

MYANMAR

Asia's last frontier

Myanmar is coming in from the cold after decades of virtual isolation. If the current process of establishing democracy and building an open, free-market economy can be successful—and all the signs so far show that it can—then early investors stand to reap the benefits of boldness. This Special Report examines the progress of the reforms and looks at key investment opportunities.

Just a few years ago, Myanmar was virtually a black hole on the global investment map. Its closed, backward, state-controlled economy looked like one of the most uninviting places in, if not the world, then certainly in a region teeming with far more attractive “Asian tigers.” Most Western companies couldn’t even invest in Myanmar if they wanted to, because of sanctions imposed by the United States and European Union in response to human rights violations by Myanmar’s military government.

Now, it is as if night has turned into day. Sanctions are largely gone. A civilian government—albeit one filled with recently retired generals—is pushing ahead with an impressive agenda of political and economic reforms. And investors are anxiously weighing the right moment to take the plunge into one of the largest remaining emerging markets, where just about everything is still in play.

“Myanmar is currently in a triple transition, from an authoritarian military system to a democratic governance, from a centrally directed economy to a market-oriented economy, and from 60 years of conflict to peace in its border areas,” the World Bank said earlier this year. “These transitions have the potential to create opportunity and shared prosperity for the people of Myanmar and for the country to resume its place as one of the most dynamic economies in Asia.”

In the same vein, the McKinsey Global Institute observed that, should Myanmar optimize its policy options, it “has the potential to more than quadruple the size of its economy to over US\$200 billion by 2030.” However, the consultancy warned, if the opportunity is allowed to slip away, today’s investor interest could fade quickly.

Local business leaders are generally optimistic. “I strongly believe that we have excellent leaders driving the reform process,” said U Aung Moe Kyaw, chairman of IBTC, a liquor producer and distributor. “We are delighted to see the economy growing and young people getting jobs.” And U Aik Htun, chairman of the Shwe Taung property developer, said that “in the past twenty years, before the new government, there were many changes happening. We

had lots of problems. Overnight you could lose everything, [even] your business. With the new government, we can see these things slowly changing. We are noticing transparency, democracy, and fair competition between businesses.”

Can Myanmar really morph into a dynamic and competitive Asian business center? Much will depend on how far and how fast the army is prepared to go in terms of relinquishing its own privileges and establishing an essentially free and open society—one that genuinely reflects the will of the people, even if it doesn’t immediately look exactly like a Western democracy. In addition, can the expanding democratic and economic freedoms coexist with, and respond to, long-standing ethnic and religious demands?

Myanmar is holding by-elections at the end of this year and congressional elections in late 2015. But the army appoints a quarter of legislators and effectively controls the process of selecting the next president. It also

has a de facto veto over constitutional changes.

Despite the challenges, this Special Report is optimistic. There is an apparent consensus among current ministers—whose thinking reflects the army’s in most respects—that a democratic, open, free-market economy is the only way to go.



Laying the Foundations for a Free Economy

Top-down reforms are preparing a “garden of diversity” to attract foreign investment.

Government leaders in Myanmar are confident that they can make good on their ambitious plans to build a democratic, free-market economy. They acknowledge but dismiss concerns among international investors, and particularly those from Western nations, that the process may stall. It is essential, the leaders say, to understand how the various reforms fit together, rather than to just look at the end result.

U Aung Min, the minister for the president's office, is charged with overseeing the political part of the process. It is the foundation on which the administrative, economic, and private-sector reforms must rest.

“There are two important aspects [to the political reform],” Aung Min, a former major general, said in an interview for this Special Report. “First is inclusivity, meaning that we pave the way for all legal parties, exiles, and activists to work together. The most vivid example of this inclusiveness is that [former jailed activist and Nobel Peace Prize winner] Daw Aung San Suu Kyi is now a member of parliament. The other part is the armed conflict.” These two issues come together in a central question: “What kind of federalism do we want to see in Myanmar?”

Debating federalism, Aung Min said, essentially means resolving issues of resource sharing and power sharing.

For the former, the government has listened to a Harvard think-tank suggestion that resource proceeds should be shared

three ways: between the producer state, the central government, and a fund for underdeveloped areas nationwide. As for power sharing, Myanmar's retired generals have looked at various federal structures, including those of the United States and India, but they understand that Myanmar, with its own unique kaleidoscope of ethnicities and religions, must find its own path. “We would like to go from the nation-state to the state-nation,” Aung Min said, alluding to a system that officially recognizes and caters to different cultures and languages. “We like the idea of beautifying the country not with one particular flower but with a garden of diversity.”

Moving the country in this direction can help defuse and eventually resolve the ethnic, religious, and regional strife that has plagued Myanmar on and off since it gained independence from Britain more than six decades ago. But it must be accompanied by development and job creation. “The economic system must support the peace process,” Aung Min said. “We are mindful that the international community



is indeed concerned about the fragility of the peace process and political reform. We know that is why many investors are taking a wait-and-see approach. What I can confidently say, as minister in charge of political reform and the peace process, is that this process is strong enough to be successful and that there will not be any going back.”

Despite the official confidence, Myanmar has suffered significant recent sectarian violence. The government responded with curfews, riot police, and proposed legislation that some see as restricting religious freedom, particularly for non-





Buddhist minorities. This in turn has led some opposition leaders to proclaim the death of the liberalization process. But other analysts have said that Myanmar's more measured evolution from dictatorship to democracy has a much better chance of producing lasting results than some of the more explosive, overnight transitions the world has seen recently, for example in the Middle East. ■

Myanmar Facts

- **NAME** Republic of the Union of Myanmar (some governments still use Burma)
- **LOCATION** Southeast Asia, bordering Bangladesh, India, China, Laos, and Thailand
- **CAPITAL CITY** Nay Pyi Taw, since 2006
- **OFFICIAL LANGUAGE** Burmese, plus around 100 minority languages
- **CURRENCY** Kyat (MMK); US\$1 = MMK975 (approx.)
- **POPULATION** 60 million (Myanmar government estimate)
- **RELIGION** Buddhist (with small Christian, Muslim, and Hindu minorities)



H.E. Thein Sein
President

“The people of Myanmar have been longing for reform...as an elected government we have the responsibility to accomplish as much as we can.”

You have invited American companies to take part in Myanmar's rapid transformation. Trust in the reform process appears to be building in the international public, but what would you say to those who may still have doubts?

Well, Myanmar is a country rich in natural resources, with a good labor force. We also have an excellent location, as we share borders with China, India, and Bangladesh. If you combine these countries and nearby ASEAN members, you can say that because of our location, we have access to 2.3 billion people. It's a huge market. Also, our government has been able to remove all the economic sanctions imposed on Myanmar. In the past, the United States had financial restrictions on Myanmar, so we were unable to use U.S. dollars in trade. But now the administration has eased its restrictions, meaning we can have transactions in dollars. So now is the best time for investors to come to Myanmar.

Businessmen are always concerned about a country's foreign investment law. How do you assess Myanmar's progress in this respect?

Our old foreign investment law was not up to international standards, but in 2012 we promulgated a new law that is investor-friendly and in line with international standards. It protects foreign investment and gives incentives to potential investors. Also, my government is doing its best to promote transparency.

Are you comfortable with the pace of the reforms and their implementation? Would you like things to move faster?

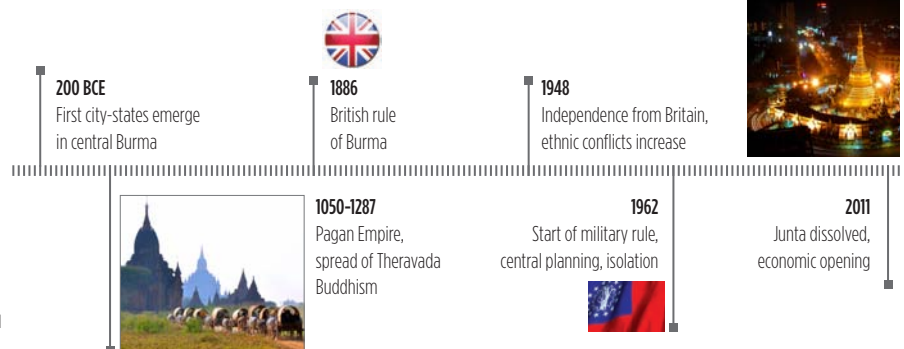
Let me say that we are not fully satisfied with the reforms; we have many things still to do. In the first phase, we had to try our best to remove the sanctions and attract foreign investment, and I made several trips to European countries to ask for their help in removing economic sanctions. So at the beginning, we spent most of our time promoting the foreign investment law and having sanctions removed. Having said that, of course there were many positive changes within those first years.

What about peace and stability?

Our country has been suffering for many years because of armed insurgencies, so we are trying our best to achieve a sustainable and lasting peace. We will have to continue political dialogue to completely end armed conflict. We must also provide basic services, such as electricity, water, and transport, and reduce poverty. We have laid out a national plan for rural development and poverty alleviation.

What drives you to get up in the morning and keep going at this pace?

Two things. The first is that the people of Myanmar have been longing for this reform process to take place; they demand change, and as an elected government we have the responsibility to try to accomplish as much as we can and not allow the process to stagnate. Second, there are so many things to do, and we have limited time left [in government], so we must deliver as much as we can within that time. That's what drives my government to undertake reforms at this accelerated pace.



Implementing Reforms: Building a New Economy



U KIWI ALIWARGA
Co-owner and CEO, UMG

“The reform process won’t be over in a couple of years.”

There’s definitely improvement, but the reform process won’t be over in a couple of years because there are deeper structural issues. Let’s look at patterns. In 1991–92, Myanmar opened up to foreign investment, and in 1999–2000, the country closed it down again. This has been going on for hundreds of years. Changes can be cyclical. Of course people say they don’t want to go back to the old times, but history could tell a different story. The government needs to address the underlying structure that allows this to happen. I think the higher authorities really are trying to make sure that the past does not repeat itself. And we—the international community—need to make sure that this happens. We need a stable and peaceful country where people can better their lives and succeed.



U THAN LWIN
Deputy Chairman, KBZ

“We are changing; the country is transparent.”

The good thing about Myanmar is that we look forward; people are not obsessed with the past. Some people think the parliament has been fighting with the president, but it’s not—there always needs to be a system of checks and balances. In the past few years there has been a lot of check-and-balance processing going on very rapidly. The message the president has given is that without political reform and stability, we cannot make progress with economic and financial-system reforms. Japanese investors [in China] told me how they were outraged by a Chinese law that imposed a retrospective tax obligation—I told them that the Myanmar mentality is not like that and we would never do such a thing. We are changing; the country is transparent.



Economic reforms are now starting to take shape, preparing Myanmar for substantial investment across multiple sectors. It’s a long road, but the journey has started.

Myanmar has accomplished a lot in just a few years. A new foreign investment law allows for 100% foreign-owned investments in designated sectors, as well as long land leases, multiyear tax breaks, profit remittance, and capital repatriation. The Central Bank of Myanmar has been granted virtual autonomy, enshrined in law, and the old artificial fixed exchange rate has given way to a managed float. A revamped stock exchange is due to start trading in 2015, tied in to other regional bourses via the ASEAN Trading Link project.

Key sectors are being opened up to foreign investment, not least telecommunications—Ooredoo QSC of Qatar and Telenor ASA of Norway recently won fifteen-year licenses to “build, own, and operate a telecommunications network and to provide the full range of public fixed and mobile telecommunications services on a nationwide basis.” They will compete with two state-owned companies. In a country where SIM cards have cost up to US\$100, greater competition in telecom-

munications will not just be welcome—it is fundamental to modernizing business, promoting rural development, and allowing expansion of all the online services inherent in a modern economy.

More reforms are in the works. They include a new competition law and long-awaited trademark and intellectual property (IP) laws. The government has collaborated with the World Intellectual Property Organization to draft the IP legislation, superseding a hodgepodge of provisions in various laws dating back as far as 1911. Commerce Minister U Win Myint recently told reporters that a rampant black market and counterfeit products were inhibiting both trade and foreign investment. One major Japanese printer company was quoted as saying it would not invest in Myanmar until the new IP law was in place and effective, given that the market was currently swamped with counterfeit toner cartridges.

Legislators are also discussing a new mining law to promote greater foreign investment in—and sustainable growth

2015 The Challenge of Asean 2015

Myanmar faces both a huge opportunity and a huge challenge in 2015. The country is currently enjoying its first-ever spell in the presidency of the ten-nation Association of Southeast Asian Nations (ASEAN), and it is helping prepare the ASEAN Economic Community (AEC) that is due to launch next year. The AEC will become a single market of 625 million people with a combined GDP of US\$2.4 billion and aggregate GDP growth of 5.1% in 2013. Members have been gradually lowering their intra-bloc tariffs since 2007, with most set at zero as of next year. Plans also call for the free flow of services and investment.

"The states involved are at different levels of development; we are trying to narrow that gap," said U Wunna Maung Lwin, Myanmar's minister of foreign affairs. "Each country has a scorecard, and we have accomplished approximately 80% of the list, but the remaining 20% comprises issues that are difficult to handle." Businessmen are cautiously positive. U Aung Moe Kyaw, chairman of IBTC, the liquor producer, said that the government should consider which sectors are really ready to compete internationally and which are not. "We don't want unnecessary things flowing in. We need pharmaceutical products, but we don't need chocolates, for example."

U Win Aung, president of the Union of Myanmar Federation of Chambers of Commerce and Industry, predicted that the majority of local companies would face challenges. "But—and this is a large but—this is the only way that we can progress, by building connectivities and partnerships with international companies." Similarly, U Sai Sam Htun, chairman of the Loi Hein consumer goods distributor, predicted that 70% of Myanmar companies would feel the heat: "We are not ready to compete in the region. Our manufacturing base is not competitive enough, infrastructure is still lacking, and technical know-how is still underdeveloped."



H.E U Soe Thane

*Union Minister,
Coordinating Minister for
Economic Development*

"Government can't do everything alone—we need more private sector involvement, more civil-society organizations."

Can you put the Myanmar reform process in context for international readers?

Our first idea, as soon as the president took office, was the reduction of poverty and rural development, so we began to build the framework strategy for economic reform and development. The second thing was to address political reform while maintaining political stability—meeting with the different actors from the regions and ethnicities. The main thing lacking was trust in the Myanmar government. So we began with political reforms, and now economic reforms are being undertaken. But these are difficult and must be carried out step by step.

Building a democracy is not easy...

Right. And our third major challenge is that people need to change their mindsets. We need to build capacity for a democratic culture; we need to build capacity through reform of public administration. Another aspect of these changes is that government can't do everything alone—we need more private sector involvement, more civil-society organizations.

What is the general direction of economic development?

Our main concern is to take into consideration our existing infrastructure and human resources. This is why we are welcoming investors from low-cost and labor-intensive industries: garments, textiles, footwear, and so on. These are industries that can exist with lower levels of labor skills and can deal with electricity shortages. I want to do a lot of things, but our infrastructure and institutions are limited, and we have limited numbers of skilled workers. Another point is that the existing agricultural sector is very strong, but it needs to be modernized. The agricultural sector supply chain can be strengthened, and we can boost and develop agro-industry and benefit local people very quickly. Their incomes are already increasing.

of—a sector currently dominated by small operators that often employ dubious environmental standards. China was the main investor and buyer while sanctions were in place, but now there is significant international interest in Myanmar's copper and nickel mines. Putting the sector on a more formal footing and bringing in major international companies could reduce environmental damage, smuggling, and underreporting, particularly of gold and gemstones. Some analysts have suggested that Myanmar's jade exports might have been worth US\$6 billion or even more in 2011, although official figures showed just US\$34 million for fiscal year 2011–2012.

The government has applied to join the Extractive Industries Transparency Initiative, a global coalition that seeks to ensure local populations benefit from their natural resources. Myanmar reportedly sought advice from Australian exporters

on how best to structure the participation formula—the share-out of proceeds between investor and government—to maximize returns for the country while also encouraging investment.

Despite all the positive news, inbound foreign direct investment (FDI) still faces challenges. "The [new] FDI law will not be complete until complementary laws—for example, IP and the competition law—are in place. There are several laws under discussion that will affect FDI," said U Than Lwin, vice chairman of KBZ Bank.

U Kan Zaw, minister of national planning and economic development, explained that Myanmar has been "working closely with the International Monetary Fund, the World Bank, and the Asian Development Bank on public financial management. We are heading towards our financial reforms for the capital market at the end of 2015." ■



U DING YING
Chairman
DELCO MINING



"The level of trust between government and business is increasing."

Overall, I see positive changes in the whole economy. During the previous regime, there was no negotiating about policies in terms of production, distribution, or trade; they were simply set by officials. Interaction with the government is possible now, and we can discuss the policies concerning such matters. Establishing trust has been happening since the change of government, but trust is a delicate matter; it is easy to break but difficult to build, especially with ethnic issues. However, I think the level of trust between government and business is increasing; the current executive branch enjoys a much more positive image than previous governments. It's willing to listen and to accept that the business sector is vital for building the country.

Hydrocarbons in a Hurry

Myanmar urgently needs more energy; oil and gas are a key part of the solution.

Back in the mid-nineteenth century, Myanmar, then known as Burma, was one of the world's earliest petroleum exporters. Today, exports are a distant memory, and more than half of the country's necessary gasoline and diesel is imported in undersized tankers through outdated ports to meet fast-growing demand. Some is smuggled from Thailand in trucks. Small, decrepit refineries are running at way under capacity. Natural gas is plentiful, but roughly three-quarters is exported under long-term

contracts, earning important revenue but leaving precious little to expand the generation of urgently needed electricity for homes and factories.

Turning all of this around is one of the government's highest priorities.

Earlier this year, Myanmar auctioned off twenty offshore prospecting and production concessions, half of the blocks in deep water. Myanmar has not yet mapped its natural resources as extensively as many other countries, but expectations are high for significant discoveries, in particular of

natural gas. Increasing domestic supplies for industry and power generation is a top priority. However, analysts warn it will be several years before any additional supplies of oil and gas start to flow ashore.

The massive interest from foreign oil companies reflected both the country's potential and the fact that contracts have been revamped to international standards. Auction winners included Statoil (Norway), Total (France), Chevron (United States), BG (Britain), Eni (Italy), and the Anglo-Dutch group Shell. Other successful bidders came from India and Australia. Total and Chevron were already in Myanmar, but the auction marked the large-scale entry of Western oil giants into

a market where firms from Thailand, Korea, China, and Malaysia have long been active.

China in particular has invested heavily. Two pipelines now stretch eastward from Kyaukphyu on the northern Myanmar coast, all the way into southwest China, one carrying locally produced natural gas from the Shwe fields in the Rakhine Basin, the other (when finished) offering China a shorter and safer route to import oil from the Middle East and Africa that avoids the Strait of Malacca. A highway and railway are proposed for the same 950-kilometer route, although some local communities complain that they are not benefiting from the development. ■





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H.E U Zay Yar Aung
Union Minister, Ministry of Energy

There's not a great need for change in upstream activities; the international business community is already closely involved. We need to make big changes in the midstream (or transportation) sector, because we are a state-owned enterprise with a lot of people and a large budget; I would like to privatize that. And downstream, I decided to change the management structure of refineries, fertilizer factories, and liquefied petroleum gas plants from state-owned to joint ventures. We can't privatize completely yet, but we can move in that direction.

We are also considering unconventional oil and gas sources, such as shale gas. We are inviting oil companies to introduce this technology, especially in the center of the country, where the geological characteristics seem appropriate.

Also, people are beginning to understand that hydro is the cheapest way to produce power in our country. All of our hydro projects have been stopped in order to conduct environmental-impact analyses, but the people are beginning to see that this is something we need.



Megawatts for Miners

Myanmar's vast minerals potential is not only waiting on the new mining law (see page 4)—the sector also needs more efficient logistics and better energy supplies. Even ahead of real upgrades to the national power supply, however, the new, more business-friendly government approach is helping. U Ding Ying, chairman of Delco Mining Co. Ltd., which mines and processes tin, tungsten, and mixed ores in the Dawei District of southern Myanmar, said he asked the government for permission to migrate from costly diesel-powered generators to hydropower to run his factories: "They agreed—and this is a great indication of the changes that are happening in Myanmar." Together with investment in new machinery, hydropower can boost Delco's profits by more than 30%, he said.



"Myanmar is one of the fastest-growing countries in Southeast Asia and is known to many as a diamond in the rough. Its potential is tremendous because of its rich natural resources, strategic location, and large population. The gem and minerals industries have exceeded expectations." Yap Kwong Weng cited data indicating that Myanmar's official gem sales have been increasing rapidly, from just US\$25 million in 2000 to US\$2.4 billion in 2012.

U YAP KWONG WENG
Chief Operating Officer,
Parami Energy

Power to the People!

Myanmar could be ablaze with light and its factories could hum 24 hours a day. Instead, some two-thirds of homes lack electricity. Companies rely on their own expensive diesel-powered generators to avoid grinding to a halt. It is the legacy of decades of underinvestment, coupled with recent surging demand that is expected to grow by 13% a year through 2030.

"Before 2010, we had about one hour of electricity [per day] in Yangon, and in rural areas if you had fifteen minutes you were lucky," recalled U Aik Htun, chairman of the Shwe Taung Development Company. Several local companies are looking at opportunities in power; increasingly, foreign investors are joining them.

The long-term solution lies in upgrading and expanding the existing mix of hydropower and gas-fired thermal generation. As of mid-2013, these sources represented 71% and 26%, respectively, of installed capacity, with the balance coming from coal, according to 2013 data

from the Ministry of Electric Power. Experts say that would be sufficient to meet existing demand, at least in areas already on the grid, if only it could run flat-out. But seasonal dry spells, inefficient equipment, and poor maintenance mean that the system never reaches even half of its capacity. So at peak hours, lights flicker off. Now, the government wants half of all homes on the grid by 2025, with reliable supplies.

Investing now

More than 40 projects are planned, but traditional generating plants, transmission lines, substations, and distribution networks take time to build. The government is thus seeking quick solutions. APR Energy of Florida and the Jakarta-based Navigat are just two of the international companies now exploring plug-in distributed power, the former via a 100-megawatt gas-fired station that was imported and installed fewer than four months after the contract was signed. The plant uses 68 new-generation Caterpillar gas-powered modules and is described by APR as a "bridg-

ing solution for the medium term while the country develops its long-term power generation infrastructure." The initial contract lasts just a year and a half.

Navigat's approach—via its MAXpower subsidiary—was to build a 50-megawatt gas-fired station at Thaketa in the southern suburbs of Yangon, using sixteen General Electric Jenbacher engines. Both Navigat and APR sell their power to the state-owned Myanmar Electric Power Enterprise, and both expect to do more business.

"Faith is taking the first step without seeing the whole stairway," said Navigat CEO Sebastiaan Sauren, referring to his firm's pioneering posture in Myanmar.

As a further sign of the market's potential, Japan's Mitsubishi Electric announced this year that it was opening a Yangon office.

Myanmar has also started to rectify the complex problem of energy subsidies. Since April, consumers have faced hikes ranging from 14% to 30%, depending on usage. For larger commercial consumers, prices have doubled. ■



Myanmar's Supreme Energy has partnered with APR Energy of the United States in what is being described as one of Myanmar's largest thermal-generation facilities—a 100-megawatt turnkey plant at the Kyaukse industrial zone near Mandalay. Power is divided up thusly: 15% to the industrial zone, the rest to the grid. "The project is using twenty million cubic feet of natural gas per day from the Myanmar-China pipeline," said Zaw Naing Thein.

U ZAW NAING THEIN
Vice Chairman, Supreme Energy



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Infrastructure for growth

Roads, railways, ports, airports, urban mobility, water and sewage, telecommunications...What does Myanmar need most urgently?

The short answer is “everything.” Foreign investment is welcome in many areas, preferably via build-operate-transfer contracts under revamped regulations; the challenges will be to identify viable projects and develop them at a pace that matches demand.

“Maintenance and, when necessary, upgrading of the road infrastructure is vital for development,” said Construction Minister Kyaw Lwin. “We are responsible for about 20,000 kilometers of roads, and we are working with other countries and international organizations. The Japanese, in particular, are helping us with infrastructure development. We are also hoping for

more involvement by the United States.”

Japan has been very supportive, supplying both financial aid and technology transfer, Kyaw Lwin said. Japanese giants Mitsubishi, Marubeni, and Sumitomo are involved at Thilawa, a major Special Economic Zone coupled with a deep-sea port, a power plant, and housing projects now being built just 25 kilometers south of Yangon. The Japan International Cooperation Agency will provide private-sector financing for some projects in the industrial complex; manufacturing could start in 2015, Myanmar officials said.

Another multibillion-dollar project likely to receive Japanese support is Dawei, a



deep-sea port and petrochemical and heavy industry hub some 400 kilometers south of Yangon. Reportedly budgeted at around US\$11 billion, Dawei was originally to be developed by a Thai company. Recently, Myanmar revoked the concession to speed up investment. The project includes road and rail links from Dawei to Bangkok, some 250 kilometers east, thus offering Thailand a much shorter and safer route to the Indian Ocean and the Suez Canal that avoids pirates in the Strait of Malacca.

Hanthawaddy, a 12-million-passenger-per-year facility 80 kilometers from Yangon, is Myanmar's largest airport project. It was due to open in late 2016 but has been held up by financing questions. South Korea's Incheon Airport, Singapore's Changi Airport, France's Vinci Airport, and Japan's Taisei Airport are all reportedly interested in investing in the project, and Myanmar's government is seeking international loans for half of the US\$1.5 billion cost. ■



H.E. U NYAN HTUN AUNG Minister of Transports

Air transport is seeing a dramatic transformation as a result of the reform process and lifted sanctions. Annual (passenger) growth is 34% for international and 10% for domestic. Previously, our infrastructure was not up to this. We are also working to train Myanmar pilots instead of recruiting foreigners. Today, many additional airlines can fly here, and we encourage that growth and competition. Starting in 2015, we will use new-generation Boeing 737s, which will be added to our fleet at the rate of two per year.



U Aik Htun *Chairman, Shwe Taung Development Co.*

For the next five years, we are going to continue to focus on infrastructure, because Yangon in particular and Myanmar in general need this to be developed. We need good highways, roads, subways, and overpasses. There's a lot of potential, even here in Yangon. We're also going to be focused on the shopping centers and office towers that we have already begun to build around the country. Ten or fifteen years ago, nobody was investing in infrastructure because it is a very tough business. Today, foreign investors can partner with local companies for infrastructure projects. We have made sure to learn from other countries and incorporate them to help build Myanmar's infrastructure. This has become our focus, because without infrastructure we cannot develop. There's a long way to go; this is just the beginning.



U Khin Maung Aye *Managing Director, Lat War*

The Lat War Group has a new 6,000-square-meter clothing factory outside Yangon that employs up to 1,600 workers and produces more than 1 million items per month for buyers in Asia and Europe. But reliable power is a challenge. “Exports have deadlines, and workers are paid hourly, so we must depend on our own diesel generator for power shortages. For the international manufacturer, we need to know all the fundamental costs before we invest, and power is one of the factors.” Khin Maung Aye said he knew of one potential investor just waiting for guaranteed power supplies to launch a project that will create 10,000 jobs. Lat War is also looking at residential and commercial real estate in Yangon. “The law now is okay for most small and medium companies to invest in Myanmar,” he said, although further changes will be needed.



A Banking Boom?

Everything is in play in Myanmar's banking and finance sector. A banking crisis in 2003 came close to wiping out many institutions and helped undermine popular confidence; today, Myanmar remains a predominantly cash economy, particularly outside the larger cities. Now, far-reaching reforms (see page 4) are moving ahead, creating huge potential.

Less than 10% of people have a bank account, and there are very few bank branches. In 2010, the Asian Development Bank calculated that Myanmar had less than one branch per 1,000 square kilometers, compared with more than eleven per 1,000 square kilometers in neighboring Thailand and seven in Vietnam. This dearth of brick-and-mortar facilities might not matter much in developed economies, where banking is increasingly done online. But in Myanmar, just one person in ten has a cell phone, and most lack an Internet connection. This state of affairs will improve as newly licensed foreign operators invest in and expand services, but in the meantime it limits mobile banking expansion. ATMs are spreading fast, but only in big cities.

The government sees co-

operatives and microfinance as important going forward, in particular to help small farmers. More than 100 commercial, government, and nongovernmental initiatives are active in the area. But for larger companies, and for multinationals, the breakthrough will be the capital of foreign banks, perhaps working in association with local institutions.

The solution for expanding financial services will often be imported expertise. "We have joint ventures with Visa and MasterCard and a third-party processor from Thailand called 2C2P," said U Myint Win, chairman of Myanmar Citizens Bank.

Banks will struggle to do everything simultaneously: upgrade information technology, personnel, and processes; expand their menu of services; and evaluate alliances with foreign banks, even as they adapt to Myanmar's new regulations. Many see skilled staff as a major bottleneck.

"We are looking abroad to improve our human resources, we are sourcing from outside," Myint Win said. "We are also getting training from the Central Bank of Myanmar, and we have invited foreign organizations to help us." ■



"We have been cut off from the international community for half a century...there has been a great transformation."

U Than Lwin

Deputy Chairman, KBZ

How do you feel about facing competition from major foreign banks?

There are opportunities where we can work with foreign corporations, through joint ventures or partnerships. Even if you don't work together, they will bring technological know-how, employment, training, and capital injections, to name some of the things that will benefit the country.

SMBC clients come to Myanmar looking at investment opportunities, we are going to help them—Kanbawza Bank has more branches than any other Myanmar bank and many contacts with the highest authorities, so we can help investors settle in more easily.

KBZ owns two airlines, AirKBZ and Myanmar Airways. Any other diversification plans?

We are expanding into insurance now that the law has been changed. We have already established a company and plan to expand very fast. We want to take that company public in the future, but we're still trying to determine the exact timeline for that activity.

What is KBZ's strategy?

We signed an agreement with Japan's Sumitomo Mitsui Banking Corp (SMBC) for assistance in our capacity-building process, which is the main challenge that we face. They have been training our people abroad and are teaching our people the basics at the branch level. So when

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Consumer Goods

Challenges include logistics and spending power, but many market leaders are taking the plunge.



U YE MIN AUNG
M.D., MAPCO

Modern, efficient, and diversified agriculture is one of the keys to Myanmar's future. Ye Min Aung, a specialist in development studies who serves as managing director of the Myanmar Agribusiness Public Corporation (MAPCO), is fighting to make it a reality. Set up in 2012 as a nongovernment public corporation, MAPCO's purpose is to promote wider investment in agriculture and agro-based industries.

"In the 1950s, Myanmar was known as the 'Rice Bowl of the World' and we were the largest rice exporter," Ye Min Aung, who also serves as secretary-general of the Myanmar Rice Federation, said in a recent interview. "We are now becoming a key player in the agricultural sector once again."

Multinationals are flocking to Myanmar, attracted by the promise of an emerging new consumer market of roughly 60 million people—the size of, say, Italy or the United Kingdom. But it will be a long time before Myanmar's consumption catches up with its regional neighbors, let alone approaches first-world levels. Today, its per-capita GDP is closer to countries such as Kenya and North Korea and 30 times lower than that of the United States. Even so, there are good opportunities.

Leading global companies that have recently entered or announced plans to enter Myanmar include Carlsberg, Heineken, PepsiCo, Coca-Cola, and Ford. All opted for joint ventures—Carlsberg, Coca-Cola, and Heineken chose to partner with local companies for both production and

distribution, while PepsiCo chose a local distributor combined with a Korean-Burmese producer. Ford's 2,600-square-meter showroom and servicing facility is a partnership with the Thailand-based RMA and the Capital Diamond Star Group, a Myanmar conglomerate.

Most analysts see fast growth for consumer basics, with the market for big-ticket items repressed by the small middle class. There is also a trend for foreign consumer-goods producers to opt for Myanmar as a low-wage export base, rather than for its currently limited domestic market: Taiwanese contract footwear producer Pou Chen recently announced a US\$100 million factory in Yangon.

Telecoms is another potential fast-growth sector, with increasing smartphone usage paving the way for mobile services. ■











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CEO's Point of View *Taking advantage of Myanmar's consumer potential means having the right products and distribution, and growing in line with expanding purchasing power. Three winners reveal how it's done:*

1 LOI HEIN COMPANY

U SAI SAM HTUN
Chairman



Eighteen years after starting operations, the Loi Hein Company has a clear if ambitious goal: to become "the benchmark FMCG [fast-moving consumer goods] marketing and distribution company in Myanmar." With around 3,000 employees and a stable of its own licensed mineral water, soft drink, and energy drink brands, it appears to be well on the way there. Factories are near Yangon and in Mandalay.

"We plan to expand now in the beverage sector, then food and beverages, and later on in other areas," said Sai Sam Htun, who helped found the company. "Unlike previous times in our history, our market-oriented government policy now allows us to grow as big as we want." Even before Myanmar opened up its economy, Sai Sam Htun saw that regional integration was part of the way forward. Loi Hein has launched soft drink and energy drink brands in association with two companies in neighboring Thailand and has licensed distribution rights for a wine cooler from a third Thai company.

Loi Hein is also leveraging its distribution network as an independent business unit, the Loi Hein Distribution Company (LHDC), which serves more than 30,000 outlets nationwide.

2 CITY MART HOLDINGS

DAW WIN WIN TINT
Managing Director



When Win Win Tint took over the reins at City Mart, she was just 21 and straight out of university. But despite her initial lack of experience, she has transformed a single-store family business into one of Myanmar's leading supermarket chains boasting some 4,000 employees.

The secret was shifting the customer focus from niche to national—from a mainly upscale and expatriate clientele to Myanmar's emerging and expanding middle class, relying on volume in mass-market products to drive down costs.

"Local people were consuming very basic food products, with a lifestyle where they didn't need to go to a supermarket, and they believed we were very expensive," Win Win Tint said. "However, we looked at other countries and how their supermarkets developed. We realized that operating a supermarket is a volume game, so we had to open more branches. After opening our third branch, we noticed more local people shopping at our stores.

And after opening our fifth and sixth branches, we could see that supermarket shopping had become a part of people's lifestyles."

3 IBTC

U AUNG MOE KYAW
Group Chairman



Whisky might not be the first product that most people would associate with Myanmar, but for the Yangon-based International Beverages Trading Company Limited (IBTC), it has been the foundation on which to build a major business. From small beginnings in 1995, IBTC today produces whisky and gin at expanded and modernized distilleries in both Yangon and Mandalay—the latter location chosen specifically to serve markets in the north of the country.

"We always center our business on the consumer," said Aung Moe Kyaw. IBTC now offers six brands of whisky, plus gin, rum, mineral water, and a fruit-juice wine cooler, through more than 20,000 outlets and claims some 80% of the local whisky market.

Myanmar's economic growth and the entry of many more young people into the formal labor market represent an opportunity to grow and expand, Aung Moe Kyaw said. "We are currently studying how to raise our standards in order to continue being very competitive. And we're looking to move into food products; we think there are real opportunities for good quality food products."

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01

Let the Journey Begin

Myanmar has long been known for its ancient cities, unique culture, and stunning natural beauty. But all this remained largely the secret of intrepid backpackers and the global travel cognoscenti because for years the country was virtually off-limits to the mainstream world tourism industry. Now, however, things are changing rapidly. The government reports that the total number of foreign tourists in 2013 was just over 2 million, roughly double the previous year. Thailand, China, and Japan are the main markets, with the United States placing fourth. The potential is huge,

provided infrastructure development can keep pace with demand.

The government's Tourism Master Plan calls for 3 million foreign visitors a year by 2015 and 7.5 million by 2020, with receipts rising from US\$0.5 billion in 2012 to US\$10.2 billion by 2020 and 1.5 million jobs created.

"Tourism is a very fast-growing sector, but compared to neighboring countries, we are far behind," said Union Minister Kan Zaw, who is responsible for national planning and economic development. The government has given priority to upgrading the international airports at Yan-



04



gon, Mandalay, and the new national capital, Nay Pyi Taw. However, Kan Zaw said, there was an urgent need for more hotel rooms, not least in Yangon: "This is one of our top priorities as the tourism flow into the country increases."

Accor, Belmond (formerly Orient-Express), Best Western, Hilton, the Pan Pacific Hotels Group, and Peninsula Hotels are among the international chains already in Myan-

mar or recently reported to be investing. Foreign companies are still barred from buying land, but the new Foreign Investment Law allows for leases of up to 70 years.

The Tourism Master Plan emphasizes gender equality, access for the disabled, environmental sustainability, and public-private partnerships. Among the immediate objectives are streamlining procedures for handling applica-



H.E. U HTAY AUNG
Minister of Tourism

"We want tourists to travel to the remote areas to see more of the country."

Myanmar's new slogan, "Let the journey begin....," promotes the country worldwide, as a tourist destination, but it also seems to speak to your own citizens. Do you agree?

Right, we want to see all of the people involved in the project of Myanmar, all of the regions contributing in order for us to all move forward together.

Do you plan to concentrate on mass tourism or a more exclusive offering?

We want Myanmar to be in the middle. We look at Bhutan, which has very few visitors, but of a very high level, and we compare this to Malaysia or Thailand, which have many more visitors, but each one spends less. We want to differentiate between long-haul

travelers from Europe or the United States, who come here with considerable resources and can spend a lot, and our regional tourists, who also need places to stay and eat, but are prepared to spend much less. And we need to manage our resources properly so that we do not overload the country and negatively impact our environment.

TOP 5

1.YANGON: Everybody's starting point, the hub of Myanmar, where gilded pagodas and century-old colonial hotels rub shoulders with glass-fronted skyscrapers and modern malls amid increasingly chaotic traffic.

2.BAGAN: The former capital of the Pagan Kingdom, 200 kilometers down the Irrawaddy River from

Mandalay (another don't-miss destination), with remains of more than 2,200 temples and pagodas. Best seen from a hot-air balloon.

3.INLE LAKE: A time warp of stilt houses, floating gardens, and Buddhist stupa monuments, as well as the Nga Hpe monastery, also built on stilts and which is sometimes called the "jumping cat" monastery.

4.KYAIKHTEEYOE: A tiny pagoda atop a golden rock atop a cliff face, said to be balanced on one of Buddha's hairs. (see page 2)

5.NGAPALI BEACH: Myanmar's premier resort, a one-hour flight northwest from Yangon to nearby Thandwe city, with many high-end hotels.

01. Yangon: the Sule Pagoda
02. Bagan: best seen in a balloon ride
03. Inle Lake: traditional fishing

04. Ngwe Saung Beach: unforgettable
05. Hpaung Daw U Pagoda: Festival on Inle Lake
06. The Sedona: Yangon has great places to stay

tions for new hotels, in part by looking at international good practices in the sector; and conducting an industry-wide audit of labor skills. An education and training department within the tourism ministry will then organize training for

staff in priority areas such as food and beverage preparation, travel agency operation, and tour guides.

"Tourism has a ripple effect, so the money goes not only to the government but to the local people at the grassroots level:

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from the five-star hotels to the street vendors,” said Minister of Hotels and Tourism Htay Aung. “However, there are also challenges; we need infrastructure and energy and ICT development to support tourism development. We also hope to get UNESCO World Heritage designation for several sites in Myanmar.” ■

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