, and imprisonment of up to three years or a fine or both for unlawful transfer of gold, foreign currency and other jewellery.

LIBERALISATION OF BANKING: 2015 was also a significant year for Myanmar's banking industry with the issuance of CBM licences to nine foreign banks that are now permitted to engage in commercial banking activities, but are limited to opening of accounts for and granting of loans to foreign companies or domestic banks. Foreign companies are defined as a foreign entity in Myanmar with 100% foreign ownership, a joint venture company between foreigners and Myanmar citizens, and an authorised branch or representative office of a foreign company in Myanmar. Presently, the scope of permitted activities for licensed foreign banks is limited and they are still not permitted under their licence to engage in retail banking activities.

The nine foreign banks that obtained CBM licences in 2015 include: Bank of Tokyo-Mitsubishi UFJ, Oversea-Chinese Banking Corporation, Sumitomo Mitsui Banking Corporation, United Overseas Bank, Bangkok Bank Public Company, Industrial and Commercial Bank of China, Maybank, Mizuho Bank, and Australia and New Zealand Banking Group.

On December 14, 2015, the CBM announced its intention to conduct a second round of foreign bank licence approvals that is intended to entice investment from banking institutions from other countries. Accordingly, countries whose banks have already been granted a licence during the first round of approvals (Australia, Japan, China, Malaysia, Singapore and Thailand) are no longer permitted to participate in the second round.

STOCK EXCHANGE: With the launch of the Yangon Stock Exchange (YSX) in December 9, 2015, the country's public companies are preparing to shift from over-the-counter trading to trading shares in a centralised exchange. While the YSX was launched in December 2015, trading has not yet commenced and the companies that have expressed their interest to be listed on the YSX will still need to undergo evaluation.

The firms that have expressed their intention to list on the YSX include: First Myanmar Investment Company, First Private Bank, Great Hor Kham Public Company, Myanmar Agribusiness Public Corporation, Myanmar Citizens Bank and Myanmar Thilawa SEZ Holdings.

The listing criteria for the companies proposing to list on the YSX were issued by the YSX on August 14, 2015 and broadly covers requirements relating to corporate existence, level of paid-up capital, shareholder composition and profit levels, as well as corporate governance and management compliance requirements, including corporate policies on auditing, tax, insider trading and reporting. Presently, however, the existing rules only permit Myanmar citizens to invest in companies listed in



The government has also recently introduced a new law liberalising the foreign exchange market

the stock exchange. It is anticipated, however, that additional legal mechanisms will be put in place once the draft Myanmar Companies Law is passed. The first stock trading date will be announced at a later time once the YSX determines that all matters necessary for trading are available.

CONCLUSION: Myanmar has continued to modernise its legal framework despite a shift in focus at the end of 2015 on the conduct of the elections. Notably in the second half of 2015, several notifications were issued that enhanced existing labour regulations, foreign exchange legislation and anti-money laundering requirements.

Hence, Myanmar's government appears steadfast in providing a legal framework consistent with international standards. During this transition period, the modernisation of the country's legal framework continues with the issuance of the 2016 Arbitration Law at the beginning of the year. Significant laws such as the Foreign Investment Law, Myanmar Companies Act and the IP regulations are still in the pipeline and are to be considered once the country's Parliament reconvenes.

The peaceful conduct of the November 2015 elections and the acceptance by the present ruling party of the result in favour of Daw Aung San Suu Kyi's opposition National League for Democracy sparked ever-increasing interest in Myanmar and its opportunities for economic growth.

However, the pace and extent of this interest in Myanmar is still to be determined. Considering the country's ongoing efforts to modernise its legal framework in recent years, it seems very likely that this trend will continue going forward. The outlook for foreign investors seeking to expand into Myanmar is therefore promising.

OBG would like to thank *Kelvin Chia Yangon* for its contribution to THE REPORT Myanmar 2016



Cheah Swee Gim

Turning the page

OBG talks to Cheah Swee Gim, Director, Kelvin Chia Yangon

As Myanmar's political and economic landscape continues to evolve, how would you assess the development of its legal infrastructure thus far?

CHEAH: Myanmar has made excellent progress in terms of legal reform. In 2012 Myanmar started updating old laws and enacting new ones, giving investors a framework to conduct business. While there was criticism that the broad legal principles lacked clarity in terms of implementation, Myanmar then embarked on a second phase of legal reform and began to implement very detailed rules and procedures to address those uncertainties.

These reforms have taken place across sectors, in areas including employment laws and foreign exchange management. To date, there are many laws that have not yet been implemented, some of which are very important – for instance, intellectual property laws have not been passed. But it is not easy for an emerging market to enact a comprehensive set of laws overnight. Myanmar has been isolated from the international business community for a long time, and investors have to pay attention to the fact that the Myanmar government is sincerely committed to legal reform. They have spent a lot of time and resources evaluating the laws that must be passed and redrafting those laws so that they align with Myanmar social and legal business conditions.

What legal changes should investors expect in the near future, and how will these amendments impact investor confidence?

CHEAH: The most widely discussed changes are those relating to the revamping of the Myanmar Companies Act, which was formulated in 1914, and the amalgamation of the Myanmar Foreign Investment Law with the Myanmar Citizens Investment Law to create a more level playing field for foreign investors. When foreign investors have come to events over the past three and a half years, often

they have found foreign investment laws to be sufficient for doing business in Myanmar. Their confidence is bolstered by the fact that there is willingness on the part of the Myanmar government to listen to international feedback and to take that feedback into consideration when revising the laws.

To what extent did the national election change the appetite for new business ventures?

CHEAH: In the months leading up to the election there was a slowdown in activity, as many investors adopted a cautious approach. Nevertheless, many investors are coming into Myanmar, as they feel that the early bird will catch the best worms. More importantly, a group of investors already has an interest in Myanmar, and they are continuing to expand their business while waiting for the next wave of foreign investment to occur. This will bring in a lot of opportunities and new investors across different sectors.

In which areas do you see the greatest need to strengthen investor rights in Myanmar?

CHEAH: I believe that investors have sufficient rights at the moment. The foreign investment laws and regulations in Myanmar have been well formulated and thought out. I would say that they are robust and on par with the foreign investment laws of other emerging market jurisdictions. Generally speaking, investors have an issue not in terms of the protection of investments but rather with the problems they encounter in enforcing their rights while doing business in Myanmar.

On a day to day basis, investors have challenges in obtaining permits and licences, and determining the correct structure and procedure to carry out their investment. Myanmar is now embarking on the enactment of detailed rules and regulations which will go a long way in making investors more comfortable when carrying out business in Myanmar.

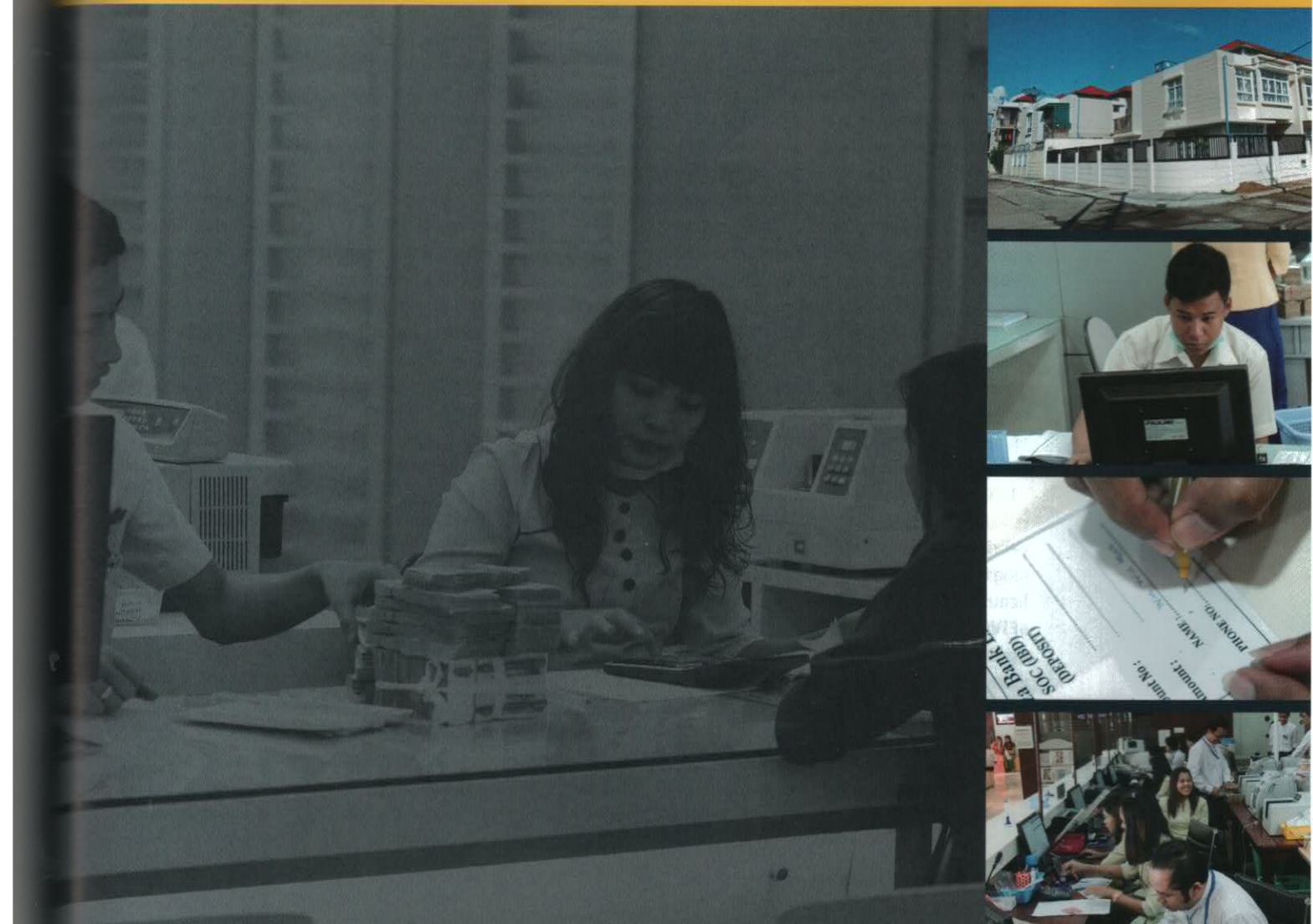
Tax

Union Tax Law 2015 reduces many existing tax liabilities

Self-assessment system introduced to promote tax collection

Consequences of non-compliance laid out in detail

Developments in special economic zones moving forward





Individuals and businesses may take advantage of various tax benefits

Taxation in detail

A long road towards tax reforms

The years 2012 and especially 2014 witnessed several constructive changes through amendments to the Income Tax Law (ITL), the Commercial Tax Law (CTL), the Stamp Duty Act and the Court Fee Stamp Act. These were aimed at meeting the tax reform agenda that was set by the parliamentary government installed in 2011, in order to eradicate the provisions of laws detrimental to the progress of the national economy. In order to accelerate the reform process the most remarkable step was the introduction of the Union Taxation Law (UTL) 2014 (effective for 2014/15 fiscal year).

The tax reform process continued unabated as the Parliament of April 2, 2015 passed UTL 2015, effective for the 2015/16 fiscal year, prescribing several significant changes including: aligning the higher corporate income tax rate of 35% and capital gain tax (CGT) rate of 40% for non-resident foreigners with the resident company rates of 25% and 10%, respectively (excepting CGT for the oil and gas sectors); reducing higher personal income tax rates for non-resident foreigners (flat 35%) to progressive rates from 0% to 25% which applies to resident nationals and foreigners; enhancing spouse and child allowances; introducing parent allowances; reducing tax on property income for individuals from progressive rates (0% to 25%) to 10% flat; increasing the commercial tax (CT) threshold; removing the 2% CT relating to goods produced and sold by Myanmar-owned companies; and reducing the CT on sale of buildings constructed within the country from 5% to 3%.

FIVE PRINCIPAL LAWS: The ITL, the CTL, the UTL (subject to yearly revision), the Foreign Investment Law (FIL) 2012, and the Special Economic Zone Law (SEZL) 2014 provide the basis for taxation.

CORPORATE INCOME TAX (CIT): For the purpose of taxation, a company incorporated in Myanmar is treated as a resident, while a company incorporated overseas and registered locally as a branch is treated

as a non-resident. Resident companies are subject to income tax on income accruing or arising within and outside Myanmar, that is, on worldwide income. However, foreign branches (non-resident) and companies or branches operating under the FIL are only taxed on income accruing or arising within Myanmar. The uniform CIT rate of 25% applies to both the CIT of a resident company and a non-resident foreigner (branch). Income is computed as: "salaries", "profession", "business income", "property", "capital gain", "income escaped assessment" and "other sources". Corporate income is assessed under "business", meaning any trading, commercial or production business including services. Taxable income is computed by deducting expenditures incurred for the purpose of earning income and depreciation allowances at the rates prescribed by the IT regulations from the total income, which includes interest earned from investment in security instruments and income from buying and transferring instruments as a business. Non-deductible expenditures comprise capital expenditure, personal expenditure, expenditure not commensurate with the volume of business, and any payment made to a member of an association with the exception of a company or a cooperative society.

However, payments made for professional service are deductible. A full year's depreciation can be claimed the year a capital asset is acquired, but no depreciation is allowed the year the asset is disposed. **CAPITAL GAINS TAX:** CGT is levied on gains from the sale, exchange or transfer of any capital asset of the business in Myanmar kyats (MMK) or foreign currency, if the proceeds of all assets disposed in an income year exceed MMK10m (\$9000). CGT is 10% and applies to both residents and non-residents. In the case of the oil and gas sector, progressive income tax rates, ranging from 40% to 50%, are applicable on the capital gains received from the sale, exchange or transfer of shares and capital assets.

OFFSET & CARRY FORWARD OF LOSS: Losses from any source may be offset against income from any other source of income accruing in a year, except where the loss is incurred from capital assets. Capital losses cannot be carried forward and offset against future capital gains or taxable profits.

If a company suffers business losses that are not fully deducted in a year, it can carry forward unabsorbed losses and set them off against profits in the next three consecutive years. However, in the case of a company covered under the FIL, losses incurred during the income-tax holiday period cannot be carried forward or set off against future taxable profits.

DIVIDENDS: Dividends received from an association of persons (i.e. partnerships, joint ventures, companies, etc.) are exempt from tax.

WITHHOLDING TAX: WHT is applicable to both payments to residents (R) and non-residents (NR). A payer is required to withhold income tax at the rates shown below in respect to the following payments at the time of disbursement:

- Interest payments rates: R-0%, NR-15%;
- Royalty payments for the use of all licenses, trade marks and patent rights; rates: R-15%, NR-20%;
- Payments made under contracts or agreements by state organisations, local authorities, cooperatives, partnerships, companies, entities formed under any existing laws for procurement and services rendered within Myanmar: R-2%, NR-3.5%; and
- Payments made under contracts or agreements by foreign entrepreneurs or foreign companies for procurement and services rendered within Myanmar: R-2%, NR-3.5%.

An advance income tax of 2% is imposed by the Internal Revenue Department (IRD) on imports and exports. The WHT is not applicable on dividends, as it is exempted from tax. The tax withheld shall be paid on behalf of the payer to the IRD within seven days from the date of withholding. Tax withheld from payments to residents will be set against the tax due under final assessments, whereas tax withheld from payment to non-resident foreigners is a final tax.

TAX YEAR: The standard tax year ends on March 31.

TAX PAYMENTS: A projection for the year's income is made by the taxpayer, and the tax for the year shall be paid in advance, in quarterly installments before the end of each quarter. If the liability exceeds the tax installment, a penalty at 10% is imposed on the amount falling short of the actual assessment.

TRANSFORMING THE OFFICIAL ASSESSMENT SYSTEM (OAS) TO A SELF-ASSESSMENT SYSTEM (SAS): The Myanmar tax authorities have had a long-term plan to gradually adopt a SAS in place of the OAS, so as to encourage voluntary compliance by taxpayers regarding tax payments. Accordingly, the IRD has established a Large Taxpayers' Office (LTO) and began implementing SAS for FY 2014/15 by selecting some large taxpayers – comprising mostly extractive industries, telecommunications, airlines, groups of companies, public companies and financial institutions, among others – that are deemed to be large

based on the past three years' tax payment records maintained by the IRD. Taxpayers' voluntary submissions for the SAS are also welcome by the IRD based on financial information such as authorised capital, paid-up capital and gross turnover. One Medium Taxpayers' Office was also established in order to include selected medium-sized taxpayers to the SAS starting from the 2016/17 assessment year.

ADMINISTRATION & COMPLIANCE: Large tax payers are required to file the tax return especially designed for the purpose of the SAS on or before June 30. Taxpayers need to assess their own tax obligation and complete their tax returns by furnishing the required financial and other relevant data truthfully. A signed declaration regarding the correctness and completeness of the information given on the tax return shall be made by the taxpayer or its representative. Audited financial statements do not need to be submitted. The LTO will conduct rigorous tax analysis on submitted tax return in order to determine whether to accept as declared or apply an in-depth audit if deemed to be not acceptable.

In the latter case the LTO will notify the taxpayer and proceed with an audit in accordance with its audit manual at the business premises of the taxpayer. Audit findings will be communicated and a demand notice will be issued for payment of deficient tax. Payments must be within 21 days. If not satisfied with the tax adjustment, the tax payer can appeal.

OAS: Income tax returns must be filed within three months of the end of the income year, together with financial statements audited by certified public accountants. However, tentative unaudited financial statements may be filed with the prior approval of the IRD on reasonable grounds. Tax returns for capital gains must be filed within one month from the date of disposal of the capital assets.

The IRD will generally review the tax return and raise any queries before finalising the assessment. The advance payments and any taxes withheld are credited against the final tax liability. The date for paying the final tax liability is specified in the notice of demand issued by the IRD. Excess tax may be refunded or carried forward as advance for the subsequent year's tax payment. If there is a suspicion of concealment or fraud, a tax audit will be conducted by the IRD. In the case of concealment, the tax payer is asked to fully disclose the facts within a specified time frame. There is no time limit for a tax audit.

PAYROLL TAXES & SOCIAL SECURITY CONTRIBUTIONS: Employers need to withhold salary tax monthly at the time of salary disbursement and deposit the sum deducted within seven days from the date of withholding. Monthly salary statements showing the salary amount and tax deducted must be filed with the relevant township revenue office before the tax is deposited. An annual salary statement must also be filed by June 30. According to the social security law 2012, employers having five and more staff under their employ must register with the relevant township social security office. Both employers and employees

are also required to contribute towards Social Security Scheme based on the employees' monthly wages at 2% each for health and social care. Employers must contribute an additional 1% on the employees' wages for injury benefit. Maximum monthly contribution is limited to MMK9000 (\$8) by employer and MMK6000 (\$5) by employee. Contributions must be paid within 15 days of the following month. The employees' contribution is deducted by the employer from wages.

TAXATION ON INDIVIDUALS: Myanmar citizens and resident foreigners are taxed on their world-wide income. A foreigner is a resident if he or she stays in Myanmar for 183 days or more in a fiscal year. Non-resident foreigners are taxed only on income accrued in or earned from Myanmar. Foreigners working in companies operating under the FIL are permitted to pay income tax on their income received within Myanmar only. Personal allowances (basic, parents, spouse and children, insurance premiums and social security contributions) can be deducted from residents' taxed salary income. Tax rates on income of residents after deducting legitimate allowances are at progressive slab rates ranging from 0% to 25%. The rate applicable to the taxable income of residents amounting up to MMK2m (\$1800) after deducting legitimate allowances is 0%.

Non-resident foreigners are required to pay tax in the denominated currency in which income is earned under the UTL. Total income comprises salary, profession, property, business and other sources. Non-resident foreigners cannot enjoy allowances. Tax rates on the income of a non-resident without deducting legitimate allowances are also at progressive slab rates ranging from 0% to 25%. The rate applicable to the taxable income of non-residents amounting up to MMK2m (\$1800) is 0%.

COMMERCIAL TAX: Myanmar does not levy value-added tax (VAT). Instead, CT based on turnover is levied either on goods locally produced or imported, and exports of certain goods under the CTL. CT is also levied on certain services rendered within Myanmar.

The UTL categorises goods in order to apply different CT rates, which are as follows:

- Special goods – 16 items (imported or manufactured and sold): 8% to 120%;
- Basic and essential goods – 79 items: 0% (for those goods produced and sold or services rendered locally relating to those items);
- Other goods not included in the above categories: taxed at 5%;
- Exports of goods: 0% (except crude oil, natural gas, jade and jewellery, and teak logs and wood).
- There are 23 types of services exempted from CT, and other types of services that are not included in the CT exemption list are subject to CT at a uniform rate of 5%. The threshold for levying CT is MMK20m (\$18,000).

In order to be compliant with CT regulations, all companies must complete the following steps:

- Register with the IRD as a CT payer one month before commencement of business;

- File quarterly CT returns within one month after the end of each quarter;
- File annual CT returns within three months after the end of the fiscal year;
- Inform the IRD within 10 days of officially commencing business;
- Pay monthly assessable CT within 10 days of the following month;
- Appear for examination upon receiving notice served by the IRD;
- Pay the assessed tax within the stipulated or extended time;
- Maintain prescribed invoices or receipts as evidence, according to the CT regulation; and
- Issue invoices or receipts to the purchaser or the service recipients.

OTHER TAXES/DUTIES: Customs duty is payable according to the Custom Tariff of Myanmar at rates of 0% to 40%. Excise duty as license fees on alcoholic beverage sales are collected by the General Administration Department. Property tax is levied on immovable property based on the township and location in the city as determined by the City Development Committee. Royalties at prescribed scheduled rates are payable on the extraction of natural resources.

Stamp duty is payable on various instruments at different rates prescribed by the Stamp Duty Act. The duty is payable in kyats prior to or on the date which the instruments are executed.

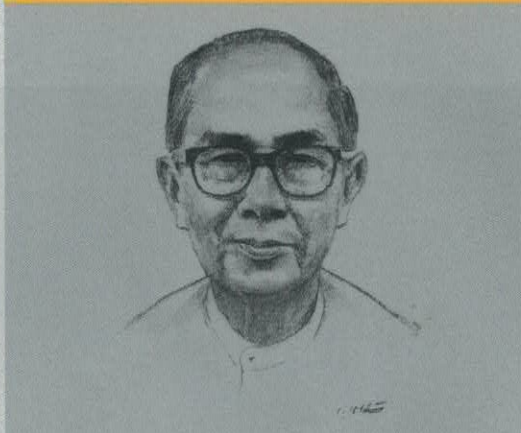
LIABILITY FOR NON-COMPLIANCE: Investors should be aware of the following penalties imposed in the form of fines and/or imprisonment depending on the gravity of the offences prescribed under the Myanmar tax laws, defined as follows:

ITL: A fine at 10% on tax dues for default or failure to pay advance tax, filing tax returns and annual salary statements, submitting accounts and supporting evidence. A fine at 50% for failure of disclosing concealed income within the given time. imprisonment from one to 10 years for concealing or not disclosing income.

CTL: A fine at 10% or 100% of additional tax due depending on the type of default, not more than one year's imprisonment and/or a fine of MMK100,000 (\$90) for not disclosing or for concealing income. For failure to issue an invoice or receipt to a purchaser or service provider: a fine at 100% of tax due on the value of such an invoice or receipt and in addition a fine at MMK200,000 (\$180), MMK500,000 (\$450), MMK700,000 (\$630) and MMK1m (\$900) for the first time, second time, third time and every time above the third time, respectively, for each type of default made within a financial year.

STAMP DUTY ACT: Fine levied at 10 times the prescribed duty or deficient portion for not duly stamping on or before executing the instrument.

DOUBLE TAXATION AGREEMENT (DTA): Myanmar has signed DTAs with the UK, Malaysia, Singapore, Vietnam, Thailand, the Republic of Korea, India, Laos, Indonesia and Bangladesh. DTAs with all but Indonesia and Bangladesh are currently in effect.



U Win Thin

Meeting global standards

U Win Thin, Chairman, Win Consulting, on the ongoing revisions to Myanmar's tax environment

The excise tax regulating consumption is being removed from the Commercial Tax Law and is being presented to Parliament as a new tax law, known as the Special Commodity Tax Law. The old Commercial Tax Law will subsequently remain in force and will be administered only as a value-added tax/goods and services tax, which will be applied to the national tax base at a uniform tax rate.

Myanmar has also been marching towards the implementation of a self-assessment system for income tax assessments and, as a forerunner, the Large Taxpayers' Office has been established to assist large taxpayers in complying with the new requirements. Likewise, Middle Taxpayers' Offices have also been formed, encouraging second-tier taxpayers to comply with tax laws. Given these developments, the role of public accountants is becoming more important because, as is usual in all countries, they have to assist taxpayers in the preparation of their financial statements and the reconciliation of accounting profits and taxable income. However, the primary responsibility of this preparation lies with company management.

In anticipation of social and economic reforms, the regulatory body for the accountancy profession in Myanmar – the Myanmar Accountancy Council (MAC) – has, in 2009 and 2010, updated and/or adopted all international accounting and auditing standards by renaming them as Myanmar standards. As a policy, MAC will upgrade the local standards within one year of the date of any changes taking place at the international level. MAC also encourages early adoption of international standards even before the official local adoption is made.

The Myanmar Institute of Certified Accountants (MICPA), the national accountancy body and professional accountancy organisation, is striving its best to train its member accountants by way of continuing professional development through seminars

and workshops. However, although the authorities – such as the Internal Revenue Department (IRD), the Tax Authority and the Central Bank of Myanmar (CBM) – require robust, reliable financial statements, the local banks and business community at large are still weak at enforcement.

International organisations, such as the World Bank and the IMF, are giving various types of assistance to the MICPA. However, we feel that the stakeholders themselves need to have the will to comply with the new standards, along with strict regulatory oversight. The IRD and the CBM should also be thorough with these standards, so that they avoid unnecessary burdens placed upon the respective stakeholders during the administration of their conservative prudential regulations.

On the other hand, great efforts are being made in different ways to support small and medium-sized enterprises (SMEs), which constitute over 90% of the economy. These include liberal loans without the need to provide collateral, tax exemptions and less stringent corporate compliance requirements. Proposed amendments to the Myanmar Companies Act include certain exemptions and waivers for SMEs, such as audit exemptions and lower requirements for holding directors' meetings and shareholders' meetings. All these exemptions and waivers should be supplemented by the proper training, to promote a law-abiding spirit and accountability. If such burden-relieving incentives are deemed necessary, these should be implemented through the reduction of penalties rather than by reducing companies' primary accountability duties.

In addition to the above, there are some additional minor commercial issues to be clarified. These include whether free accommodation counts as income, how to assess Myanmar-sourced income for foreign residents, and how the Stamp Act treats advances and deposits for rental properties.

The Guide

Inle Lake is one of the country's top tourist attractions

Hotel listings for business and leisure travellers

Contact numbers for a variety of local services

Useful tips for first-time visitors to the country

A good night's sleep is essential for a good start to the day.

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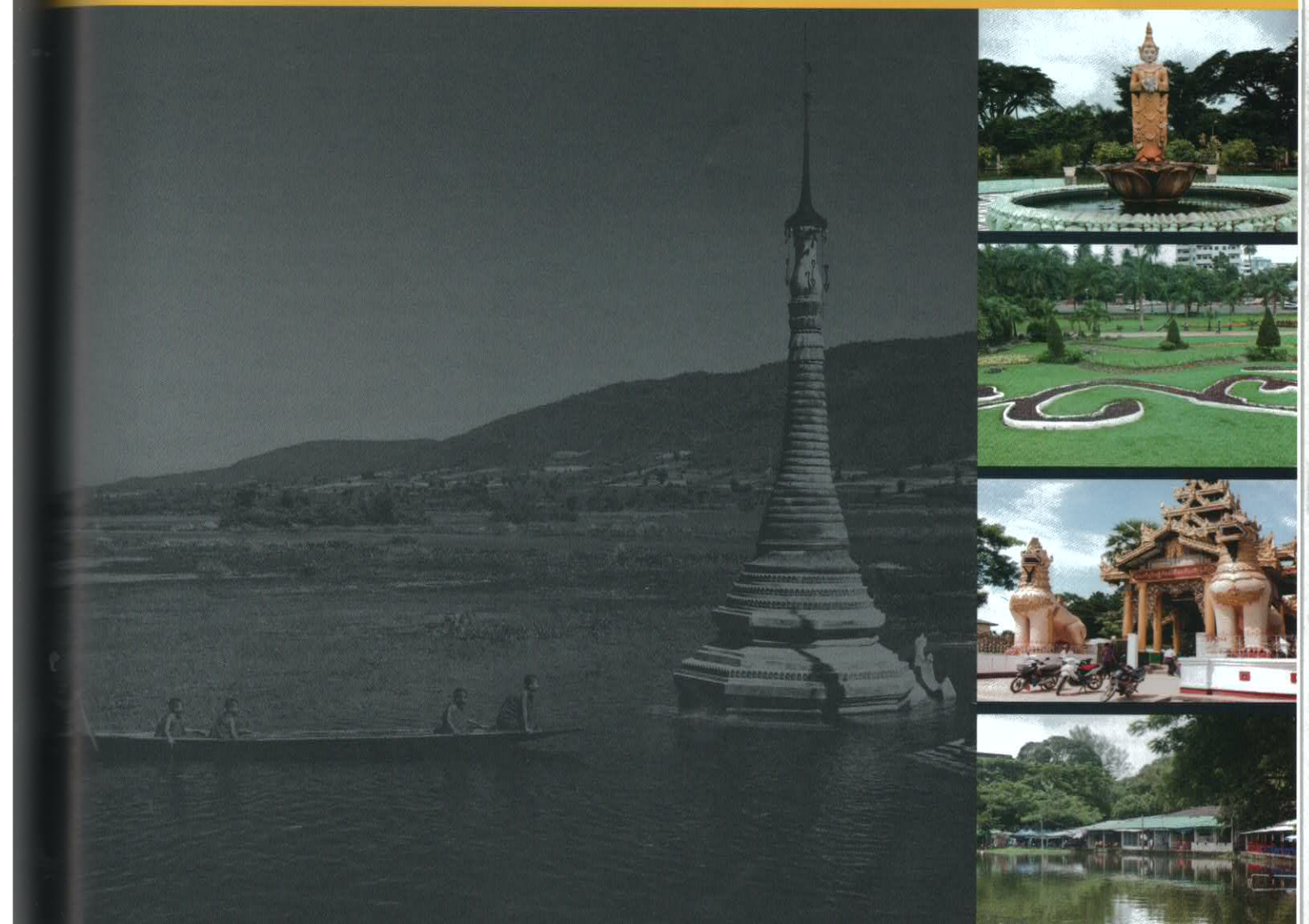
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Boating excursions are a popular way to explore the lake

Lakeside wonders

Inle Lake draws a growing number of visitors from near and far

Home to floating villages and monasteries, and wrapped by mountain ranges, the pristine freshwater of Inle Lake continues to attract visitors. Even before the reopening of the country to the outside world, foreign tourists ventured to Myanmar, eager to soak in the lake's natural surroundings. Today the lake is still one of the country's top tourist attractions – alongside Bagan, Mandalay and Ngapali beach – with a growing number of five-star hotels propped on wooden stilts along its banks.

LIFE BY THE LAKE: Located in the heart of Shan Plateau in south-eastern Myanmar, the lake is situated some 900 metres above sea level. Measuring 22 km in length and 10 km across, it appears virtually unending when viewed at eye level.

More than 400,000 people reside on or near its banks, including the Innthar community, who are known for their one-legged boat-rowing technique. There are other ethnic groups in the area as well, such as the Shan, Bamar and Kayah, which include the *Padaung*, meaning “long neck” in the Shan language. In this group, the women practice an ancient tradition of wearing neck-rings or coils. This gives the women the appearance of an elongated neck, with more rings added over time.

The lake is particularly attractive to photographers, thanks to its unique backdrop, surrounded by wildlife and bright red, yellow, purple and green vegetation. It may not be for the thrill-seeker, but culture-hungry enthusiasts who are fortunate enough to visit this spot have an array of tourism options.

Visiting one of the local monasteries remains a top attraction for tourists, with a wide variety of sites to choose from. Nga Phe Kyaung monastery, for example – also known as the “jumping cat monastery” – is a perennial favourite of visitors. Situated on the western shores of the lake, the monastery has become a home for stray cats. Over the years the monks have trained the cats to perform a series of

tricks and, much to the amusement of visitors, the cats will jump through hoops held up by the monks.

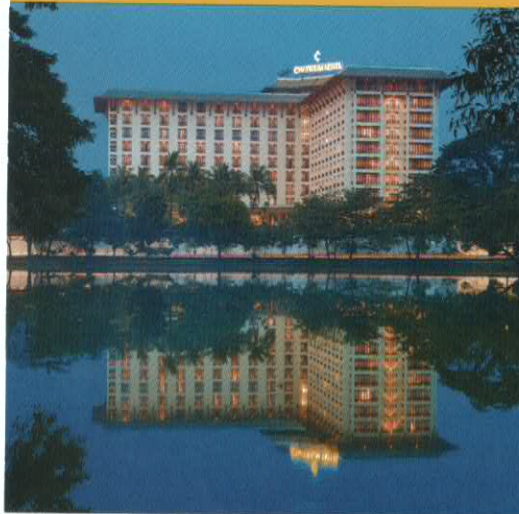
Located in Ywama, the Hpaung Daw U Pagoda, one of the most well-known religious sites in Shan State, is also worthy of a visit. The pagoda houses five small golden Buddha images, each of which has been covered with so many gold leaves that it is nearly impossible to see their original structure.

A good time to visit the pagoda is during the colourful Hpaung Daw U festival, which takes place in September or October. During the festival, four of the five Buddha images are ferried around Inle Lake on a replica of a royal barge.

LOCAL SHOPPING: Travellers are able to investigate the surrounding area aboard a tail boat. Shopping at souvenir shops is another popular activity for visitors and also helps support the local community. Shops include weaving factories, where centuries-old techniques are used to manufacture traditional attire, and local blacksmith workshops.

The area also features a cigar shop, where tourists can watch local women carefully hand roll cigars known as *cheroot*, derived from a Tamil word meaning roll of tobacco. The cheroot is made with a blend of tobacco and fragrant wood chips, which is then rolled up in a dried and flattened leaf.

Over the past few years the conservation of Inle Lake and its surrounding environment has become more of a priority. While the growing number of visitors has helped to bolster the local economy, there are also concerns that rapid tourism growth – and in particular the construction of lakeside hotels – has been harming the area's biodiversity, which includes birds, snails and fish. In an effort to preserve the lake's ecosystem, the World Wildlife Foundation has been collaborating with the Myanmar Ministry of Environmental Conservation and Forestry to ensure the necessary steps are taken to promote the sustainable development of the lake's surroundings.



Chatrium Hotel Royal Lake Yangon

A good night's rest

YANGON

CHATRIUM HOTEL ROYAL LAKE YANGON

No. 40 Natmauk Road,
Tamwe Township, Yangon
T: +951 544 500
F: +951 544 400
info.chry@chatrium.com
www.chatrium.com

Rooms: A total of 300 rooms and suites, with 165 deluxe rooms, 89 Chatrium club rooms, 10 corner deluxe rooms, 7 studio suites, 8 junior suites, 15 deluxe suites, 5 luxury suites and 1 royal lake suite.

Business & Conference Facilities: Business desk, meeting and banquet facilities, including a 435-sq-metre ballroom, 5 function rooms of various sizes, 2 meeting rooms and a poolside garden.

Health & Leisure Facilities: Health club and swimming pool overlooking a garden, and Nemita Spa by Lilawadee.

Guest Services: Room service, airport shuttle, laundry and dry-cleaning services, currency exchange, ATM, souvenir and gift shop, limousine service, turndown service and concierge.

Dining: The Emporia Restaurant (all-day dining), Tiger Hill Chinese Restaurant (Cantonese and dim sum), Kohaku Japanese Restaurant (Japanese), Club Rizzoli (bar), Lobby Lounge, The Emporia Restaurant (daily international buffet breakfast for all guests) and Pool Bar.

INYA LAKE HOTEL

37 Kaba Aye Pagoda Road, Yangon
T: +95 1 966 2866, 966 2857/59
F: +95 1 966 5537
reservation@inyalakehotel.com
www.inyalakehotel.com

Rooms: 102 superior rooms, 32 deluxe rooms, 5 junior suites, 28 serviced apartments, 4 two-bedroom

apartments and 12 executive suites. Twin and king-sized bed options are available.

Business & Conference Facilities: Mingalar Hall, Sunset Terrace and Lawns offer venues for special and corporate events. Smaller rooms are also available for presentations and meetings, as well as breakout rooms.

Health & Leisure Facilities: Foot spa, beauty salon, swimming pool, tennis courts, fitness centre and on-site shopping gallery.

Guest Services: Business centre, laundry service, 24-hour room service, babysitting, limousine service, catering and event-planning services are available.

Dining: Country Club (poolside dining/snacks), Inya Lake View Bar, Orchid Restaurant (Asian and continental cuisine) and Deli Lounge (delicatessen).



Inya Lake Hotel

THE STRAND

92 Strand Road, Yangon
T: +95 1 243 377/92
F: +95 1 243 393
info@hotelthestrands.com
www.hotelthestrands.com

Rooms: 31 suites, including 6 superior suites, 21 deluxe suites and 3 executive suites, as well as the Strand Suite.

Business & Conference Facilities: Business centre with full secretarial services. The Strand Hall provides a setting for special events, seating up to 600 people for dinners and 800 people for cocktail receptions. The Strand Grill can accommodate meetings or conferences for up to 30 guests.

Health & Leisure Facilities: Strand Massage offers Balinese, Swedish, acupressure and aromatherapy, and a shopping arcade, The River Gallery.

Guest Services: Tour desk, limousine service, laundry and dry-cleaning service, valet service, ATM, concierge, complimentary Wi-Fi, airport transfers, mini-bar and 24-hour butler service.



The Strand



Hotel Yangon

Dining: The Strand Cafe (Asian and Western cuisine), The Strand Grill (fine dining, Western cuisine).

HOTEL YANGON

91/93, Corner of Pyay Road and Kaba Aye Pagoda Road, 8th Mile Junction, Mayangone Township, Yangon
T: +95 1 966 7708/7688
F: +95 1 966 7752
hotelyangon@hotelyangon.com.mm
saleshotelygn@hotelyangon.com.mm
www.hotelyangon.net

Rooms: A total of 136 rooms, including 80 deluxe, 24 executive suites, 17 executive lounge deluxe, 11 executive lounge suites and 4 royal suites.

Business & Conference Facilities: Business centre at level 1 and Royal Ballroom at level 2 for conference and other functions.

Health & Leisure Facilities: Fitness centre at level 1 and Spa at level 3 and 4 for traditional massage and oil massage.

Guest Services: Limousine service, laundry service, valet service, foreign currency exchange, concierge, Wi-Fi, mini-bar, 24-hour room service, 24-hour on-call doctor, in-room safe, coffee- and tea-making facilities, and souvenir shop.

Dining: Cafe Yangon International Restaurant and Yangon Seafood Restaurant (rooftop sky view).

BEST WESTERN CHINATOWN HOTEL

127/137 Anawrahta Road, Corner of Lanmadaw Street, Latha Township, Yangon
T: +951 251 080/1
F: +951 251 080
reservation@chinatownhotel.com.mm
www.chinatownhotelyangon.com

Rooms: 91 rooms, including superior rooms, executive rooms, deluxe rooms, premier rooms and junior suite rooms (including 50 Shwe Dagon Pagoda views and city view).

Business & Conference Facilities: The business centre offers full secretarial services, including high-speed and wired internet. The hotel has three meeting rooms, one large meeting room which can accommodate 60-80 people theatre-style, and two smaller meeting rooms for around 20-25 people in a theatre-style setup. Meeting packages available.

Health & Leisure Facilities: A fitness centre. The hotel is located in the heart of the city, within walking distance to Chinatown and the nearby Shwe Dagon Pagoda; a five-minute walk to Scott Market and the city centre; a five-minute drive to National Museum; and very close to the main business and dining areas in the city centre and Chinatown.

Guest Services: 24-hour reception, limousine service, daily housekeeping and laundry service.

Dining: A full-service restaurant with 24-hour room service is available.

BEST WESTERN GREEN HILL HOTEL

12 Pho Sein Road, Tamwe Township, Yangon
T: +95 1 545 114
F: +95 1 549 388/209 344
reservation@greenhillhotel.com.mm
www.greenhillhotelyangon.com

Rooms: 187 rooms with 100 deluxe rooms (including 50 Shwe Dagon Pagoda views), 75 executive deluxe rooms (including 40 Pagoda-view rooms), 10 grand deluxe rooms (Pagoda and city views) and 10 premier deluxe rooms (Pagoda and city views).

Business & Conference Facilities: Business centre offers full secretarial services, including high-speed and wired internet. There are two meeting rooms, one of which can accommodate 120 people theatre-style and the other, which can facilitate around 60-70 people in a theatre-style setup. Different types of meeting packages are available depending on customers' needs.

Health & Leisure Facilities: A fitness centre. Located very close to the Shwe Dagon Pagoda; a five-minute drive to downtown; a 10-minute drive to the National Museum, Scott Market and Chinatown; and within walking distance to General Aung San Museum.

Guest Services: Bell desk, free Wi-Fi, 24-hour reception, safety deposit box, limousine service, concierge, daily housekeeping and laundry service.

Dining: Cafe Green Hill and its bar serve international cuisine (à la carte), international buffet breakfast and 24-hour room service.

KANDAWGYI PALACE HOTEL

Kan Yeik Tha Road, Yangon
T: +951 249 255
F: +951 382 917
reservation@kandawgyipalace-hotel.com
www.kandawgyipalace-hotel.com

Rooms: 32 standard rooms and superior rooms, 126 deluxe rooms, 10 lakefront deluxe rooms, 4 diplomat suites, 7 corporate suites, 4 governor suites, 2 presidential suites, 1 imperial suite and 2 royal bungalows.

Business & Conference Facilities: 470-sq-metre Mingalar Ballroom, 340-sq-metre executive lounge, 1400-sq-metre Garden Theatre and 400-sq-metre Garden Stage. Business centre with secretarial services and airport transfers also available.

Health & Leisure Facilities: Executive lounge, swimming pool, boutique, souvenir shops, spa treatments at the Nature Health & Spa, 24-hour on-call doctor and covered parking.

Guest Services: Air-conditioning, Wi-Fi access, private bathroom and shower, flat-screen and satellite TV, IDD telephone, coffee and tea-making facilities, electronic safe, mini-bar and refrigerator in rooms, limousine service, laundry, 24-hour room service, valet, babysitting and child care services and 24-hour concierge.



Best Western Chinatown Hotel



Best Western Green Hill Hotel



Kandawgyi Palace Hotel

Dining: Thiri Café (international dining, 24 hours), Rachel (French), Taste Paradise (Chinese), O Ta-Ke (Japanese) Kandawgyi Colonial Bar, Lobby Lounge (live music and cocktails) Nagar Pool Terrace and Bar, Member's Club and Executive Lounge.

SEDONA HOTEL YANGON

No. 1 Kaba Aye Pagoda Road,
Yankin Township, Yangon
T: +951 860 5377
F: +951 860 5366
inquiry@sedonamyanmar.com
reservation@sedonamyanmar.com
www.sedonahotels.com.sg

Rooms: 797 guest rooms in two separate towers called Garden Wing and Inya Wing.

Business & Conference Facilities: All essential services, including email, fax/copying and printing, are available. Grand ballroom of 748 sq metres for special events, celebrations and weddings, with a capacity for up to 1000 people theatre-style.

Health & Leisure Facilities: Fitness centre, Jacuzzi, outdoor swimming pool, sauna and steam bath, and spa available.

Guest Services: ATM, business centre, concierge, limousine service, dry cleaning, laundry service, shopping arcade, hair salon, jewellery gallery, room service, foreign currency exchange, free Wi-Fi and 24-hour on-call doctor.

Dining: Du Fu (Chinese), Ice Bar Lobby Lounge, Orzo (Italian and Mediterranean), D'Cuisine (all-day dining, South-east Asian, East Asian and Western).

SULE SHANGRI-LA HOTEL

223 Sule Pagoda Road, G.P.O. Box 888, Yangon
T: +951 242 828
F: +951 242 800
ssyn@shangri-la.com
www.shangri-la.com

Rooms: 479 guest rooms and suites. Horizon Club room offers private check-in and check-out at the Horizon Club Lounge on the 21st floor.

Business & Conference Facilities: The 760-sq-metre Myanmar Ballroom, which can accommodate up to 940 guests, as well as eight smaller function rooms. Audio-visual equipment is available upon request. A fully equipped business centre with a personal computer workstation and broadband internet access, as well as secretarial support services, including printer, scanner, photocopying, fax and courier services. A private meeting room is also available.

Health & Leisure Facilities: Fitness centre, beauty centre, outdoor swimming pool, sauna and steam room, Jacuzzi, and massage and reflexology treatments are available.

Guest Services: Free high-speed Wi-Fi, limousine service, laundry service, valet, basement parking, clinic, self-service ice machines on selected floors.

Dining: Café Sule (international and local cuisine), Summer Palace (Chinese), Gallery Bar & Restaurant (cocktails and Western dining), Peacock Lounge (light snacks, seasonal drinks and high tea) and Gourmet Shop.

THE AVENUE 64 HOTEL

64 Kyaik Wine Pagoda Road, Yangon
T: +95 1 507 401, 656 912/9
F: +95 1 507 401
sales@avenue64hotel.com
www.avenue64hotel.com

Rooms: A total of 34 rooms, with 8 deluxe, 18 grand deluxe, 6 balcony suites and 2 suites.

Business & Conference Facilities: Business centre, conference rooms for meetings of up to 10, 25 or 80 guests, Wi-Fi, printing, binding and courier services.

Health & Leisure Facilities: Fitness centre, Jacuzzi, sauna and steam room, personal training and spa with massage service.

Guest Services: Limousine service, laundry service, valet, foreign currency exchange, concierge, Wi-Fi, mini-bar, 24-hour room service, 24-hour on-call doctor, in-room safe, coffee- and tea-making facilities, and souvenir shop.

Dining: Eliq Restaurant and Bar (Asian, Western, Chinese and European cuisine).

NOVOTEL YANGON MAX

459 Pyay Road,
Kamayut Township, Yangon
Tel: +95 1 230 5858
Fax: +95 1 230 5868
H9045-RE@accor.com
www.novotel-yangon-max.com

Rooms: A total of 366 rooms, including 194 deluxe rooms, 49 deluxe suites, 98 executive rooms and 25 executive suites.

Business & Conference Facilities: Two ballrooms, one conference room, one Eureka meeting room and five meeting rooms.

Health & Leisure Facilities: Outdoor swimming pool, tennis court, yoga room, fitness centre, Manida Spa, and Hair Salon by Agnes Lim.

Guest Services: Limousine service, laundry, foreign currency exchange, concierge, Wi-Fi, mini-bar, 24-hour room service, retail shops and babysitting.

Dining: The Square, Le Cellier Wine Bar & Restaurant and Royal Pavilion Chinese Restaurant.

MANDALAY

SEDONA HOTEL MANDALAY

No. 1, Junction of 26th and 66th Street,
Chan Aye Tharzañ Township, Mandalay
T: +95 2 36488
F: +95 2 36499
yeeyee.htun@sedonamyanmar.com
www.sedonahotels.com.sg



Sedona Hotel Yangon



Sule Shangri-La Hotel



The Avenue 64 Hotel



Novotel Yangon Max



ERIA, SAUDI ARABIA, SAUDI ARABIA: RIYADH, SAUDI ARABIA: JEDDAH, SAUDI ARABIA: DUBAI, SAUDI ARABIA: ABU DHABI, SAUDI ARABIA: RAS AL KHAYMA, SAUDI ARABIA: DHAHRAH, SAUDI ARABIA: TABUK, SAUDI ARABIA: BAHRAIN, SAUDI ARABIA: KUWAIT, SAUDI ARABIA: QATAR, SAUDI ARABIA: OMAN, SAUDI ARABIA: YEMEN, SAUDI ARABIA: JORDAN, SAUDI ARABIA: SYRIA, SAUDI ARABIA: LEBANON, SAUDI ARABIA: ISRAEL, SAUDI ARABIA: PAKISTAN, SAUDI ARABIA: BANGLADESH, SAUDI ARABIA: INDIA, SAUDI ARABIA: NEPAL, SAUDI ARABIA: BHUTAN, SAUDI ARABIA: MALDIVES, SAUDI ARABIA: SRI LANKA, SAUDI ARABIA: THAILAND, SAUDI ARABIA: THE PHILIPPINES, SAUDI ARABIA: TRINIDAD & TOBAGO, SAUDI ARABIA: TUNISIA, SAUDI ARABIA: TURKEY, SAUDI ARABIA: UAE: ABU DHABI, UAE: DUBAI, UAE: RAS AL KHAYMA

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THE INSIDER
www.oxfordbusinessgroup.com
myanmar@oxfordbusinessgroup.com
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Rooms: Total of 251 rooms and suites, including 142 deluxe rooms, 14 premier deluxe rooms, 35 club deluxe rooms, 24 club premier balcony/terrace, 9 club sites, 24 apartment suites, 2 junior suites, 1 ambassador suite and 2 specially equipped rooms for the physically challenged.

Business & Conference Facilities: All essential services, including 40-Mbps Wi-Fi, fax and photocopying services, the 256-sq-metre Amarapura Ballroom, three private meeting rooms (each 28 sq metres in size) and private call room. The pool garden is an ideal venue for gala dinners.

Health & Leisure Facilities: Gymnasium, outdoor swimming pool, tennis courts, massage and beauty centre, and gift shop.

Guests Services: Babysitting services, laundry services, limousine services, valet service and 24-hour on-call doctor.

Dining: Café Mandalay Restaurant (buffet breakfast), Shwe Li Restaurant (international cuisine), UNO Restaurant (à la carte, offering both lunch and dinner), Planter's lounge (beverages and snacks), Deli Cake Counter, Pool Bar and 24-hour in-room dining.

INLE

SANCTUM INLE RESORT

Maing Thauk Village, Inle Lake
Naung Shwe Township, Shan State
T: +95 9 252 818 800/5
dos@sanctum-inle-resort.com
www.sanctum-inle-resort.com

Rooms: A total of 97 rooms, including 82 cloister deluxe, 13 provost junior suites and 2 abbey suites.

Business & Conference Facilities: Business centre, meeting room and Wi-Fi available.

Health & Leisure Facilities: Spa, with six contemporary spa rooms, offering massages, facials and others relaxing treatments, and in-house boutique.

Guest Services: Airport transfer service, cycling, library, travel desk, laundry service, valet service, concierge service, Wi-Fi, mini-bar, 24-hour room service, in-room safe, coffee- and tea-making facilities, and souvenir shop.

Dining: Restaurant and bar.

NAPPYIDAW

AUREUM PALACE HOTEL & RESORT

No. 1, Hotel Zone, Hotel No. 1, Yarza Thingaha Road,
Dekkhinathiri Hotel Zone, Nappyidaw
T: +95 67 420 747-51, 067 414 121
F: +95 67 420 745
rsv.nappyitaw@aureumpalacehotel.com
sales2@aureumpalacehotel.com
sales2.corp@aureumpalacehotel.com

Rooms: A total of 94 rooms, including presidential suite, royal suite (White Palace building), royal suite

(Royal Palace building), executive deluxe bungalow, royal executive deluxe (Royal Palace building), royal deluxe (Royal Palace building), superior bungalow, corporate superior (White Palace building) and superior rooms, corporate deluxe (White Palace Building) and junior suite.

Business & Conference Facilities: Business centre, banquet hall and catering service available for dinners and events, as well as a conference centre. Special meeting packages are also available for events.

Health & Leisure Facilities: Fitness centre and gymnasium, with complimentary access for all guests of the hotel, as well as a natural spa centre with special massage treatments and an outdoor swimming pool.

Guest Services: Laundry, airport transfers, car hire, air-conditioning, satellite television, well-stocked mini-bar, safety deposit box and private veranda.

Dining: Lakeside Restaurant (international cuisine), Deck Bar and main restaurant (international).

KEMPINSKI HOTEL

11-12 National Guest House Compound,
Shwe Pyi Taw Win Road,
Dekkhina Thiri Township, Nappyidaw
T: +95 67 810 6061
F: +95 67 810 6065
reservation.nappyitaw@kempinski.com
www.kempinski.com

Rooms: A total of 141 rooms, including 35 suites. Room sizes range from 28 sq metres to 1400 sq metres. The suites include either 1, 2 or 4 bedrooms.

Business & Conference Facilities: Business centre with private meeting room, secretarial services, printing, photocopy, binding, scanning and fax services, and high-speed internet access; one ballroom and five conference and banquet rooms; advanced audio-visual technology; high-speed broadband internet and Wi-Fi internet access; a dedicated event planner for the execution of your event and a master table that can host more than 78 guests.

Health & Leisure Facilities: Fitness centre, spa, outdoor swimming pool for adults and children, intensive sundeck, sun lounge and sun beds available at pool.

Guests Services: Concierge service, butler service, Lady in Red, limousine service, 24-hour room service, babysitting service, pillow menu, flower arrangement, centralised air-conditioning system, complimentary mini-bar, in-room safety deposit box, complimentary high-speed internet access, complimentary buffet breakfast, complimentary tea and coffee facilities, complimentary seasonal fruit plate, complimentary shoe-shining service, and laundry and dry-cleaning services.

Dining: Yangon Kitchen (all day), Diplomatic Bar, Bagan and Pinya executive lounges, and Pool Bar.



Sedona Hotel Mandalay



Sanctum Inle Resort



Kempinski Hotel



The Myat Mingalar Hotel

THE MYAT MINGALAR HOTEL

Hotel Zone One, Shwe Kyar Pin Street,
Dekkhinathiri Township, Naypyidaw

T: +95 67 421 700/8

F: +95 67 421 706

mmglhotel.npt.manager@gmail.com

whrcoltd.ygn@gmail.com

www.themyatmingalarhotel.com.mm

Rooms: A total of 79 rooms, including 4 superior rooms and 56 deluxe rooms, as well as 14 mini-gala suite villas, 3 executive suite villas and 2 business suite villas. Suites come with both a kitchen and a private balcony.

Business & Conference Facilities: Wi-Fi internet access, secretarial services and audio-visual equipment available on request. Meeting and banquet facilities include VIP dining room and lounge, as well as catering service.

Health & Leisure Facilities: 36-hole golf course, swimming pool, fitness centre, Jacuzzi and spa.

Guests Services: Free Wi-Fi, tour desk, limousine and airport transfer, airline ticket reservation and confirmation service, foreign currency exchange, souvenir shop, laundry service, babysitting service, 24-hour on-call doctor, 24-hour room service, mini-bar, in-room safety deposit box, coffee- and tea-making facilities, and cable television.

Dining: Grand Dining Room (Asian and international cuisine), Lobby Lounge (Asian and international cuisine), Pool Bar and Sunset Terrace (Asian and international cuisine). Executive lounge and dining by the lake are also available upon request.



Mount Pleasant Hotel

MOUNT PLEASANT HOTEL

Pho Zaung Hill,

Ottarathiri City, Naypyidaw

T: +95 67 431 155/70

F: +95 67 431 133/44

enquiry@mountpleasanthotelmyanmar.com

GM@mountpleasanthotelmyanmar.com

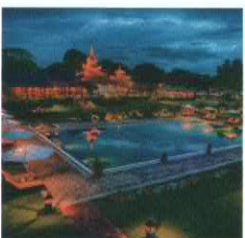
Rooms: A total of 62 rooms, including 32 deluxe rooms, 20 superior rooms, 1 pool villa, 2 Mount Pleasant suites and 7 executive suites.

Business & Conference Facilities: The Zabu Thiri Hall, which has capacity for 90-150 guests, and the Ottarathiri Hall, which can hold 120-220 guests. There is also an executive meeting room, with high-speed internet, that can accommodate up to 40-70 guests. Banquet facilities are also available.

Health & Leisure Facilities: Gymnasium, fitness centre, Polarbarli Spa, bicycle rentals and pool.

Guest Services: Room service is available. Car rental service, babysitting and childcare service, laundry and dry-cleaning services, foreign currency exchange, souvenir and gift shop, concierge service, car park and 24-hour on-call doctor, as well as access to high-speed internet.

Dining: Bamboo Garden Restaurant (fine dining) and Mount Pleasant Tower Chinese Restaurant.



Bagan Thiripyitsaya Sanctuary Resort

BAGAN**AUREUM PALACE HOTEL & RESORT**

Near Bagan Viewing Tower, Min Nanthu Village
Nyaung Oo, Mandalay Division

T: +95 61 600 46/7, 09 650 2963/4

rsv.bgn@aureumpalacehotel.com

sales2@aureumpalacehotel.com

sales2.corp@aureumpalacehotel.com

www.aureumpalacehotel.com/bagan

Rooms: A total of 114 rooms, including deluxe rooms, jasmine villas and orchid villas, as well as jasmine/orchid villa with a lake view, lotus villas, lotus villas with a temple view, palm tree villas and an island villa, which is located on its own island.

Business & Conference Facilities: Business centre, meeting and banquet facilities, complimentary internet access, meeting and incentive offers, and banquet service.

Health & Leisure Facilities: Spa, four massage rooms, golf course nearby, full-service gymnasium and swimming pool.

Guest Services: Art gallery, car and bicycle rental, boutique, limousine service, flight-booking service, airport transfer, laundry service and organised group activities.

Dining: Xanadu (all-day dining, Italian and Asian fare), Traditional Myanmar Theme Dinner, Hero's Club (cocktails), poolside drinks and snacks, the Terrace at the Lake (classical dance performances, lectures on local history and culture, other social events), lounge (pastries, sherbets, tea and coffee) and nightclub.

BAGAN THIRIPYITSAYA SANCTUARY RESORT

Bagan Archaeological Zone, Old Bagan

T: +95 61 600 48/9

F: +95 61 600 33

thiri@myanmar.com.mm

www.thiripyitsaya-resort.com

Rooms: A total of 127 guest rooms, ranging from standard rooms to suites. Each room is decorated in one of the styles traditional to Myanmar, using a combination of hand-crafted woods and other locally sourced materials.

Health & Leisure Facilities: Swimming pool, spa, nearby golf course, river cruises, horseback riding and horse-cart trips.

Guest Services: Complimentary internet access in all guest service area, activities desk, boutique, bicycle rentals, sightseeing tours, cooking classes, language classes, lacquer-ware painting, personal safes, mini-bars, individual air-conditioning controls and satellite television, as well as kimonos and hair dryers in the rooms.

Dining: A variety of menus and regional or international cuisines are available, including Myanmar, Asian, Western, vegetarian and low-calorie. Organic produce is grown on-site.



The kyat is the local currency. US dollars are commonly accepted, although it is important to keep them crease-free. ATMs can be found across the country, and Visa and Mastercard are increasingly accepted; however, it is advisable to carry cash.



It is best to contact your in-country embassy before visiting Myanmar to ensure that you meet the requirements for a visa on arrival. Both tourist and business visas can now be applied for online. The online business e-visa transaction fee is \$70.

AIRLINES

Air Bagan
(01) 504 888, 513 266,
513 422, 513 299, 513 411
Air KBZ
(01) 372 977/80,
373 774/6, 373 766
Air Mandalay
(01) 534 144, 525 488,
652 753/4, 501 520
Asian Wings Airways
(01) 515 260, 515 261/4
Myanmar Airways
International
(01) 255 260, 665 987
(Airport), 255 180/1,
255 440/3
FMI Air Charter
(01) 240 363, 240 373
Ext 2130/2163, 094 2114
6545, 094 2110 5648
Golden Myanmar Airlines
(01) 533 272, 09 73256919,
(02) 27073, 09 91043607
Myanmar Airways
(01) 371132, 371614,
371130, 371135,
377840/3
Yangon Airways
(01) 383 100/7, 383 127,
379 940, 700 359 (Airport),
652 533 (Airport)
Air Asia
(01) 251 885, 251 886
Bangkok Airways
(01) 255 265, 255 122
Silk Air
(01) 255287/9
Thai Airways
(01) 255 499, 662 661

HOSPITALS

Pun Hlaing Hospital
(01) 684 323
Victoria Hospital
(01) 666 128
Parami Hospital
(01) 651 674
Central Women's Hospital
(01) 221 013, 222 811
Yangon Children Hospital
(01) 222 807, 222 808, 222
809, 222 810, 538 914
Ear, Nose & Throat Hospital
(01) 544 000, 543 888
Eye Hospital
(01) 557 955, 557 956
Hninsi Gone Home For The
Aged & Hospital
(01) 541 796, 541 797
Mental Health Hospital
(01) 585 115, 585 116
Yangon General Hospital
(01) 384 493-5, 379 106
Worker's Hospital
(01) 554 444, 554 455

FOREIGN EMBASSIES

Australia
(01) 251 810, 251 797-8,
246 462-3, 251 809,
398 374
Bangladesh
(01) 515 275, 526 144
Brazil
(01) 503 978, 526 985
Cambodia
(01) 549 609, 540 964
China
(01) 221 280, 221 281,
224 025, 224 097, 221 926

Egypt
(01) 222 886, 222 887
France
(01) 212 532, 212 178,
212 520, 212 523, 212 528
Germany
(01) 548 951, 548 952,
548 953
India
(01) 243 972, 391 219,
388 412
Indonesia
(01) 254 465, 254 469,
229 750
Israel
(01) 515 115
Italy
(01) 527 100, 527 101
Japan
(01) 549 644-8, 540 411,
540 399, 540 400, 545 988
South Korea
(01) 527 142-4, 515 190,
524 148
Laos
(01) 222 482, 227 445,
227 446
Malaysia
(01) 220 248-9, 220 230,
220 251
Nepal
(01) 545 880, 557 168
Pakistan
(01) 222 881
Philippines
(01) 558 149-153
Russia
(01) 254 161, 241 955
Saudi Arabia
(01) 536 153, 516 952

Serbia
(01) 515 282, 515 283
Singapore
(01) 559 001
Sri Lanka
(01) 222 812
Thailand
(01) 226 824, 226 721
Switzerland
(01) 532 754
North Korea
(01) 505 085
United Kingdom
(01) 370 863, 370 864,
370 865, 370 867
United States
(01) 536 509
Vietnam
(01) 511 305

EMERGENCY NUMBERS

Ambulance
(01) 295 133
Fire
(01) 191, 252 011, 252 022
Police Emergency
(01) 199
Police Headquarters
(01) 282 541, 284 764
Red Cross
(01) 682 600, 682 368
Yangon General Post Office
(01) 285 499
Electricity Power Station
(01) 414 235
Yangon Port
(01) 382 722
Yangon International Airport
(01) 662 811

Yangon Port
(01) 382 722
Railways
(01) 274 027, 202 175/8
Traffic Control Branch
(01) 298 651
Myanmar Post and
Telecommunication
(01) 254 563, 370 605

CAR RENTAL

Dignitas Business
Limousines
(01) 662 115,

BUSINESS & TRADE ASSOCIATIONS

Myanmar Investment
Commission
(01) 657 892, 657 824
Myanmar Economic
Corporation
(01) 254 738, 248 934
The Union of Myanmar
Federation of Chambers of
Commerce & Industry
(01) 214 344, 214 345
Union of Myanmar
Economic Holdings
(01) 397 453, 397 472
Myanmar Convention Centre
(01) 665 297, 653 106

LEGAL SERVICES

Kelvin Chia Yangon
(01) 255 399

ACCOUNTANCY

Win Consulting
(01) 901 549



Facts for visitors

Helpful information for first-time travellers

VISA: Both tourist and business visas can be applied for online. The tourist visa has a duration of 28 days and takes no more than three days to get approved, while the business visa is valid for 70 days. You are required to submit a colour passport-sized photo, letter of invitation and company registration (certificate of incorporation) as part of your business visa application. The online business e-visa transaction fee is \$70 and is non-refundable.

It is best to contact your in-country embassy before visiting Myanmar to ensure that you meet the requirements for a visa on arrival. It is important to ensure you have all the relevant documentation for a visa on arrival or you will be sent back on the same flight. A visa can also be applied for in advance through your local embassy. You must have a valid passport with at least six months remaining validity to enter Myanmar.

LANGUAGE: Myanmar is the national language and is used in business, government affairs, education and daily conversations. English was taught at a high level during the colonial era and is widely spoken, especially among the older generation. Studies show that as many as 100 different languages are spoken in the country. Most businesspeople and government officials speak conversational English.

TRANSPORT: People drive on the right-hand side of the road. Most business visitors have private vehicles and drivers. Taxis are widely available and fairly inexpensive. In order to ensure you are charged the going rate it is useful to learn a couple phrases, such as “*bal lout la*” (pronounced ba lou ley, meaning how much?) and “*zey kyee yal*” (pronounced sey chee tay, meaning expensive). When travelling to the administrative capital it is best to go by private car, as not many taxis are available in Naypyidaw. Domestic airlines offer flights to various local destinations. A round trip from Yangon to Ngapali, for example, costs around \$200.

ETIQUETTE: It is common practice to remove your footwear before entering someone’s workplace or

home, but it is best to ask before entering. Removing shoes before entering a pagoda or temple is a must. A handshake is usually the first introduction in a business setting and is used in a greeting or a farewell. When handing over something like a business card it is polite to touch your right elbow with your left hand or vice-versa. While foreigners are not expected to wear traditional clothing, it is seen as a show of respect to wear a *longyi*. In a formal setting “U” should be used in front of the name when addressing a man and “Daw” should be used when addressing a woman; they roughly translate to Mr and Lady.

ELECTRICITY: Power shortages occur on a daily basis, and many hotels, apartments and businesses have a generator as backup. Electrical outlets are generally 220-Hz AC type or C or F, the same two-pin system as Europe. Bringing an adaptor from home is recommended, as they can be difficult to track down.

CURRENCY: The kyat is the local currency of Myanmar, and US dollars are commonly accepted, although it is important to keep them crease-free or they will not be accepted. As of January 2016, \$1 was equal to roughly MMK1290. ATMs can be found across the country, but power supply intermittently affects service. Visa and Mastercard speed-point services are increasing steadily, but it is advised to carry cash.

TIPPING: While tipping is popular in the Western world, it is not common practice in Myanmar. Servers, porters and tour guides appreciate a small gesture, generally 1000 kyat will suffice. When visiting a religious temple or monastery it is a good idea to have some small notes available to leave as a donation.

FOOD: Expect an abundance of rice or noodles with any meal. Chinese, Thai and Indian dishes feature on most menus. Bursting with flavour, *mohinga*, which includes split peas, fishcake and egg, is the national breakfast of choice. In recent years there has been a sharp increase in fine-dining locations and fast-food spots, particularly in the business capital of Yangon.



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YANGON

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