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THE TRANSFORMATION OF MYANMAR

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Myanmar’s democratically elected government is introducing reforms that will ensure the rapid growth of the last-frontier economy in Asia.

AFTER OVER FIVE DECADES of military rule, Myanmar has emerged from economic isolation as a democracy and is transitioning into a stable market economy. It now offers “enormous potential for economic growth,” according to the World Bank, not least because of its location. The Southeast Asian country is bordered by China, India, Laos, Thailand and Bangladesh — which represent about 40% of the world’s population and slightly over 20% of global GDP.

The move to democracy and liberalisation began in 2011 and culminated with the landslide victory of Aung San Suu Kyi’s National League for Democracy in 2012 and the government announcement of its 12-point national reconciliation, equitable development, inclusive and sustainable economic progress with improved social indicators and rule of law. Since then, “the government has initiated wide-ranging economic, social and governance reforms. These have stimulated economic growth and led to a restructuring of the economy, with improved social indicators and rule of law,” notes the Asian Development Bank (ADB).

As Myanmar grows and its ties with international investors deepen, the country is finally set to fulfil its potential economic policy for achieving this vision, which the senior economist for the World Bank Habbib Rab described as “very strong.”

The country’s overall strategy for growth is to focus on the development of industry and manufacturing, agriculture and infrastructure, diversifying exports and expanding value-added production. These priorities were highlighted in the government’s first full budget, approved in March 2017 and worth approximately USD 15.3 billion. Manufacturing constitutes around three-quarters of industrial output and 20% of GDP. Food processing amounts to about two-thirds of manufacturing, while wood and garments are the major export products. The garment sector, in particular, is growing and the World Bank has suggested that Myanmar could become a “major new sourcing hub for global brands in mid to high-end international markets.”

The most important regions for industry are in and around Yangon and the city of Mandalay. Yangon alone accounted for a quarter of Myanmar’s GDP growth in 2014-2015 and over 90% of its economy consists of industries and services.

To spread the growth of industry further, there will be three Special Economic Zones (SEZs) along Myanmar’s coast, which will have specific incentives and simplified business procedures, and which the NLD wants to turn into the country’s growth engines. The first of these, Thilawa SEZ close to Yangon, has already opened and could generate 40,000 jobs, says the World Bank. It’s jointly owned by an international consortium led by Mitsubishi, the government and local businesses, and some of the 100 enterprises expected to move there are already in place making garments, medical equipment, machinery, electronics and other products.

The country’s agriculture sector is vulnerable to changes in price, increased competition and natural disasters — such as floods in 2015, which reduced production and contributed to a drop in Myanmar’s GDP growth forecast for 2016-2017 to 6.5%. But the government and international donors still see agriculture as playing a very important role in the future development of the country: about three-quarters of the population live in rural areas and agriculture provides half the country’s employment and 20% of exports. With one of the region’s lowest population densities, Myanmar has plenty of available, fertile land, offering great opportunities for increasing agricultural production and diversifying into higher value crops. The FarmLand Law of 2012, however, prohibits farmers from growing these alternative crops without government permission. In order to support and modernise the sector, the NLD has said it will give farmers full production freedom over what they grow and when they grow it. It also intends to provide support for high-value-added crops and livestock breeding, which would increase market access for farmers, and strengthen land tenure.

Myanmar needs better infrastructure: less than half the roads are surfaced and two-thirds of the population is not connected to the electricity grid. As a result, investment in power, transportation and communications will be a major contributor to economic growth in the near future.

Once a monopoly, the telecommunications sector has already been liberalised, with four telecoms licences being granted and 85% of the population now in range of a 3G network. Next up is electricity: the National Electrification Plan aims to provide universal access to electricity by 2030, and ADB believes that, along with building the power plants needed to meet the new demand, this will cost USD 30 billion. Using a build, operate and transfer contract for a new 225MW gas turbine project near Mandalay, the government is developing a public-private partnership framework that it can use to encourage investment in other schemes.

The country also wants to build its first deep-sea port and expand the bigger of its two major container ports — Yangon Industrial Port in Yangon, which handles more than 400,000 twenty-foot equivalent units every year.

In order to foster a more skilled workforce, spending on education and healthcare increased from 8% of the state budget in 2010 to about 20% in 2016, and the new government is continuing to invest in this area. Tourism is expected to grow significantly, and it needs better transport infrastructure.

The NLD started its transformation of the country’s finances at the top, by reducing the number of ministers from 36 to 23, to create a more efficient government. Since then, it has “improved financial management, banking supervision and prudential controls and monetary policy tools,” notes ADB. The new government has also been commended for its progress on financial and regulatory reforms, by the International Monetary Fund. A Financial Institutions Law, passed in 2016, lays down stricter controls and monetary policy tools; notes ADB. The new government has also been commended for its progress on financial and regulatory reforms, by the International Monetary Fund. A Financial Institutions Law, passed in 2016, lays down stricter controls and monetary policy tools; notes ADB.

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Asian Development Bank (ADB)

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The local population of 52.8 million has a high percentage of young people and, while unskilled, has a 76% literacy rate and wages that are lower than in neighbouring countries. Myanmar is also rich in fertile land, forestry, fisheries, minerals, gems and jade, and is responsible for almost half of natural gas exports in Southeast Asia.

But the country faces major challenges. Its business environment, governance standards and financial stability are seen as areas of concern. Significant investment is needed in Myanmar’s infrastructure, with ADB estimating a USD 120-billion investment gap for 2017–30 for transport, energy and telecommunications alone.

The Minister for Planning and Finance, Kyaw Win, says that economic growth is Myanmar’s number one priority. The government’s vision is for inclusive and sustainable economic progress with national reconciliation, equitable development, natural resource protection and job creation. In July 2016, the government announced its 12-point class is developing and per-capita consumption increased by about 14% in 2015-2016.

Since 2012, international donors have been returning and new investment programmes have been introduced. Sanctions ended when the US government lifted its final barriers in October 2016, turning Myanmar into a full trading partner. The US has also restored trade preferences, enabling Myanmar to return and new investment programmes have been introduced. Sanctions ended when the US government lifted its final barriers in October 2016, turning Myanmar into a full trading partner. The US has also restored trade preferences, enabling Myanmar to turn into the country’s growth engines. The first of these, Thilawa SEZ near Yangon, has already opened and could generate 40,000 jobs, says the World Bank. It’s jointly owned by an international consortium led by Mitsubishi, the government and local businesses, and some of the 100 enterprises expected to move there are already in place making garments, medical equipment, machinery, electronics and other products.

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AUNG SAN SUU KIY: TAKING STOCK

Since taking office as State Counsellor in Myanmar, Aung San Suu Kyi has had to contend with the country’s transition to a market economy, and to ensure that it’s on the way to greater and more equitable prosperity.

“Nearly all men can stand adversity; but if you want to test a man’s character, give him power,” said Abraham Lincoln. As she takes stock of her performance thus far as leader of Myanmar, does Aung San Suu Kyi ever ponder the words of the American president? More importantly, do the people of Myanmar and the international community believe she has indeed arrived at a crossroads where she is put to the test by the complexities of political and economic governance?

The Lady, as she is affectionately called by her people, now aged 72, has to manage the expectations raised by her 2010 accession to power, following almost fifty years of military rule.

Graceful and soft-spoken, the daughter of the country’s independence hero Aung San, who was murdered when she was a toddler, has attained over the years a global status equal to that of freedom icons such as Nelson Mandela. An Oxford-educated admirer of Mahatma Gandhi, she received the icons such as Nelson Mandela. An Oxford-educated admirer of Mahatma Gandhi, she received the Sakharov Prize, the Jawaharlal Nehru Award and the Nobel Peace Prize for her steadfast struggle to usher in democracy in Myanmar, for which she sacrificed her personal life.

Indeed, when under house arrest, she was offered permission to leave the country if she vowed never to return. She refused, and was parted from her husband and the father of her two sons, Dr Michael Aris, a British scholar specialising in Tibetan culture. He died of cancer in 1999, having visited his wife only five times in ten years. But, “As a mother, the greater sacrifice was giving up my sons,” she said. “Although I was always aware of the fact that others had given up more than me.”

Following the victory of her National League for Democracy (NLD) party in the 2015 elections, she was appointed State Counsellor, a position equivalent to that of prime minister and tailor-made for her in order to circumvent the constitutional prohibition for a spouse or parent of foreigners to become president. The international community hailed her appointment as the dawn of a new era. But, as former US ambassador Derek Mitchell observed in an editorial in March 2017, “Economic underdevelopment, civil war, and degradation of virtually every institution […] over the past 50 years cannot be wiped away by a single election.”

On the economic front, her record so far has fallen short of expectations, and business leaders at home and abroad are calling her government to move more decisively towards reform, and, above all, to deliver clear goals and objectives. Indeed, the 12-point economic plan presented in July 2016 is a scant, 2.5-page series of bullet points, more a declaration of principles than a properly detailed roadmap. Among the 12 priorities listed in the plan are efforts to “improve the operations of state-owned enterprises and privatise those that have the potential to be reformed”, “improving and expanding vocational education and training”, in order to foster “a modern developed economy”; “asserting the right of individuals to freely pursue the economic opportunities they choose, so as to enable private sector growth in line with a market economy system”, and “identifying the changing and developing business environment both in ASEAN and beyond, so as to enable our own businesses to situates themselves to take advantage of potential opportunities.”

This may go without saying for international observers born and bred in free market economies and well aware of the new trends that are shaping our global world, but for a country such as Myanmar, which is emerging from decades of isolation, the simple fact that these are officially presented as the government’s goals is nothing short of a revolution. Now of course, the questions are how — and how fast?

One of her advisers, Sean Turnell, Associate Professor of Economics at Macquarie University in Sydney, defends the government’s progress, arguing that economists expected a downturn at this point in the reform process: “Lots [of foreign direct investment] came in at first, but mostly in mining, energy, and natural resources. Now comes the hard part — how to attract investment in manufacturing, in rural supply chains, in retail, and in tourism,” he told TIME Magazine in March.

The United States lifted all sanctions on Myanmar in October 2016, showing its willingness to push forward. “One year is not a very long time,” he said in March, “I have had conversations with people from countries that have gone through similar experiences as ours. The majority acknowledged that our development rate was very low. Sometimes in some of their countries, they had to work for three or four years to achieve the level we have achieved. This is encouraging. It gives us added strength to continue to push forward.”

Aung San Suu Kyi’s government time for cornerstone reform? (March 2017)

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1. De Nile, “Myanmar’s government: time for cornerstone reform?” (March 2017)

Aung San Suu Kyi herself emphasised that health and education were more important issues in this first year, and justifies her record. “We have witnessed a significant rate of development in the public health care sector. The international community has acknowledged our progress,” she said in her anniversary speech.

Indeed, in April 2017, the World Bank recognised that, “In its first year, the new government has launched new economic policies, finalised new health and education sector strategies, stated new priorities such as nutrition and rural development.”

It also pointed out the “opportunities to further deepen reforms, create shared prosperity for all, and for the country to resume its place as one of the most dynamic economies in Asia.”

In a rare interview with the Nikkei Asian Review, September 2017, Myanmar’s State Counsellor reaffirmed her government’s commitment to economic reform and openness to foreign investment. She insisted on two sectors where FDI is particularly needed and potentially profitable: agriculture and infrastructure. “We are concentrating on agriculture because about 70% of our people still earn their living in this sector. And we do want to promote more investment in that area. We are going for more public private partnerships and for more SMEs in this sector,” she said. As for infrastructure, she commented that it had “gathered strength in recent years. This should be an incentive for more investment. There are new opportunities, developments which would make investment a lot easier, practically speaking. Construction work has gone very well over the last year and half, and there is massive demand.”

“Economic underdevelopment, civil war, and degradation of virtually every institution […] over the past 50 years cannot be wiped away by a single election.” (Derek Mitchell, March 2017)

Aung San Suu Kyi calls on her counterparts and the international community to be patient, undoubtedly one of her most remarkable qualities.

“One year is not a very long time,” she had said in March, “I have had conversations with people from countries that have gone through similar experiences as ours. The majority acknowledged that our development rate was very low. Sometimes in some of their countries, they had to work for three or four years to achieve the level we have achieved. This is encouraging. It gives us added strength to continue to push forward.”
Situated in Southeast Asia, Myanmar is home to close to 53 million people and is slightly larger than France, with a total area of 679,578 square kilometres. With a 2,228km-long coastline on the Bay of Bengal and the Andaman Sea, it shares borders with five countries: (clockwise) Bangladesh, India, China, Laos and Thailand. Endowed with resources in oil, gas, precious stones such as rubies, sapphires, pearls and jade, and fertile soils, it is an emerging economy that has only recently begun to open to international trade and investment.

**MYANMAR at a glance**

- **Population (2016)** 52.8 million
- **Total area** 676,578 square kilometres
- **Adult literacy** 76%
- **Capital** Naypyidaw
- **GDP (2016)** USD 67.40 billion
- **GDP per capita at purchasing power parity (2016 est.)** USD 5,351.60
- **GDP growth 2016** 6.5%
- **Estimated growth 2017-2019** 7.1%
- **Major religions (2016)**
  - Buddhist 87.1%
  - Hindu 0.6%
  - Christian 4.2%
  - Other 0.2%
  - Muslim 4.3%
  - None 0.1%
  - Animist 0.3%
- **Ethnic groups**
  - Burman (Bamar) 48%
  - Shan 15%
  - Karen 15%
  - Rakhine 4%
  - Chinese 3%
  - Indian 2%
  - Mon 2%
  - Other 5%

**GDP per sector (2016 estimate)**
- Industry: 27.5%
- Services: 46.2%
- Agriculture: 26.3%

**Foreign direct investment inflow (FY 2016-2017)** USD 304.7 billion

**Inflation (CPI – consumer price index) (forecast 2016-2017)** 6.8%

**Note:** The government recognizes 135 indigenous ethnic groups.

**Sources:**
CLEAR RULES AND COMMITTED PARTNERS

LE: The government is now launching a grand plan to substantially improve Myanmar’s infrastructure. What is the future of the infrastructure network in Myanmar?

ATM: The first good thing that has happened in our country is the removal of the American sanctions. Also, the population is growing steadily and is now more balanced across the territory. But, most importantly, the potential for almost all sectors is huge; there are areas that are still untouched. For example, Myanmar teach is very famous, but we are exporting only raw materials. If we could produce more finished products, a lot of profit would ensue. Finally, tourism is an area where Myanmar can truly excel. Eco-tourism could become an important business.

LE: What about the oil and gas sector?

ATM: We currently have less than 700,000 cars in Myanmar. Compared to the population, it’s a small percentage. As the number of cars grows, we will definitely need more oil. Needless to say, oil demand will rise in line with the growth of sectors like mining, forestry and road construction. The problem at the moment is that our country doesn’t have refineries. Once we can manufacture the petrochemical products that we are now purchasing from Korea and Vietnam, to develop the refinery industry, we need the government to provide policies, standards and procedures. Without them, it’s very difficult for foreign investors to come to Myanmar.

LE: What would be your tip for investors coming here?

ATM: The Myanmarese are a lovely people. You’ll encounter smiles and hospitality everywhere. But until recently, only a few could connect, trade and communicate with the outside world. People were told for years that Westerners were bad for Myanmar, but this is not true anymore. Globalisation is a fact, and we need to get the population to understand this new reality.

LE: Myanmar’s economy is still based on agriculture, which employs about half of the workforce. How do you see the future of the agricultural sector?

ATM: The agricultural sector, like others in Myanmar, is not organised; companies act on their own and they invest their own cash. It’s clear that without planning, organisation and outside investment, there can be no substantial growth. Secondly, there is a lack of technology. As for trade, at the time of sanctions we had to operate through Singapore and the trade houses there controlled our market. Once the sanctions were lifted, we tried to start exports to Africa (notably to Nigeria and Ghana), but they only wanted to deal with Singapore. We need to build a new international market for our goods and products and organise the sector for that.

LE: Financing is crucial to farming. Myanmar has a bank for agriculture, but it’s still difficult for farmers or SMEs to get letters of credit and small loans. What do you think is the core issue in the financial sector?

ATM: The core issue is that we lack the proper setup. We need credit reports, credit ratings and track records to help the financial system identify who is credit-worthy and who is not. We need to strengthen our banking system to guarantee a certain level of security. Of course, to do that we need the government to set up the right policies. To grow as an economy, we need different sectors to grow in parallel, and for that the action of the government is paramount.

LE: How do you see the future of the electricity sector in Myanmar? And what part will renewable energies play in it?

ATM: My thinking is focussed on hydroelectric power and coal, because they are stable energy sources. Wind power is an option, but this is a tropical country and the wind speed is not constant, so the investment in wind power would need to be higher or have a lower return. Solar energy is also a huge gamble. It only works in the daytime; at night, it’s not stable and we need the technology and the know-how to match it with our existing system. However, the first and most important thing to improve is our distribution system.

LE: A lot of foreign companies are coming to Myanmar to do business and they need to partner with local firms that have connections and experience. What sort of partners do you want to work with?

ATM: We are interested in partners who can really help develop our market and our country. Some people would like to make a quick investment, hit and run, we don’t want that sort of investor. We are looking for partners that will come to stay and to enjoy a win-win situation. We believe that doing business in Myanmar can be beneficial for foreign companies for local companies and for the country.

LE: What other issues are you concerned about in Myanmar?

ATM: The infrastructure business is not a quick investment, because of the construction times and physical studies needed. Nowadays, companies like Unilever, Coca-Cola and Pepsi are coming in, but they are not developing the country; they are just selling their products. These are well-known international brands, so that’s OK. But I would like to see the manufacturing of other brands in Myanmar. Otherwise our work force will never develop technical skills and will never evolve to the next stage in human development and modernise. We need companies that are willing to invest, set up factories and train our workers.

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LE: Ayer Shwe Wah Group of Companies (ASWG) is committed to the development of Myanmar. What is ASWG’s role in this process?

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LE: With all these different interests, what would you say is your core business?

ATM: In telecoms, with giant foreign companies coming in, it’s difficult for us to compete. Our core businesses are in agriculture and in the oil and gas sector. In the agriculture sector, most of our traders export only raw products, so we would like to process all our raw products into finished or semi-finished ones. Currently we are exporting to Dubai, Canada and to some European countries.

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### FIVE REASONS TO BELIEVE IN MYANMAR

Hailed as the new Vietnam because of its potential, Myanmar has not become the instant economic miracle that analysts expected a few years ago. The pace of reforms is slow, although steadfast, and there are a number of daunting problems yet to be solved. However, the fundamentals have not changed. And whichever way you look at them, they only pinpoint to one direction: growth.

1. **USD 76 BILLION GDP BY 2020, POSSIBLY USD 150 BILLION BY 2030**
   - Myanmar’s GDP has shot up from USD 49.5 billion in 2010 to USD 67.40 billion in 2016. Although growth has somewhat slowed down recently, it is still predicted to average 7% annually over the next few years. Current forecasts put the country’s GDP at around USD 76 billion in 2020. Given the current growth rate, it could rise to some USD 150 billion by 2030. Everything will depend on the pace of reforms and other macroeconomic factors, but there is no doubt that Myanmar is set to become one of Asia’s fastest-growing economies in the years to come.

2. **19 MILLION PEOPLE IN THE CONSUMING CLASS BY 2030**
   - Even since 2011, when Myanmar started opening its economy, a number of studies have forecast the emergence of a new middle class with sufficient purchasing power to boost consumption, trade and growth. In 2013, McKinsey forecast that the consuming class would grow from 2.5 million in 2010 to 19 million in 2030. Even if expectations are now lower, this remains a fundamental trend: in 2015 a Euromonitor report estimated the number of middle-income consumers would double by 2020. Another telltale sign of confidence is that the World Bank upgraded Myanmar from low to lower-middle income country in 2015.

3. **500 MILLION POTENTIAL CONSUMERS IN THE REGION**
   - Bordering the economies of Bangladesh, China, India, Laos and Thailand, Myanmar is within reach of approximately 40% of the world’s population. When narrowing this number to people living within a five-hour flight and having enough purchasing power to buy its goods and services, Myanmar’s market in the region has been evaluated by McKinsey at a whopping 500 million potential customers. This is a buoyant part of the world with a fast-rising middle class and a huge appetite for consumption, and Myanmar is strategically located at its heart.

4. **70% OF THE POPULATION UNDER 40**
   - Myanmar’s population is young: according to the latest census (2014), close to 70% are under 40. This obviously presents a number of challenges, notably in terms of education and job creation, but also a wealth of opportunities. In particular, analysts consider it a factor that will make Myanmar leapfrog into the digital age. Already, social media are widely utilised by the young professionals of Yangon and Mandalay, and the telecoms sector is fiercely competitive. International and local analysts forecast that in the years to come Myanmar’s youth will be decisive in creating booming e-commerce, mobile banking, and tech startups.

5. **10 MILLION NON-AGRICULTURAL JOBS BY 2030**
   - According to the OECD, many of the jobs likely to be created as Myanmar industrialises will not require university-level education, but rather strong technical and vocational skills, complemented by solid foundation skills. The McKinsey 2013 study forecasts that up to 10 million non-agricultural jobs could be created by 2030, including six million in manufacturing. An important factor to take into account is women’s access to the job market, when today only half of them (50.5%) are employed, compared to 80% in Thailand. According to the United Nations Population Fund (UNFPA), if more women entered the job market, there would be a “dramatic rise” in the country’s per capita income.

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**Sources:** McKinsey Global Institute, Boston Consulting Group, Bloomberg, Euromonitor, Trading Economics, OECD, UNFPA
INVESTORS ARE WELCOME

A new investment law in Myanmar is already bearing fruit, making the country climb in international rankings for ease of doing business and bringing a broader range of investors.

The new investment law is expected to halve the time to get approval for investment and also the number of businesses needing approval.

MYANMAR BECAME DECIDELY more attractive to foreign capital in 2017, after the government implemented a new Foreign Investment Law in April. Although there has been some recent uncertainty from investors, the country has seen substantial growth in foreign investment: from USD 1.4 million in 2011 to USD 47.2 billion for 2016 to December, according to Myanmar’s Directorate of Investment and Company Administration (DICA).\(^1\) In fact, the reforms have already improved Myanmar’s business environment, moving it from 177th on the World Bank’s global Ease of Doing Business index in 2015, to 170th in 2017. More strikingly, Myanmar’s ranking for the ease of starting a business moved from 189th to 146th place in the same period.

China accounted for 25.8% of foreign investment in 2016, followed by Singapore, Thailand, Hong Kong and the UK, in the major sectors of oil and gas, power, transport and communication, manufacturing, real estate, mining, tourism, livestock, fisheries and agriculture.\(^2\) Some of the companies investing in Myanmar in 2016 and 2017 include Japan’s Kirin, which had previously bought a controlling stake in the country’s biggest beer company, Myanmar Brewery, and is now buying into the competing Mandalay Beer.

In the same timeframe, Total started offshore gas production, Norway’s Norfund has been building distributed power networks and Dutch animal-feed company De Heus has opened a production factory. The logistics division of German railway company Deutsche Bahn has set up a subsidiary and Singapore’s Keppel Land has developed a 2.3-storey office block in Yangon, with the company saying it is “committed to participating in and contributing to the growth of the country.” The variety of recent investments doesn’t stop there: financial services company Diebold Nixdorf opened a Myanmar office, as did India’s Tata Group.

Any business in Myanmar has to be conducted through a locally registered entity, with foreign investors able to set up either a subsidiary or a branch.

After lodging an application to do one of the two with DICA, a permit to trade and a temporary incorporation certificate are quickly issued. In the past, any foreign investment also needed approval from the Myanmar Investment Commission (MIC) — a process that was complicated, restrictive and could take up to six months.

The new investment law, which took effect in April 2017, is expected to halve the time to get approval for investment and also the number of businesses needing approval. New regional investment committees are now handling proposals of under MMK 6.6 billion (approximately USD 5 million). Over that amount, investments that are deemed to need a full MIC permit are, firstly, those that the government sees as being strategic. In practice, this means investments in communications, technology, transport and energy infrastructure, urban infrastructure, extractive and natural resources, agriculture, urban land and media. Other ventures requiring full permits include: investments over USD 20 million in activities under the government’s authority or that take place across country borders; investments over USD 10 million and in a border-conflict region; and investments involving more than 100 acres of land. Likewise, any investments over USD 100 million need approval, as does anything that might impact the environment.

MIC permit holders can access a set of incentives that have been set up entirely with a view to encouraging investment, such as reduced tax and long-term leases. Investors who don’t need a permit, but want the incentives, need to get the new MIC endorsement, which is considered to be relatively quick and easy. There is a sliding scale of incentives, designed to guide investment to the geographical areas and market sectors that the government is prioritising for growth. For example, businesses can obtain up to seven years’ tax exemption if they invest in the least developed areas, and up to three years in developed zones, like Yangon. However, as Aung Naing Oo, Secretary of the MIC, confirms, investments have to be in one of the government’s priority industries for growth or “they will not get income tax relief, whichever zone they are in.” Some market sectors are not open to foreign businesses at all, unless in a joint venture with a local company.

The priority growth sectors are agriculture, forestry, livestock, fisheries, manufacturing, the establishment of industrial zones, urban and transportation infrastructure, transport services, power generation and distribution, renewable energy, telecommunications, education, health, information technology, tourism, and research and development. The new law increases investor protection against unfair treatment, removes the required ratio of local workers in skilled positions, and MIC approval is no longer needed for moving money out of Myanmar.

Furthermore, businesses can now apply for space in one of the country’s Special Economic Zones (SEZs), where incentives, such as customs and excise tax exemption for up to five years, long leases and import duty relief, as well as services to help get businesses up and running. “We hope for strong interest in our industrial estates from developed countries,” says Kyaw Win, Minister of Planning and Finance. “Through increased investment in our industries, we will be able to develop our technology and create jobs.”

The first of these to open was the 2,400-hectare Thilawa SEZ outside Yangon, which was developed by a consortium of Mitsubishi, Marubeni, Sumitomo and Japan International Cooperation Agency — collectively owning 49% — and a public-private partnership between the government of Myanmar and local organisations.

In 2016 and 2017, USD 262 million of foreign investment was injected into Thilawa,\(^3\) with a portion coming from Suzuki, which is building an automobile and motorcycle factory in the area. In addition, Germany’s Metro Group — one of the biggest international retail companies — is setting up a wholesale depot for a new food distribution platform. Metro’s Chairman, Olaf Koch, says it is investing in Myanmar because it is “a promising market that offers abundant opportunities.”

A second SEZ, Dawei, on the Myanmar-Thailand border is a joint project between the two countries and was first planned in 2008. After being suspended for some years, its development has been back on track since March 2017 and will include a new highway between the nations and a deep-sea port. Kyaukphyu SEZ in Rakhine State — 85%-owned by China’s CITIC Group — has also been approved and should include yet another deep-sea port. This investment is part of China’s Belt and Road initiative to create a transport and energy network linking China and other parts of Asia.

In terms of further legislation, the government drafted a new companies act in January 2017, which as well as simplifying requirements for small businesses, will allow foreign investors to trade on the Yangon Stock Exchange and own up to 35% of a Myanmar company. Previously domestic companies were not allowed to have any share of foreign ownership. In 2016, a new arbitration law was introduced, which follows international standards to resolve commercial disputes. Also in 2016, a condominium law was passed, giving foreigners the right to buy up to 40% of a block.

The World Bank is confident that these reforms, especially the new investment law, “will spur significant foreign direct investment growth and job creation, as business opportunities and increased investor confidence flow.”\(^4\)

References
1- DICA, Yearly Approved Amount of Foreign Investment, 2016
2- Ibid
3- Myanmar Times, “Pecul- year 2017-20, a new dates for economic policies” [March 2017]

We hope for strong interest in our industrial estates from developed countries. Through increased investment in our industries, we will be able to develop our technology and create jobs.”

Kyaw Win, Minister of Planning and Finance
Leading Edge (LE): DICA was created in 1993 and has since enjoyed quite a bit of success, especially under your tenure. Can you explain its main functions and how it helps investors?

Aung Naing Oo (AN): As the agency’s name indicates, DICA operates across two major areas: investment and administration. In investment, DICA acts as a kind of secretariat for the Myanmar Investments Commission (MIC), the authority governing all investment decisions in Myanmar. We are also the investment promotion agency. As for administration, we operate as a regulator for investment and as a company registrar; whoever wants to do business in Myanmar must register with us. Our head office was moved to Yangon from Naypyidaw in 2014, in order to get closer to the business community here. We now have nine branches across the country, but we are planning to expand to at least 15.

LE: DICA takes care of both domestic and foreign companies and investments. What types of investment are available to foreign capital?

AN: There are three ways for a foreign company to do business here. The first is to submit a proposal to MIC and obtain the necessary permission. Second, they can do business in a special economic zone (SEZ), in which case they have to go there and apply to the management committee. The third, and probably the easiest way, is to register their business with us; within three days, they will be able to start operations. What are the differences between these three methods? If somebody wants to enjoy the incentives they have to apply to MIC. We have incentives for investors who want to do business in a SEZ, but the rules are different. DICA has worked with the government on a new investment law that came into effect at the start of 2017 and will make it much easier for investors to come into Myanmar. Under this law, only a few businesses will need to get the MIC’s approval; most will just need to inform it of their intentions.

LE: A lot of companies are looking at the new investment law with great interest. In addition, Myanmar has moved up on the World Bank’s Ease of Doing Business list. What kind of companies have been knocking at Myanmar’s door, and what businesses do you think would be good for the country?

AN: We are now on the right track for political change, which is the most important thing for the future of our country. Myanmar has a population of over 50 million, making it a substantial market for investors. We have natural resources and a strategic location between two global giants, as well as access to cross-border markets. We have political stability and economic growth, so our prospects are very bright and promising.

LE: Another sector you mentioned is manufacturing. There has been interest from neighbouring countries and foreign investors in moving factories to Myanmar, particularly in the textile sector, which is expected to flourish with the removal of US sanctions. What will be the key driver of this development?

AN: The other five to ten years, the textile industry will be the most promoted sector, because it creates a lot of jobs. Our manufacturing sector was damaged by the sanctions, but now we have regained access to the European and American markets, which opens great possibilities. In the short term, our focus will be on rebuilding the trade ties we formerly had with the US. The food processing and electronic assembly sectors could also attract investment, but our priority will be to develop an added-value industry. For instance, we want to add value to our raw materials in order to expand our exports, especially agro-products.

LE: One of the campaign promises of the present government was to provide affordable housing. How can foreign companies get involved in that sector?

AN: According to the new law, they can own 100% of a project or form a joint venture either with the government or with local private sector companies. Affordable housing is very important for us and will be an interesting business in Myanmar, because it has a lot of potential. Look at Yangon: within a few years it will be a mega-city, so we do need a proper housing plan and that will be of great interest to foreign investors. The government is already planning to expand Yangon by building new houses and reducing prices, which at the moment are very high.

LE: Regarding infrastructure, the government has announced a plan for building a new road grid and many investments have been made to construct schools and hospitals. Where do you think there is an opportunity for foreign companies to come in?

AN: If you ask what we need in infrastructure, my answer would be: You name it, we need it. But there are priorities. We need to generate more electric power, which is fundamental for industrialisation. There is a lot of room for investors in this sector, as only 30% of Myanmar is covered by the electricity grid. Ports are another priority; if we want to promote trade, we need deep-sea ports. Currently, there is a project in Dawei for the construction of a deep-sea port, with investment from China and Japan. Due to our geographic position and our long coastline, we will prioritise port construction and that will require foreign investment. The previous government did a good job of developing the telecommunications sector, but there is still much to do, and investments will be needed.

LE: Rebuilding a whole country’s economy is a difficult task. What would you like to accomplish as Director General?

AN: I have a very big dream, not just for me, but also for my country. When I was appointed, I had to train my staff and find a way to convince the government of the need for liberalisation. We worked hard, and as a result Myanmar went from being the last country on the Ease of Doing Business list to the one that made the most substantial improvements in 2016. So my dream is to continue doing well and to improve my country.

LE: What message would you send to international investors coming to Myanmar in 2017?

AN: We are now on the right track for political change, which is the most important thing for the future of our country. Myanmar has a population of over 50 million, making it a substantial market for investors. We have natural resources and a strategic location between two global giants, as well as access to cross-border markets. We have political stability and economic growth, so our prospects are very bright and promising.
EXTRACTIVE INDUSTRIES

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NEW PARADIGM FOR MYANMAR’S RESOURCES
Hydrocarbons move from strength to strength, while mining undergoes a major revamp.

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Significant potential is emerging in Myanmar’s downstream industries, along with greater market access.
NEW PARADIGM FOR MYANMAR’S RESOURCES

The extractive industries sector has undergone a rapid transformation since economic liberalisation. Hydrocarbons have moved from strength to strength, while a hitherto troubled mining sector is undergoing a major revamp.

**WHEN VISITING MYANMAR in 1898, Rudyard Kipling wrote, “This is Burma, and it will be quite unlike any land you know about.” He was referring to the culture, people and sights he experienced in Mandalay, but the quote could just as well be applied to the country’s unique geography.**

Myanmar’s old Sanskrit name means golden land, and it not only boasts significant hydrocarbon reserves — roughly on a par with India’s — but rich mines of gold and precious stones.

It is the premier producer of jade in the world. The lush green mountains of Mogok in Mandalay Region are famous for the volume of unique gems unearthed in the area, boasting pigeon blood rubies and royal blue sapphires.

The country was one of the world’s first crude oil exporters, establishing outbound operations in 1853, long before any major discoveries in the Middle East. The Yenangyang field — whose name means stream of oil — was the first major 19th-century discovery in the country, and still continues to produce oil.

Today, however, Myanmar’s hydrocarbon sector is better known for natural gas production, which is overwhelmingly destined to foreign markets. Alone it accounts for almost half of total gas exports in Southeast Asia.

Of the 1.9 billion cubic feet of gas it produces every year, between 300 and 400 million cubic feet are used domestically. The lion’s share, some 1.5 billion cubic feet, is exported.6 Significant discoveries continue to be made offshore, such as in the Rakhae Basin in the Bay of Bengal, and increases in production are expected there.

Altogether the oil and gas sector generates approximately 23% of Myanmar’s total GDP.3 It has been the main recipient of FDI following liberalisation and the subsequent arrival of the world’s biggest oil and gas companies, which committed some USD 4.8 billion to the sector between 2015 and 2016. This amount accounts for over half of total inbound FDI for this period, and reforms to licensing and production agreements have succeeded in attracting an array of operators.

A testament to the strides being taken in Myanmar’s energy industry is the commissioning of the South East Asia Crude Oil Pipeline (SEAOP) in April this year. A flagship energy infrastructure investment, the USD 2.4 billion pipeline is over 700km in length. It transports crude oil overland from the Indian Ocean to southern China, bypassing the need to ship supplies through Singapore. It will now deliver an estimated two million tonnes of oil to energy-hungry China every year.

The China National Petroleum Corporation (CNPC) leads the consortium for the project along with Myanmar Oil and Gas Enterprise (MOGE), as well as Korean and Indian majors.4 Plans are underway to replicate the success of SEAOP by building a second conduit to deliver another offshore oil and gas supply base.

The extractive industries sector is currently adjusting to the new economic and political realities Myanmar has emerged as a lucrative and important sector for the country. Mining is facing a sector-wide overhaul that, if successful, should see the industry become a safe, clean and once again prosperous undertaking.
While the upstream investment opportunities in Myanmar’s oil and gas industries have been widely recognised, there is also significant potential emerging downstream — and increasingly easy market access.

In 2016, a tender to update one plant was withdrawn due to lack of interest and the government’s 2015 Myanmar Energy Master Plan presumes that all LPG will be imported by 2020.

Historically, MPE had a monopoly on importing LPG, some by sea, which it stored at facilities in Thanlyin near Yangon and then sold to private distributors. In 2011, to promote privatisation, a handful of local companies were given import licences. One of these was Universal Energy Company (UEC), part of the Ayer Shwe Wah Group of Companies, which, along with its sister company Elite Petrochemical, provides a useful picture of how the LPG sector currently operates and how it is opening up.

Set up in 2009, UEC received technical support and services from MPE and by the end of 2011 it was distributing LPG throughout the country. UEC’s products are sold under the Eco Friendly Fuel brand name, which is positioning it as the choice LPG brand. As part of its aim to be Myanmar’s leading supplier, its LPG is a mix of high-quality purified propane and butane, which it sells in 4kg, 15kg and 40kg cylinders, all of which pass through quality and quantity testing before delivery to clients. It also supplies stoves, hoses and regulators.

UEC has branches nationwide, a wide network of distributors and a substantial distribution fleet, including large-scale vehicles for deliveries to both urban and rural areas. The company is upbeat about the sector’s potential and says it is investing to improve the supply, distribution and availability of LPG, and to capture an increasing share of the expanding market. It believes that providing value-added services will be the ultimate differentiator.

Also operating along the length of the value chain, Elite Petrochemical is currently focusing on building Myanmar’s LPG sea import and storage facilities. In 2016, it started constructing a 3,000-tonne marine import terminal in the Thilawa Special Economic Zone. According to MPE, this will be completed around 2020. A similar project, Asia AVA Gas — a joint venture between Singapore’s Avanakiya Investments and local operators — should open in 2017. These will be the country’s first two privately run LPG sea import terminals and, as it costs much less to import LPG by water than by road, they should have a large impact on the market: the Asia AVA Gas project alone could lower the price of LPG by at least 20% and make it cheaper than electricity.

Other international businesses are now entering the market. The Laos Oil Holdings Group of Sri Lanka, which owns LPG tanker ships and is setting up a production plant in Bangladesh, is considering an investment of up to USD 200 million. And Puma Energy, the fuel-storage and petrol-station business majority-owned by Singapore’s Trafigura and the Angloan Sonangol Group, will start building a USD 30-million LPG facility at Thilawa in 2017, and has received a licence to import, store, distribute and sell fuel, according to Puma Country Manager David Holden.

Puma is interested in other petroleum product sectors as well. This year it became the first foreign investor to be granted a licence to import, distribute and sell petrol and diesel, via a USD 92-million terminal at Thilawa. Bob Jones, Puma’s Chief Operating Officer for Asia-Pacific and the Middle East, believes that Myanmar can become a regional supply hub for petroleum products, and the company has sized its new infrastructure with that in mind.

Puma’s entry could shake up the fragmented filling station market. The company intends to sell petrol and diesel at Puma-branded outlets and, as Holden says, “We don’t have any retail stations today, so clearly we would love to work with companies that do.” It has a large number of retailers available to talk to. In 2010, Myanmar Petroleum Products Enterprise, which had the monopoly, privatised all but 12 of its 260 petrol stations. There are now over 1,228 private stations in the country and another Ayer Shwe Wah company, Terminal Petrol Filling Stations, is a good example of a current operator. It runs about 12 outlets in Yangon, Naypyidaw and Ayerwaddy selling petrol and diesel imported from Singapore, and employs over 400 staff.

Holden believes that the government’s decision to award Puma licences for petroleum products is significant and “should make international investment more attractive for sure. If I look at the general downstream infrastructure in the country, there is a lot of upgrading that is required.” He reassures other would-be investors that the process went smoothly and quickly and that the sector is growing strongly enough for more players to join in. “This is now a market that is opening up. They haven’t opened it up only for Puma but for all international investors,” he says.
As an important contributor to GDP and employment, Myanmar’s agricultural sector only needs reform, technical input and investment to rival that of its neighbouring countries.

A long coastline and clean waters create the conditions for Myanmar to become a leading seafood exporter, at the same time as industries begin to create added value for products.
REVIVING THE RICE BOWL OF ASIA

History has shown that Myanmar has great agricultural potential. With the right regulatory reforms, technical input and financial investments, there is every expectation that the country can revitalise the sector.

MYANMAR HAS BEEN, and could again become, a regional agricultural powerhouse. The country is endowed with the natural conditions and hard-working people that once made it a leading food producer. However, legislative sector-wide reforms, investment and technical support for farmers are needed to make this a reality. The government of Myanmar is currently grappling with these issues in a bid to include the sector in the economic boom that is sweeping the country. Without doubt, agriculture is the most important sector of Myanmar’s economy. According to the World Bank, it accounts for 26.3% of the GDP and 20% of exports, and provides employment for almost 70% of the population.

In the fiscal year 2016-2017, Myanmar exported over USD 2.8 billion-worth of agricultural products. Historically, Myanmar was best known for rice, and was even called the rice bowl of Asia. Conversion of swampland into rice paddies began in the 1870s under British influence, and turned huge tracts of land over to cultivation. By 1900, Myanmar (then called Burma) exported over two million tonnes of rice annually, making it the world’s leading export-producer. But put the scale in perspective, by 1940 over 5 million hectares of territory had been converted to rice production, an area larger than modern-day Slovakia.

Today, the sector provides a much more diversified picture. Farmers continue to produce unmillred rice during the monsoon, but grow other major export crops during the dry season. Myanmar’s most significant agricultural export product is still rice — although not at the levels prior to independence — followed closely by maize, beans and pulses, oil seeds and rubber, as well as fruits and vegetables.

Myanmar’s populous neighbours make up its most important export destinations, with China and Thailand (primarily for rice) and India (for beans and pulses) buying the lion’s share. Markets in border towns have proven particularly lucrative for the sale of vegetables and maize to Thailand, where price differentials help move produce.

While the sector is vulnerable to economic crises — it was devastated during the Great Depression when rice price halved for most of the 1930s — it has also demonstrated remarkable fortitude and the ability to recover from catastrophe. Recent natural disasters such as Cyclone Nargis in 2008 and floods in 2015 ravaged the Irrawaddy Delta, the cradle of agriculture in the country. However, harvest levels were subsequently restored with international support.

The need for extension services and international investments to increase rice yields has been demonstrated by technical and financial cooperation with international partners such as Japan. Targeted support in this case included the construction of storage silos and provision of higher-yield rice strains to generate bigger harvests and provide much needed storage.

Although legislation introduced in 2017 has removed many of the barriers for foreign investment in the country, agriculture rates low in appeal when compared with other sectors. It accounts for less than 1% of the massive influx of investment into Myanmar’s economy, a figure which reached USD 7 billion for the fiscal year 2016-2017.

The government’s 12-point economic strategy, announced in July 2016, acknowledges structural issues facing the sector, with point 5 focusing on providing extension services, initiating regulatory reforms, tackling land rights issues and providing finance to small-holder land users. It states that the agricultural sector will be given support in order to “promote inclusive growth, enhance food security, increase exports, and boost living standards.” The strategy goes on to grant “full production freedoms” to support “high value-added crops” and “livestock breeding.” Critically, farmers will have “more access to credit, land tenure will be strengthened, and production chain sectors improved.”

A review of the Farmland Law 2012 is needed to follow much of this strategy. At the time of writing it is still being drafted, with the vocal input of stakeholders, civil society and industry groups. Furthermore, a step towards boosting the sector was made in July of this year when the ban on livestock export was lifted and state loans promised to graziers.

However, infrastructure upgrades must be made to support agriculture, with paved roads needed to move produce and bring inputs to countryside. Garments are increasingly becoming Myanmar’s most promising value-added export, and the industry is dependent on locally-grown cotton, with farmers struggling to meet demand. Foreign investors, particularly from China, are behind the strong growth seen in the business over recent years. But the further growth of the sector is limited by a shortage of foreign direct investment (FDI).

One area the authorities are keen to develop is food processing, which adds value to agricultural produce. Representing two thirds of the current industrial production, food processing is set to grow as Myanmar manages to branch out into neighbouring markets. Indeed, the overproduction of sugar and reduced prices experienced this year highlight the need for Myanmar to develop its value-added food industry.

FDI is also crucial for the creation of new plants or the expansion of existing facilities. Large scale investment by the Japanese in local breweries are an example of the successful transformation of raw material into fast-moving consumer goods that can help Myanmar perform a leap in terms of industrialisation.

Encouragingly, new crops are appearing in Myanmar’s fields. The emergence and growth of high-quality coffee beans in recent years, despite existing regulatory and economic impediments, demonstrates that new business lines can take root in the sector. Reviving the agricultural sector would dramatically boost the national economy; generate profits for associated industries, increase food security — both domestically and regionally — and provide better livelihoods for the huge part of the population that depends on it.

References
OCEANS OF POTENTIAL

As added-value products multiply and a switch from fishing to aquaculture is undertaken, the seafood industry becomes vital to Myanmar’s export strategy, and one of the most promising areas for investment.

With a coastline of about 2,228km, 203,272km² of sea waters and 92,000 km² of inland lakes, rivers and reservoirs, Myanmar is rich in fish and seafood.

The fisheries and aquaculture sector employs three to four million workers. Domestic consumption of its products is high and it provides the biggest source of animal protein in the local diet. Total fish production has grown by an average of about 14.5% a year over the last two decades and reached around 5.31 million tonnes in 2014/5, with 54% of production being marine and 46% fresh water fish.1 The processing of fish is also increasing and in 2017 there were 112 fish-processing plants in the country, 69 of them based in Yangon. The vast majority of these were local businesses, with international investors having an interest in only 8.4% of them.2 Although foreign direct investment in the sector is low, it is rising. According to DICA, FDI in livestock and fisheries increased from USD 8.25 million in 2015/16 to USD 96.68 million in 2016/17. Fishing grounds in Myanmar may be relatively less exploited than elsewhere and there are opportunities for investments inshore, at deep-sea locations and by expanding the value chain. DICA sees specific potential for foreign investors in fishing and aquaculture of shrimp and prawns, fish food production, fish and seafood processing facilities; cooling, canning and packaging facilities; and in the establishment of education and research institutions to broaden industry knowledge and develop human resources.

With the decreasing availability of wild fish around the globe, aquaculture in particular is thought to offer significant potential. It also generates much higher returns for landholders in comparison with those from farming staple crops. Although this sector has increased substantially, it is still underdeveloped and only 19% of fish come from farming. “The majority of producers should be utilising breeding farms,” says Tun Aye, Managing Director of Shwe Yamone Manufacturing Company and President of the Myanmar Fishery Processors and Exporters Association. “There must be a nationwide shift to breeding from sea fishing.”

At present, two types of low-value carp — rohu and catla — are the most farmed species. But analysts predict that the culture of species like tilapia, climbing perch, hilsa, cuttlefish and squid will increase rapidly in the near future. The fishing industry is key to Myanmar’s new national export strategy, but investment in some areas is restricted for foreigners and it may, for example, require the formation of a joint venture with local companies. Even though about 90% of Myanmar’s seafood is eaten within the country, exports in 2016/17 were worth USD 605 million and are expected to reach USD 700 million in 2017/8, according to Khin Nyunt, Director of the Department of Fisheries.3 Hnin Oo, Senior Vice President of the Myanmar Fisheries Federation, believes income from exports could generate around USD 1 billion a year by 2020.4 One reason for recent growth is that, since the removal of sanctions, Myanmar benefits from tariff elimination for fish and seafood products as part of its membership deal with the Association of Southeast Asian Nations. And it also has free trade or preferential agreements with other countries, including Australia, China, India, Japan, New Zealand, South Korea and the European Union.

Although exports to markets like the US and the EU are growing, Myanmar’s fisheries sector is still focused on its regional neighbours, with China buying 35% in terms of its value and Thailand 26%.5 This is due in no small part to the costs of compliance with the food safety standards and sustainability requirements set by developed countries in other parts of the world. Insufficient electrical infrastructure in Myanmar also poses problems, with the ability to freeze reliably being vital for long-distance exports. At present, only a minority of the processing companies is capable of exporting fish to markets like the US and the Middle East. Since 2004, it has been Myanmar’s leading seafood exporter, earning up to USD 25 million a year with fish exports, although it also supplies shops, householders, restaurants, hotels and embassies in its domestic market.6

In order to promote itself to EU buyers, Shwe Yamone was one of four fish processing companies from Myanmar that exhibited at Seafood Expo Global 2017 in Brussels: the world’s largest seafood trade fair. Its participation was part of a Dutch-government-supported multi-year marketing programme, for which the Netherlands’ Centre for the Promotion of Imports is providing companies and the industry as a whole with export coaching, promotion and brand development to help expand high-value exportation from Myanmar to Europe. This project sits alongside four-year trade development and five year sustainable aquaculture development programmes that have received EUR 31 million in EU funding. The first of these aims to help seafood processors and aquaculture farmers comply with EU regulations, while the latter is focused on smallholders and include supply chain development. Other countries’ governments and organisations are also providing funding and programmes for Myanmar. For example, Australia is helping to build the research and development capacity of the Department of Fisheries and universities, Japan and the US are supporting the development of human, technical and physical resources for sustainable aquaculture, and Denmark and Switzerland are encouraging the creation of community-based co-management systems for fisheries.

The company he leads, Shwe Yamone, is part of the Ayer Shwe Wah group and one of the companies that has earned this coveted certification, showing what the industry has the potential to achieve. Established in 2001, it has three factories for freezing fish — two in Yangon and one in the Irrawaddy region — and it concentrates on higher-value prawn varieties such as sea tiger, black tiger, white, pink, bamboo, fresh water and flower, as well as sea perch, hilsa, cuttlefish and squid. With its newest processing plant, opened in 2014, the company is now one of a handful in the country that is able to produce value-added goods like breaded scampi. All the company’s fish, which come from farms, rivers and deep sea, are of high quality. “Our fish come from water that is free from pollution,” says Tun Aye. “We have great demand from Japan, where consumers are very aware of the risk of chemical contamination and they have confidence in our products.”

About 40% of Shwe Yamone’s exports go to Japan, where its clients include companies like Kohyo, Daiko and Mitsubishi, with much of the remaining 60% going to China, Hong Kong, the EU, the US and the Middle East. Since 2004, it has been Myanmar’s leading seafood exporter, earning up to USD 25 million a year with fish exports, although it also supplies shops, householders, restaurants, hotels and embassies in its domestic market.8

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A leading player in Myanmar’s manufacturing, marketing, sale and distribution of consumer products since 1992, Loi Hein Co. Ltd is now working hard to become one of the country’s top ten companies. We are already the market leader in drinking water and energy drinks and as a privately owned, local company that is highly familiar with the Myanmar market, we see enormous growth potential and delight in pursuing our ambitious long-term vision.
Manufacturing is set to become one of the main economic engines in Myanmar. Low labour costs are a competitive advantage, and new special economic zones are already attracting leading international investors.

AS THE NEW ADMINISTRATION of the National League for Democracy (NLD) strives to open up and diversify the economy, it is hoping to use manufacturing as a key driver of growth. By doing so, Myanmar is following the path taken by other Asian countries, which built trade relations with the rest of the world prior to greater and more value-added industrialisation. China, Thailand, the Philippines, Vietnam, Cambodia have all become manufacturing hotspots over the years; now it’s Myanmar’s turn.

The sector has already recorded strong growth since 2010, and contributed 22% to the GDP in 2016, according to the latest available figures by Myanmar’s Central Statistical Organisation. The main manufacturing sub-sectors are garment and textiles, agricultural processing, automotive parts, canning and bottling.

One of Myanmar’s main competitive assets for manufacturing is its low labour costs compared to other countries in the region. According to a January 2016 survey of the Japanese External Trade Organisation, at an average of USD 147 (200,000 kyat) per month in the garment industry, Yangon has the lowest wage levels when compared to major Asian cities such as Phnom Penh (Cambodia), Ho Chi Minh (Vietnam), New Delhi (India), Bangkok (Thailand) and Guangzhou (China).

However, even though the country is keen to create jobs as a means to fight poverty, it does not intend to fuel a race to the bottom in terms of labour conditions. This is why one of the first measures implemented by the government in 2015 was to set a minimum wage of 3,600 kyat (USD 2.80) for an eight-hour working day, in a move to protect workers but also boost investment.

This reform, which was called for by some leading international retailers including Hennes & Mauritz (H&M, Sweden) and Gap (US), puts Myanmar’s minimum monthly pay at around USD 67 a month, based on a six-day working week, giving it a competitive advantage over thriving garment makers such as Vietnam and Cambodia where the monthly minimum wage ranges from USD 90 to USD 128, according to the International Labour Organisation.

There is a further indicator of the dynamism of Myanmar’s manufacturing industry: foreign direct investment. FDI in manufacturing has shot up from USD 3.5 million for the fiscal year 2004/05 to USD 3.2 billion in 2009/10, 400 million in 2012/13, and a peak of 1.8 billion in 2013/14, according to DICA.

However, it has slowed down since then to USD 1.5 billion in 2014/15, 1 billion in 2015/16, and 883 million by end of 2016. This reflects a general trend towards reduced FDI in Myanmar in the past two years, as investors remain hampered by structural problems such as the lack of reliable power supply, the need for better communication and transport infrastructure and a skill shortage.

Clothing manufacturers from Japan, China and South Korea turned towards Myanmar, followed by Western retailers. That year, the country exported some USD 900 million worth of sewn products, a figure admittedly dwarfed by Vietnam’s and Cambodia’s similar exports, but nevertheless a sign that it is on its way to becoming a new garment manufacturing hub.

Thilawa, the fastest-growing of the three special economic zones, has progressed significantly and has already attracted more than USD 122 million in FDI over this fiscal year, according to DICA.

The government also hopes that the three new special economic zones in development in Kayin, Pyin in Rakhine State, Dawei in the Tanintharyi Region and Thilawa on the outskirts of Yangon will attract domestic and foreign investment in manufacturing. In particular, the development of Thilawa, the fastest-growing of the three SEZs, has progressed significantly and has already attracted more than USD 122 million in FDI over this fiscal year, according to DICA.

The Myanmar-Japan Thilawa Development Limited (MTFD), a joint venture set up in 2014 between the governments of Myanmar and Japan, announced in June 2017 that it would open a new SEZ near Yangon and upgrade 35 industrial zones across the country with a view to boosting manufacturing.

As with other areas of the economy, the manufacturing sector is both full of potential and hampered by the legacy of 50 years of quasi-autarky. But the government is hopeful that investor-friendly measures coupled with Myanmar’s undeniable assets will bear fruit in the next year.
STRATEGIC LOCAL PLAYER LOI HEIN SEES OPPORTUNITY AMIDST MYANMAR’S DRINKS SECTOR SHAKE-UP

A main player in Myanmar’s marketing and distribution of purified drinking water, carbonated soft drinks and energy drinks, Loi Hein Group of Companies has adapted admirably to recent region-wide rumbles in the expanding drinks sector.

THE TEN STATES OF THE ASEAN region have experienced something of a collective growth spurt in the soft drinks industry over the last few years. Major reasons include economic growth goals facilitating the entrance of beverage companies into the region and also lifestyle changes in these societies which created a new demand for different types of drinks. Indeed, the wider picture in Asia suggests that the continent took as a whole will add to its drinks consumption the equivalent of 1.5 times West Europe’s current beverage consumption by 2018, meaning it will account for almost 50% of global commercial beverage consumption. Soft drinks (juice and carbonates) lead the charge but beer follows closely with sizeable migration from Europe and North America into Asia (as well as Africa and Latin America).

Within this wider Asian context, the thriving market in Myanmar has its own dynamic bubbling away, with the rise of the lower-income class in major cities whose purchasing power is notably applying particularly to those living in Myanmar’s rural areas. While international drinks brands take hold in Areas of Dominant Influence (ADI) markets in cities such as Yangon, Naypyidaw and Mandalay, local brands maintain their competitive advantage in rural areas. Being local enables LHC to understand the trends and forces that will shape Myanmar’s future, strengthening the marketing strategy of the company.

Increasing demand for premium food, an influx of Western restaurants, and the rapid expansion of the tourism industry are creating growing opportunities for Western exporters in the beverage industry. Adding further traction to the growth spiral is the development of the retail sector. Supply stock for the retail market in Myanmar is expected to double by 2018 to meet demand.

In this colourful context, LHC is striving to extend its current market leadership in several categories even further by garnering new strategies. Having to compete in advertising expenditure posed enough of a challenge on its own. One local company that has taken the bull by the horns is LHC Group of Companies (LHC). LHC, based in Yangon, controls about 30% of Myanmar’s beverage market, producing and distributing a spectrum of drinks, and 2017 is its 10th year of operations. LHC’s brands include Alpine, Life and Blue Mountain (purified drinking water); Lemon Sparkling, Fantasy and Blue Mountain (carbonated soft drinks); and Shark and Royal Lipo (carbonated soft drinks). Alpine water was the company’s first own brand. Launched in 2002 it swiftly became the market leader in bottled purified drinking water in the country.

LHC is the leading distributor of FMCG products in Myanmar and has over 100,000 outlets overall. With access to everything from supermarkets to luxury hotels across the country, it serves wholesalers, hypermarkets, convenience stores, minimarts, restaurants, schools, hospitals, small retailers, mom-and-pop shops and kiosks. Many of the brands distributed are market leaders in their categories. A proud domestic company, LHC finds its driving force in the philosophy that “success tastes sweeter than any drink” and has set itself goals of an annual revenue growth of 30% for the next five years, and a USD 1 billion annual turnover in the next 10-15 years. LHC’s focus is the rural market, which accounts for 70% of Myanmar’s population. While international drinks brands have a foothold in Areas of Dominant Influence (ADI) markets in cities such as Yangon, Napyidaw and Mandalay, local brands maintain their competitive advantage in rural areas.

Organic growth, acquisitions and partnerships are key strategies in the company’s vision to support the drinks market’s expansion in the country, and to develop LHC into the leading consumer goods distribution and marketing company in Myanmar. LHC’s openness to partnerships is striking, and a clear reflection of its entrepreneurial energy. LHC’s marketing strategy is to increase significantly the range of products available to the entire country.

Meanwhile, foreign drinks companies are assessing their options about how to enter the ASEAN region’s epic drinks party. In the case of Myanmar, such companies are expected to make one of three moves: appoint a distributor to manage import permits, shipment and distribution; establish offices and handle imports; or set up manufacturing plants in the country. LHC would be in an apt position to become a local partner in one or all of these areas.
Leading Edge (LE): The manufacturing sector is set to become a key contributor to Myanmar’s economy. How do you see it developing in the next five to ten years?

Sai Sam Htun (SSH): Manufacturing is our core business, and the most important thing we can build is the brand, because it has more value than the facilities. Manufacturing can be done in Thailand and the products shipped in, already branded. The branding sector is only recently starting to be better known in Myanmar because in the past the country didn’t appreciate branding as much. Now, everybody has noticed that building a brand can bring great value. One example is the soft drink Blue Mountain, in which we currently have MMK 10 million invested. Ultimately, we can sell it or partner with a foreign company, such as Asahi Loi Hein, for the manufacturing. We could then value it at MMK 50-60 million — that’s the value of branding.

Since we opened the door, five or six years ago, multinational companies like Coca-Cola, Pepsi, Unilever and Nestlé have arrived. In the past few months alone, multiple multinational beer companies like Carlsberg and Heineken have also come in. The multinationals are in place, and I think the fastest growth in manufacturing will be in beverages.

LE: Do you plan to launch new brands in the future?

SSH: I’m more interested in working alongside foreign brands, for instance in the beer business, than launching alone. We can’t afford the whole investment and the beer market seems to be very competitive; Carlsberg is here, Heineken is here. So, if we get a permit for beer then we have to look for somebody to partner with. At the same time, we are building another product line that includes condensed milk, evaporated milk and other products. The Chinese market is vast and has changed a lot due to lifestyle shifts affecting wine consumption. This is a great motivation for us to partner with somebody in the beer and wine business.

DR SAI SAM HTUN, CHAIRMAN, LOI HEIN GROUP OF COMPANIES

LE: Will you partner with foreign brands in terms of distribution?

SSH: We intend to become one of the biggest distribution and logistics companies in Myanmar. We already have over 100,000 outlets and big warehouses across the country, and we cover almost all the channels of distribution, one of which is our wholesale network. The wholesalers did the job of distribution on behalf of our company. In certain cases, like that of energy drinks, 80% of our products are distributed through wholesalers. In contrast, our Alpine brand is mainly distributed directly by us and relies on wholesalers for 45% of business. We also appointed some of the distributors. We also partner with people at the village track level. They take care of the distribution and make a profit. Our agents help them to distribute our product. But their salary is paid by the mother company. So by adapting to the market and mastering every level of distribution, we try to create the best distribution network and this gives us great value, increasing our potential.

LE: Have you considered packaged food like chips and nuts?

SSH: Yes. As we are an agriculture-based country, if we can build up quality agricultural products and create the right packaging, we will partner with an international company to do so. In fact, we have already started to prepare designs and are exploring how we can process and export canned food. Myanmar is in a good position to push its processed food and agricultural goods as we can still create organic products, whereas in countries like China the soil is already contaminated.

LE: Can you tell us about your diversification into the finance industry?

SSH: Under the name of Ruby Hill Finance we have partnered with the best securities trading house, KT-ZMICO. We hold 51% and they own 49%. As soon as the stock market booms, we can invite a whole host of Thai investors. As the country opens up for them to purchase on the stock exchange of Myanmar, and cross-border investment is freely facilitated, we will be able to develop our financing relations with Thai companies even further. The reason we focus on financing is to delve deeper into our agriculture sector. Myanmar’s entrepreneurs can’t go for rocket science and IT. Our country’s first priority should be to emphasise agriculture: 70% of our people are farmers. So we have to focus on this sector with partners from abroad who have the technical know-how and the funds.

LE: Can you briefly talk about your foray into property development?

SSH: Rosehill Residences project is a partnership with Singapore Soilbuild Group. We built the condominium, and we are waiting to go to market from 2018 — right now the market is too slow for optimum results. New rules and regulations for foreigners to buy will come into effect soon and we expect that by 2018 the property business will be good. Our group is also trying to accumulate land for property development, possibly to build commercial office towers.

LE: Since the new government has come into place, doing business in Myanmar has become easier. Some think that things are moving too fast, and that there is no protection for local companies. What is your view?

SSH: We are waiting for the government to speak up more about its policies, the future and the economy. Businesses are not entirely sure where they stand. However, foreign interests are looking up since the US sanctions were lifted. Local and foreign investors are excited but looking for solid information. Currently, we are lacking policies: monetary, exchange rate and job creation policies. We also need to decide which model we are going to follow: the Chinese model, the Indonesian model or the Vietnamese model — or another.
OKKAR THIRI is Myanmar’s exclusive distributor for leading international medical and laboratory equipment manufacturers. We offer top-quality medical and laboratory solutions to the health sector, partnering with the best international brands: Hitachi, Storz, Mizuho, Biomérieux, Horiba and Dräger among them. Working with internationally renowned manufacturers allows us to offer reliable solutions to the nation’s hospitals, clinics and laboratories. We are highly dedicated to the principles of quality, ensuring that equipment installed in the country is efficient and has a lasting life.
THE HEALTH OF A NATION

The task of raising the quality of life of its citizens and improving health care, as well as providing universal health access by 2030, is one of the most challenging and yet most pressing for Myanmar.

LONG ISOLATED, MYANMAR has low health standards in comparison to the rest of Asia and the world. According to the Ministry of Health and Sports, life expectancy at birth is 64.7 years, the lowest among ASEAN countries. The rate of child and infant mortality is 140% higher than the average across Southeast Asia and nearly two times higher than other developing countries, with 72 deaths per 1,000 births compared to a regional average of 30 per 1,000, according to the UN Population Fund (UNFPA).

But there are sharp regional disparities. For example, to the south of the country, in towns of the Irrawaddy Delta, one in six children dies before the age of five. According to UNFPA, the main reason for the high infant mortality rate is the lack of access to essentials like safe drinking water, toilets and electricity.

Another stark indicator is maternal mortality. In a September 2016 report, UNFPA said that 2,800 women die each year in childbirth and pregnancy, which represents one in five deaths among young women. Infectious diseases are yet another area of concern, notably tuberculosis, malaria and HIV/AIDS. To combat these diseases, Myanmar is working with international agencies and NGOs, including the Global Fund, which will provide USD 497 million until 2020 to carry out three national strategic projects undertaken by the Ministry of Health and Sports.

In its 2017-2021 National Health Plan, unveiled in December last year, the government acknowledges that the health system faces many challenges, such as lack of physical infrastructure, human resources (nurses and doctors), medicines and supplies, as well as insufficient financial resources. “Myanmar currently allocates only 3.65% of its total budget to health, which is extremely low by global and regional standards,” the plan states. “As a result, out-of-pocket (OOP) spending by households remains the dominant source of financing for health.”

Through the plan, Myanmar’s government aims to strengthen its health system and ultimately reach universal coverage, “choosing a path that is explicitly pro-poor.” The main goal for the period 2017-2021 is to extend access to a Basic Essential Package of Health Services (EPhS), to be comprised of assistance available to all, such as antenatal care and vaccinations, which will be gradually increased to a more comprehensive set of services. The commitment of the government, coupled with economic growth, which paves the way for the emergence of a middle class that is set to reach 19 million by 2030, are encouraging signs for stakeholders and potential investors. One of the government’s key non-governmental partners in the health sector, 3MDG Fund says that “looking at developments in 2016, there are many reasons to be optimistic about health in Myanmar.” It goes on to cite the increase in public spending from USD 94 million in 2012 to USD 850 million in 2016, the economic upturn, and the rapid uptake of mobile technology.

Another key factor is the new investment law enacted in April 2017, which includes health in a list of 190 promoted sectors where investors are offered incentives such as tax breaks. The government had already opened up this sector to foreign investment, provided the infrastructure and human resources are in place to cater to high demand.

Myanmar’s government aims to strengthen its health system and ultimately reach universal coverage, “choosing a path that is explicitly pro-poor.”
Training and a local partner are key to unlocking opportunity in the health industry, believes Christophe Felix, CEO of medical devices distributor Okkar Thiri. He speaks to Leading Edge together with the company’s Chairman, Dr San San Yi.

The government’s investment in healthcare is divided across three main areas: medicines, building infrastructure for health insurance and medical devices. Dr San San Yi, Chairman of medical equipment distributor Okkar Thiri, recalls, ‘Before 2011 there was a big gap in the market. The only issue at the time was the Ministry of Health’s budget — this was only MMK 6 million for medical equipment for the whole country. But in 2012, they increased it to MMK 30 million.’ The budget for healthcare has more than doubled since then.

There is clearly demand, and willingness to pay, for Western medicine among the Myanmar people, whose access has hitherto been limited. A previously under-funded public sector has resulted in the population becoming used to taking responsibility for their own medical treatment. Public willingness is increasing backed by means, with a middle class emerging in the wake of the economic upturn. This may have eased to 6.5% in 2016 due to flooding and other challenges, but it is set to steadily rise at an average of 7.1% per year until 2019.

Okkar Thiri identified a demand in the market for medical equipment as far back as 1998, according to CEO Christophe Felix. “We started as part of Euro Continent, a foreign-owned company, and the idea was to supply non-Chinese equipment to Myanmar. We worked with relatively expensive but well-regarded brands like Dräger.”

Felix explains that he took what he calls “a technical approach to the health business”. He instructed his technicians “to go into every hospital and repair whatever they could find to repair free of charge.” He smiles as he adds: “They looked at me like I was crazy. I told them to look for the equipment that could realistically be repaired. At the time there was a lack of technical support, and about 90% of the market was in the hands of Chinese and Indian traders. So broken equipment tended to be replaced by new, sale after sale. That was cheap, but our companies — like Hitachi and Philips — are not cheap. We can provide service.’

The company’s proposal certainly seemed to work. “We started with no turnover and achieved the equivalent of USD 1 million in just four years,” says Felix. “However, in 2006 it was only possible to invest in Myanmarese kyats and that was not easy for a foreign company to do. Instead of shutting down operations and causing 75 people to lose their jobs, Dr San San and I set up Myanmar-owned Okkar Thiri and transferred the workforce there. Now we are number one in the market.”

So what makes Okkar Thiri stand out and take other distributors in the sector? “I think the most distinguishing factor is our after-sales service,” suggests San Yi. “All the other companies have three to five engineers, but we have more than 30, all trained by manufacturers abroad.”

Currently, Okkar Thiri caters to clients both in the public and private sector. “Traditionally there has been a dominance of private clinics because government infrastructure has been inadequate,” says Felix.

In part, Myanmar’s culture has favoured the private system: “In Myanmar, extended families often live together. If someone has health problems, but does not have money, everybody will chip in. In the past this meant that the private sector was very active, but nowadays because of government efforts in health, people are returning to the public sector.”

This trend is confirmed by Okkar Thiri’s data, which show that 70% of the turnover comes from the public sector, and 30% from the private. “The Ministry of Health is our biggest customer,” says San San Yi. “For the last four years we have won every tender.” Even though the government plans to further ramp up spending on health, given the rise of the middle class and the recent implementation of health insurance in Myanmar, the private sector should continue to flourish. “Private hospitals will grow, as well as foreign-owned private hospitals, which will work for the more affluent part of the population,” adds San San Yi.

Of course, after many years of sub-optimal investment and understaffing, healthcare in Myanmar is not without its challenges, the most acute being its ability to keep pace with its own growth. “Healthcare is a big challenge in Myanmar largely due to the lack of specialists,” says Felix.

Indeed, Okkar Thiri identifies education as the key to sustainable growth in the sector: “The country is rich with potential and the development of infrastructure and agriculture will not be an issue,” says Felix. “With plenty of countries interested, investment is not a problem either. But the medical sector here only has five oncologists. You can have the best equipment in the clinic, but if the staff are not perfectly trained, nobody will trust them. So it is unquestionable that the number one priority for Myanmar is technical education.”

However, the expertise of existing medical staff in Myanmar is not in question. “There is an impressive level of competences,” says Felix, attributing it to the high standard of education and stringent training for those students who can afford it.

“In France, for example, doctors train in one subject, while in Myanmar they have to train in three,” Felix explains. “For the future of healthcare, this is a harbinger of hope. “It is a matter of means, not a matter of competence,” adds the CEO. “There are a select few in Myanmar who have been to all the workshops and seminars in the world. Myanmar is not just beginning, it started a long time ago.”

In addition to training more doctors, Felix is confident that the economic growth of the country will attract talent back to its shores. “I was in Cambodia in 1994, and it went through a system that eliminated all the educated classes. Myanmar never went through such a system. Educated people simply left. There are a lot of doctors from Myanmar working in the UK, Singapore and Thailand and most of them went abroad for economic reasons, but they will come back. They love their country, and these people are thirsty for learning.”

Felix points out that there are many other sectors with potential in addition to health, citing mining as the main one. “So far there has not been enough financing available. Mining, of the iron, requires cash. The country is full of natural resources and it has natural gas. The fishing sector is also key, with Myanmar boasting a very long coastline. But up until now, the opening in the market has been narrow; with most of the fishing done by Thai boats with a Myanmarese crew.”

There is no doubt that the healthcare system in Myanmar is ripe for development, and foreign companies have already begun to take notice. Corporations, doctors and professors are coming to Myanmar from abroad, often to carry out workshops. “Indeed, we are offering an increasing amount of workshops with a lot of manufacturers. Today, the Myanmarese might go to Thailand or Singapore for treatment, but in ten years time they will stay in Myanmar,” says Felix. “With plenty of countries interested, investment is not a problem either. But the medical sector here only has five oncologists. You can have the best equipment in the clinic, but if the staff are not perfectly trained, nobody will trust them. So it is unquestionable that the number one priority for Myanmar is technical education.”

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However, success often relies on relationships built on trust, so suppliers or investors from abroad must seek a competent local partner. “The most interesting thing in this country,” says Felix, “is that you start with your heart and finish with your head. Your partner is very important.”

He advises companies considering opportunities in Myanmar to be patient. “Myanmarese people are like oysters — it takes effort for them to open up, and if you go too fast, they will close. But once you have earned their friendship, they are like family.”
The residential sector and much-needed upgrades of infrastructure drive the construction industry. Myanmar's potential is hampered by inadequate infrastructure, but ambitious public-private partnerships are set to transform land, air and sea transport.
CONSTRUCTION: A CHANGING LANDSCAPE

The cranes dotting Yangon’s skyline and the shiny new skyscrapers rising above the city’s mix of colonial and low-lying buildings are the visual proof that Myanmar is on a rapid path to modernisation.

WITH STRONG DEMAND for affordable housing and large-scale plans to build and modernise infrastructure, Myanmar appears as a promising market for construction companies. But in a country that only very recently started to open up its economy, the construction sector is going through growing pains. It’s hampered at the moment by a lack of essential elements such as power supply, transport channels and skilled staff. It also suffers from regulatory uncertainties.

According to a June 2016 analysis by Timnet’s Construction Intelligence Centre, which surveys construction markets around the world, Myanmar’s construction industry is expected to grow at an annual average rate of 10.3% between now and 2020. The industry’s value stood at USD 8.2 billion in 2015, and is forecast to reach USD 13.5 billion in 2020.

There was a palpable boom from 2010, when democratisation started, until 2015 — particularly in the residential sector, which pulls the whole market. According to the same source, residential property accounted for 49.9% of the construction industry value in 2015 and grew from USD 3.6 billion in 2011 to USD 5 billion in 2015, recording a 17.8% growth in nominal terms. This segment will continue to dominate the industry and is expected to reach a value of USD 9.7 billion in 2020.

Infrastructure construction was the second-largest market in the same period, accounting for 16.4% of the industry’s total value in 2015. This market rose from USD 1.3 billion in 2011 to USD 1.9 billion in 2015, at a nominal growth rate of 20.1%. It is expected to reach USD 4.2 billion in 2020.

Yangon’s rapidly growing population acts as a barometer for the construction sector. There, the market surged until 2015, with hundreds of expensive condos and affordable housing developments springing up around town, which in turn pushed prices up. It started cooling off in 2015, as potential buyers waited to see the results of the general election.

Then, in 2016, the new Yangon regional government reformed the review process for construction sites and suspended more than 200 high-rise projects that did not meet urban planning standards.1 During several months, inspections were carried out and most of the 200 projects were finally allowed to proceed, except for 12 buildings that were deemed in need of improvements such as reducing height and improving safety.

This controversial measure led construction companies to temporarily mothball construction sites and lay off personnel, including foreign experts, but also had an effect on the banks’ willingness to extend credit for big construction projects and individual mortgages. According to Myo Myint, Chair and CEO of MKT Construction, the number of new construction projects dropped by half in 2016.2

However, even though the depreciation of the kyat against the dollar drives up the price of building materials, chowing away construction companies’ profits, the market now shows signs of picking up. In particular, construction stakeholders expect more clarity in the regulations governing the sector.

An important new piece of legislation is the Condominium Law, which allows foreigners to buy up to 40% of condominium apartments, provided they are on the sixth floor or above. According to market players quoted in the local press, this could bring up to USD 1 billion in foreign currency, as well as welcome tax revenues. The Myanmar Real Estate Entrepreneurs Association estimates that, coupled with domestic demand, the law will lead to the delivery of some 20,000 condominium units in 2017.

Further legislation expected to be issued in 2017 is the new Yangon zoning plan, which has been several years in the making. It will specify what types of building can be erected in which zones of the city and also clarify the legal situation of developers. Under the draft plan, 30% to 35% of the city’s total land area would be made available for new high-rise buildings and apartments, and 20% would be set aside as recreational open spaces for the public, in accordance with international urban planning standards.3

Apart from the residential sector, which essentially concerns Yangon, and to a lesser extent other cities such as Mandalay, a major driver for construction companies lies in infrastructure, for which the government is pursuing a number of key projects and is keen to attract foreign investment. The needs are immense. The March 2017 Myanmar Infrastructure Summit, aimed in particular at potential foreign investors, was sponsored by the Yangon City Development Committee (YCDC), the Mandalay City Development Committee (MCDC), the Myanmar Investors Development Association (MIDA), the Myanmar Construction Entrepreneurs Association (MCRA) and the Myanmar Engineering Society (MES). A presentation document for the summit says that projects include “land connectivity, transportation links with regional economies to boost economic integration, improvement of basic amenities such as affordable housing, universal electrification, safe drinking water, and modernised sewage systems.”4

Several governmental plans address these issues. The National Transport Master Plan (NTMP), designed with the Japan International Cooperation Agency, the Japanese foreign cooperation body, details projects for new highways, ports and airports as well as a railway upgrade for a total of USD 22.7 billion of public investment up until 2030. The plan earmarks USD 11.7 billion for road projects, USD 6.6 billion for railways, and USD 8.5 billion for inland water, sea and airport projects, and will need some USD 4 billion in private investment.

Another important area is energy, which is addressed through the National Electrification Programme (NEP), launched in 2014 in cooperation with the World Bank with the aim of providing universal access to electricity by 2030. The World Bank estimated that this would require 7.2 million new connections as Myanmar had, and still has, one of the lowest electrification rates in the world, with an average at the time of only 33% of the population and huge disparities between cities and rural areas, where close to 70% of the population lacks electricity.

Yet another area that will call for new investment in infrastructure is trade, as the government seeks to foster new manufacturing and agro-processing clusters in the central and southern parts of the country, which will need to be connected to large consumption zones and export markets.

Lastly, a sector that will also require new infrastructure is tourism. The 2013-2020 Tourism Master Plan sets a target of 7.5 million visitors by 2020. In 2016, according to the Ministry of Hotels and Tourism, tourist arrivals reached 2.9 million and in the first two months of 2017, the number had already reached 900,000, a 28% jump from the same period in 2016. To promote further growth, the government is planning to invest USD 486.8 million to develop 38 projects by 2020, including the modernisation of resorts, hotels and roads.5

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Myanmar’s plans to develop its transport infrastructure are being boosted by the Chinese Belt and Road Initiative. Strategically located, the country will benefit from this hugely ambitious project.

Myanmar’s transport infrastructure is hampered by an inadequate transport network, which saw little investment between 2006 and 2015. As a result, 20 million people have no access to all-weather roads, and 60% of roads and most rail lines are in poor condition. River infrastructure, ports and airports also need developing. Both ADB and the government believe the sector requires USD 60 billion of investment in the next 15-20 years.1

The government is strengthening transport legislation and implementing the National Transport Development Plan (NTDP) it created with the Japan International Cooperation Agency (JICA). It includes 142 projects — 48 road, 14 rail, 32 air, 33 inland water and 5 maritime — and is budgeted at about USD 22.7 billion. However, “the ADB and JICA have pointed out that we need a budget at least three times this size to meet our targets,” says Win Khant, Permanent Secretary at the Ministry of Transport and Communications. “With very poor infrastructure, limited budget and weak legislation, the one and only way to carry out the master plan is through public-private partnerships (PPPs).”2 To help promote these, ADB is providing “strategic and transaction advisory services” to support the government in identifying and developing transport projects through PPPs. While the government is opening up these emerging opportunities to foreign businesses, many will still prefer to partner with a strong Myanmar construction company that has experience of large civil infrastructure projects and an understanding of local industry, regulations and communities, in order to mitigate risk and possibly boost chances of winning tenders. The country has a number of these companies, with one of the most prominent being Ayer Shwe Wah Construction. Established in 1999 and with ISO-9001 certification, Ayer Shwe Wah Construction prides itself on its state-of-the-art practices, technology and machinery. It has developed and taken part in a wide range of construction projects, such as the Yangon–Naypyidaw–Mandalay highway; ports, including carrying out deep-sea work at Kyauk Phyu; and railways. In addition to transport infrastructure, its other civil projects include dams, buildings for the 2013 Southeast Asian Games, Naypyidaw apartment blocks, educational establishments like Pathein Technology University, the Mandalay Football Academy and cyclone shelters. Through its sister enterprise the Asia Might Company, which employs 200 people, it is also involved in developing Yangon’s electronic infrastructure.

The government’s first priority is to position Myanmar as a logistics hub by improving overland routes with neighbouring countries. Myanmar currently has a 172,000km road network, but plans to build another 34,600km within 20 years, as well as to upgrade existing roads and renovate bridges. The privatisation of 82 roads3 also exists, although nationwide projects are focused on the country’s economic centres and on upgrading international corridors. Some financing is coming from international donors: ADB is helping to develop the road linking Yangon to Thailand, for example, and in 2016, China Road and Bridge Company won the USD 700-million tender to build sections of this. Another ADB loan of around USD 50 million will be used to expand 64km of the Yangon–Naypyidaw–Mandalay highway — a project that went to international tender in 2017.

Much of the country’s rail network also needs improvement and the state-owned Myanmar Railways, which runs 6,107km of lines, is actively seeking investors for schemes that include modernising, repowering and upgrading lines, and buying new trains. Two big projects are being funded by a Japanese loan: the Yangon–Mandalay Railway Improvement Project and the Yangon 42km Circular Railway Line Upgrading Project. In addition, the government may privatise lines in and around Yangon.

Myanmar has 69 airports and plans are underway to expand, upgrade and privatise many of them. A consortium led by Mitsubishi is now managing Mandalay Airport, and in a PPP, local company Asia World had opened the first phase of a USD 632-million third terminal at Yangon Airport, with help from Singapore’s CPG Corporation. In 2017, the government announced its next tenders would be for PPP upgrading of the Yangon and Heho airports. But the country’s main air transport priority is building an international airport at Hanthawaddy near Yangon. Japan’s Nippon Telegraph and Telephone (NTT) is expected to restart soon and the tender may be reissued. Rakhine State’s China-funded USD 10-billion Kyauk Phyu SEZ, project, which includes a deep-sea port and industrial park, has been awarded to a consortium led by China’s CTTIC that comprises four other Chinese enterprises and Thailand’s Charoen Pokphand. The consortium will hold 70-85% of the shares in the port, with Myanmar retaining the remaining.

These ports are set to play an important role in the huge Chinese scheme that will have an high impact on how Myanmar’s transport infrastructure moves forward: the Belt and Road Initiative (BRI), which aims to rebuild the land (belt) and maritime (road) networks linking China with other Asian countries, Europe, the Middle East and Africa. The initiative involves Chinese investment in six economic corridors — two of which go through Myanmar. The Bangladesh–China–India (BCI) corridor includes land and sea routes. The land road connecting the four countries is 2,800km long and passes from India through Mandalay to China. It is nearly complete, but a 200-km section in Myanmar needs improvements. Progress on the maritime route has been slow; but it should go from India to Myanmar’s Sittwe Port, near the Kyauk Phyu SEZ, and then via river and road back to India.

Myanmar also features in the BRI’s China–Indo-China Peninsula economic corridor, which will link five ASEAN countries to each other and China through cross-national highways and a high-speed railway from Bangkok to Singapore. For example, Dawei SEZ will gain a direct connection to Bangkok. To date, Chinese companies have been the main contractors for the BRI, but analysts predict that the project could start to dominate the global infrastructure market, in which foreign companies will need partnerships with foreign companies. Businesses in Myanmar generally welcome the way their government is approaching infrastructure development — and is budgeting regional hub and the investment boost the country will gain from the BRI. As one local executive puts it: “With its strategic location, Myanmar is where the Belt and Road ambition meets the ASEAN vision.”

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Myanmar’s attractions are undeniable, and there is a lot more for visitors to discover.

Shangri-La adds refinement to Yangon.

Naypyidaw is in the business traveller’s radar for its convention centres and easy access to the countryside.
One of the last untapped frontiers in tourism, Myanmar offers history, nature, culture and architecture. From snow-capped mountains to 800 islands, there is a lot to tap into.

Ecotourism is at the centre of our tourism strategy. We have to be careful, because we cannot develop too fast and spoil the natural beauty of the country.”

Ohn Maung, Minister for Hotels and Tourism

ROASTING IRRESISTIBLE ATTRACTIONS, Myanmar has seen its tourism industry undergo rapid growth since 2011. Tourism directly contributed USD 2.1 billion or 3% to its GDP in 2016. The World Travel and Tourism Council (WTTC) ranks Myanmar’s tourism second in the world in long-term growth, predicting an average increase in its contribution of 7.5% every year till 2027.

Visitor spending has seen the highest growth globally, rising 73.5% a year on average from 2010-16, to USD 2.26 billion and 26.4% of exports. The WTTC sees this increasing by 8.3% a year until 2027, hitting USD 5.2 billion and 37.6% of exports.

Foreign investment in tourism is also increasing, with DICA stating that it rose 12% to USD2.5 billion in 2016. Much of this recent investment has gone into hotels, with at least 144 new ones being approved last year, and most funds coming from Asia. Ohn Maung, Minister for Hotels and Tourism, thinks other regions “haven’t opened their eyes yet” to Myanmar’s potential, explaining that “competition is not as tough as in more mature economies and returns are much higher and quicker.”

Understandably, tourism is now a major focus for the government, whose strategy for the sector is based on its Tourism Master Plan 2013-20. The plan aims to develop Myanmar into a sustainable, year-round, geographically diverse destination, receiving 7.5 million tourists who will spend USD 10.18 billion a year by 2020.

Strengthening the sector’s governance, building a workforce dedicated to tourism, improving destination planning and management, developing quality attractions, improving infrastructure and promoting Myanmar internationally are all key elements of the plan.

The country already has specific policies for responsible tourism, community involvement in tourism and ecotourism, and a new tourism bill is in the pipeline to ensure that regulations and safeguards meet international standards. Governance is also being improved by setting up regional committees and what Ohn Maung describes as “a private network of 11 bodies working together as a team with our ministry,” which includes the Myanmar Tourism Federation, the Myanmar Hotelier Association and the Myanmar Restaurant Association.

Until recently, tourism was focused on the colonial cities of Yangon and Mandalay, the pagodas of Bagan and the bio-diverse Inle Lake, as was investment. In 2016, the International Finance Corporation (IFC) lent USD 13.5 million to Myanmar’s United International Group, to address what it saw as an “acute need for quality hospitality infrastructure outside the commercial capital, Yangon.” The money will help build five-star hotels at Bagan and Inle Lake.

But Ohn Maung is concerned about overdevelopment of the main tourist sites. “These
As Myanmar moved toward a market economy, Shangri-La Hotels and Resorts was quick to anticipate the needs of the business travelers and tourists flocking to Yangon, as well as the desires of its rising middle class.

SHANGRI-LA ADDED RENEWAL TO YANGON

While Naypyidaw is Myanmar’s official capital, Yangon is considered its tourism hub, with Yangon International Airport receiving about 91% of the country’s total airborne visitors in 2015. Yangon’s traditional markets, parks, lakes, ancient pagodas and its high number of colonial buildings attract tourists interested in exploring the history of the country. But the city is also Myanmar’s centre of industry, business and increasing wealth: in 2015, 83% of all recorded business tourists were bound for Yangon.

Changing to keep pace with the transitions in Myanmar, Yangon now offers international shopping outlets, luxury hotels and other facilities for business travellers. In early 2016, the Asian Development Bank (ADB) thought these were not being developed quickly enough, stating that “the steady increase of international visitors and the surge in demand for hotel rooms, long-term accommodation and office space are currently overwhelming Yangon.”

Now, Myanmar is a “path less travelled with many possibilities,” Ohn Maung says, “it is up to the individual investor to decide what they wish to do — opportunities are abundant and in all tourism sectors.”

As Yangon’s first completed skyscraper, the 22-storey Sule Shangri-La transformed the city’s skyline.

The beauty of the Shwedagon Pagoda can be appreciated from the Sule Shangri-La Hotel.

The most developed of these schemes is around Indawgyi Lake Wildlife Sanctuary, established in 2013 and already on UNESCO’s World Heritage list. The government is targeting 22 other regions for ecotourism and Ohn Maung intends a major part to be played by “community-based tourism, organised by travel agencies or non-governmental institutions, with training courses for the villagers who will be running the show.”

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The new interior, designed by Singapore-based RSP Architects, Planners & Engineers, was conceived to show that a hotel in Myanmar could be as lavish as hotels anywhere. All 479 guestrooms have large windows with views over the city, and modern, five star amenities. Suites on the floor have separate working and living areas, at 380m², one of them is the largest in Yangon. A 400m² executive lounge on the 21st floor has unobstructed views of the Shwedagon Pagoda and two private meeting rooms. Another three floors are dedicated to one of the art meeting rooms of all sizes, including a ballroom that hosts up to 750 people and is regularly used for conferences and other functions.

There is a beauty salon, a fully equipped health and fitness centre and an outdoor pool. The hotel also boasts five restaurants and bars which are already gaining an international reputation. One of these, the Peacock Lounge on the double-height ground floor, is where the emerging middle-class of the city comes to gather, according to the British newspaper The Independent, which notes: "If you want insight into the new Myanmar, you’d find it here."

As well as a lack of deluxe hotels, Yangon has suffered from an insufficient amount of quality long-term accommodations. The city only had 1,120 serviced apartments in 2016 — just 8% of the amount in Bangkok. Though international operators are starting to increase the supply of long-term accommodation, once more Shangri-La led the way. As well as funding its hotel refurbishment, the IPC’s loan to the company went towards developing its Shangri-La Serviced Apartments — two 21-storey towers in 15 acres of gated gardens beside central Kandawgyi Lake.

The towers contain 240 two-to-four bedroom, fully-equipped luxury apartments, as well as a gym, a swimming pool, tennis courts and shops. The apartments opened in 2015 and won the best residential development and best residential interior design prizes at the Asia Property Awards that year. At the project’s launch, Area Manager Phillip Cuanar remarked that “As more corporate travellers set up homes in Yangon, it is a natural progression for Shangri-La to provide residential facilities and to serve as an extended family to new members of the Yangon community.”

A lack of office space had also plagued Yangon back: in 2016, it had a net lettable area of 315,000m², 4% of the total in Bangkok. As part of the solution to this problem, Shangri-La opened its Sule Square Mall and Office in December 2016. It’s a “truly international grade office tower,” says Toey Pion of estate agents Colliers International, adding that it will “set the benchmark for the next few years.” Sule Square contains 28,800m² of Grade A offices over 15 floors, 5,680m² of shops and restaurants (including Rolex and Emporio Armani), and indoor parking. The new office development is adjacent to the Sule Shangri-La hotel and directly connected to it. Brining the story of the development of Yangon’s tourism and business infrastructure full circle, Mr Pion explains that “In the past, many people used the Shangri-La Hotel lobby as an unofficial office. Even we used it as a secondary office when the internet elsewhere was bad. Hopefully those people who started their business in the Shangri-La can now have a real office in Sule Square.”

Naypyidaw has a number of tourist attractions, including pagodas, a gem museum, numerous gardens and parks, a zoo and safari park, the national museum and archive, and golf courses

16,234 people arrived in Myanmar via the new capital’s airport, which represents only 0.6% of visitor arrivals to the country. Naypyidaw is also on the main Yangon to Mandalay railway line, and a new highway to Yangon has cut travelling time between the two cities to roughly four hours.

The city houses the national parliament (the Hluttaw) and government offices in a 31-building complex, as well as the presidential palace. Perhaps it is not surprising that at the moment most visitors come on government business: in 2016, the majority were from international non-governmental organisations, 30% were businesspeople and the number coming through travel agencies was below 4%, notes the Naypyidaw Hotel Entrepreneurs Association.

Apart from visiting government officials, the other main draw to Naypyidaw is its world-class convention centres that offer the best meetings, incentives, conferences and exhibitions (MICE) facilities in the country. The city has two major centres, with the largest being 56,250m². As well as various other facilities, Naypyidaw contains state-of-the-art indoor and outdoor sports stadiums, the latter able to accommodate 32,000 people. These venues have successfully hosted the World Economic Forum in 2013, the 24th and 25th ASEAN Summits in 2014, the ASEAN Tourism Forum in 2015 and the Southeast Asian Games in 2013.

As part of the Tourism Master Plan, the government wants to increase MICE activities in Naypyidaw and make full use of the new infrastructure. “We have done a lot of marketing over the past three years, aiming to get people to hold meetings and exhibitions in Naypyidaw. We will continue with this strategy,” says Daw Khin San Win, Deputy Director General at the Directorate of Hotels and Tourism.

In the run-up to the large MICE events that started in 2013, the government encouraged the building of a significant number of hotels and there are now more than 50, providing over 5,000 rooms. These range from luxury five-star properties from international operators like Accor, Hilton and Kempinski, to budget hotels. Given the current focus on MICE tourism, there is a selection of business-standard hotels.

A good example of these is the Myat Thinzar Hotel, located in one of three hotel zones, and between ten and 30 minutes’ drive from the parliament, convention centres and airport.

The Myat Thinzar is operated by Ayer Shwe Wah, one of Myanmar’s largest conglomerates, which was founded in 1999 and has a wide portfolio of business interests. The hotel was built in 2011 and includes six bungalows and one two-storey building with a total of 16 superior rooms and 12 executive suites. According to the company, it aims to provide tourists with luxury,
The Uppatasanti Pagoda, also known as Peace Pagoda, is a major landmark in Naypyidaw.

It offers everything a business visitor expects: air conditioning, an all-day restaurant, free high-speed Wi-Fi, on-site parking, taxis, a cash machine, guided site-seeing trips, flat-screen cable television, gardens, massage treatments, a badminton court and 24-hour reception, room service and security. It also contains a meeting room that can seat up to 20 people.

The Myat Thinzar Hotel's affordable rates are a reflection of the increasing competition for tourists in Naypyidaw and a recent 20% fall in the cost of rooms. This is welcomed by the government, which sees it as an advantage for attracting visitors.

As Daw Khin San Win says, “Now hotels are reducing their room prices competitively, without needing to be encouraged by us.”

Although the hotel sector might appear saturated at present, unless niche markets can be targeted, there are opportunities for investment within the capital's tourism. Restaurants, bars, shops and other facilities for networking and relaxation are limited, states Phyoe Wai Yar Zaw, Chairman of Myanmar Marketing Committee and Managing Director of All Asia Exclusive Travel Company, who believes it will take a public-private partnership to build Naypyidaw into a truly successful MICE destination.

While the city might need more entertainment, it does already have a number of tourist attractions, including pagodas, a gem museum, numerous gardens and parks, a zoo and safari park, the National Museum and National Library, and golf courses. Considering the country's concern for sustainable tourism, it is also a good base for day trips to local villages and the protected areas around Bagan and Inle Lake. The government and city council are promoting these attractions to tour operators and planning other events, such as golf tournaments, to raise awareness of the city. "We want tour companies to add Naypyidaw to their itineraries when they offer packages," says Myint Htwe, Director of the Ministry of Hotels and Tourism. "It has excellent hotels and infrastructure, and easy access to the surrounding countryside." *

This countryside is an important component of the most recent initiative for developing tourism in Naypyidaw. In 2016, the city council announced a five-year plan to transform the capital into a green city.

The USD 8.5-million programme is supported by Aung San Suu Kyi, who wants to see it undertaken while her government is in office. As well as introducing eco-friendly trips to local forests, mountains and the Ngalike Dam, Naypyidaw will bring in measures for clean air and water, with financing from the Japan International Cooperation Agency. "And we need to consider building an electric train," says council member Tin Tun.

Many are hopeful that the continuing transformation and promotion of the city will pay dividends. Franck Droin, General Manager of the Kempinski Hotel, says, "We need to show people what we have here. If people haven't seen something, they won't know they want it. Naypyidaw is the centre of Myanmar. This city is perfect for the curious travellers." *

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