

WEEKLY NEWSLETTER (MYANMAR)

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1.1 TWO INDIAN FIRMS HELP CHINA SHIP MYANMAR GAS OVER LAND

The arrival of Chinese President Xi Jinping is expected to break new ground in Sino-Indian ties. But in neighboring Myanmar, their common hunting ground, two Indian state-run firms have already helped China end its quest for a secure route to ferry gas and oil supplies home, bypassing the troubled Strait of Malacca and South China Sea.

ONGC Videsh and GAIL India are part of an onshore pipeline project undertaken by joint venture company South-East Asia Gas Pipeline Company Limited. China energy major CNPC has 50.9 per cent stake in the JV. The other partners are Daewoo International, Myanmar Oil and Gas Enterprise and Korea Gas Corporation. In the first year of the commissioning of the 800-km overland gas pipeline, 1.87 billion cubic metres of natural gas has been carried from Shwe offshore gas fields in Myanmar to Kunming in southwest China province Yunnan. When fully operational, it will carry 10-13 billion cubic metres of gas every year. A parallel oil pipeline, which will transport 22 million tonnes of crude in a year, is expected to be commissioned soon. The two pipelines start from Kyaukphyu in the Rakhine state and run overland via Mandalay to enter China at Ruili in Yunnan. The gas pipeline will eventually run across Yunnan, Guizhou, Chongqing and Guangxi. ONGC Videsh has 17 per cent participating interest in the A1 and A3 blocks of the Shwe gas fields. Daewoo has 51 per cent stake, MOGE 15 per cent, GAIL and KOGAS 8.5 per cent each. For China, the Myanmar pipelines provide a secure alternate route, freeing it from the worries of shipping energy supplies from the Middle-East and Africa via the Strait of Malacca and South China Sea. Oil storage tanks in Myanmar and the overland pipelines are key to its energy strategy, skipping shipping lanes which, if ever blocked or disrupted, can pose a threat. Working on its future energy needs, Beijing proposed construction of the pipelines in 2004. According to CNPC, a 30-year purchase and sale agreement was signed with Daewoo International in December 2008, allowing the import of natural gas from Myanmar offshore blocks A-1 and A-3. Under the agreement, Myanmar was also allowed to use the pipeline to meet local needs. - See more at: <http://indianexpress.com/article/india/india-others/two-indian-firms-help-china-ship-myanmar-gas-over-land/#sthash.GBypcrFK.dpuf>

2.1 BEST WESTERN JOINS ROAD TO MANDALAY

Western International has embarked on the latest stage of its expansion in Myanmar, with plans to open a hotel the country's second largest city, Mandalay, next year.

Scheduled to open in the third quarter next year, the new mid-scale Best Western hotel will have 108 guestrooms.

The Mandalay launch will continue Best Western's recent expansion in Myanmar, which commenced last year with the opening of the Best Western Green Hill Hotel in Yangon. The opening made the chain the first US-based hotel group to re-enter Myanmar since the country opened up to the international community.

"Myanmar has made remarkable progress in recent years and Best Western is delighted to be able to continue our development in the country," said Glenn de Souza, Best Western International's vice president of international operations for Asia and the Middle East.

"Since launching last year, Best Western Green Hill Hotel has experienced strong demand from both international business and leisure travelers. We see huge potential in Myanmar and plan to develop a network of hotels across the country. The signing of our first hotel in Mandalay is a key step towards achieving this," de Souza added.

In addition to the mid-scale properties in Yangon and Mandalay, Best Western has announced plans to launch a luxury Best Western Premier hotel in Nay Pyi Taw.

De Souza said he sees potential for all three of Best Western's products – mid-scale Best Western, upscale Best Western Plus and luxury Best Western Premier – in Myanmar.

"At present Myanmar is experiencing a strong level of new hotel development, but much of this is concentrated in the higher ends of the market. With Best Western's 70 years of experience in the international mid-scale sector, and a choice of products that can be tailored to different markets, we have the opportunity to create new demand and drive business across the country," he said.

The chain now has almost 200 hotels and resorts – operating and under development - in its portfolio across Asia and the Middle East, including 86 in Southeast Asia.

2.2 SURGING LAND PRICES, 'DETECTING FOREIGN INVESTMENT'

Foreign investors are disappointed that only domestic construction firms are being granted contracts to build government housing projects as surging land prices continue to make

them wary of investing in housing, panellists said at the second day of the Myanmar Global Investment Forum.

Cyrus Pun, executive director of Yoma Strategic Holdings, said surging land prices were causing foreign investors to exit Myanmar's housing sector. "They are not leaving because they are uninterested in this sector but because land prices are skyrocketing. The major cause of land prices skyrocketing is price manipulation," he said.

He also said the tender process for housing projects was "disappointing" foreign investors. "The tender process is one of the disappointing problems facing foreign investors. The reason is that only local companies have got the green-light for the projects," Cyrus Pun said.

The executive also called on the government to use taxation to prevent manipulation of prices in the property market. "The problem is that the government has failed to collect taxes from those who buy land to manipulate the real-estate market. This causes prices to go up," he said.

"Offices, housings, hotels and services apartments are in high demand because land utilisation is high thanks to the massive inflow of foreign investment into the country," he added.

Foreign investors say prices of land, hotel fees and apartment rents are higher in other countries in the region, like Thailand and Vietnam. The government should adopt a legal framework for investors in the housing sector, they say, adding that it takes too long to get a construction permit.

Yangon is experiencing increasing demand for housing and needs to build affordable and low-cost housing projects to meet this demand, as well as serviced apartments and hotels to accommodate the massive inflow of tourists.

Domestic entrepreneurs have been granted the lion's share of contracts to build government housing projects.

Minister for National Planning and Economic Development Dr Kan Zaw said the government is making higher living standards for citizens its priority.

The emergence of a national housing policy and agencies that can deliver housing are essential for ensuring a sufficient supply of affordable housing, he said. Developing financing mechanisms is also crucial, he said. "The government will be able to roll out housing projects only when these components have been put in place," Kan Zaw said. The government also needs to promote the development of construction companies, he said. "To meet this goal, we are creating different kinds of housings for those who have different income levels," he added.

Putu Kamayanau, former head of the Asian Development Bank in Myanmar, said the development of the power-supply sector and sewage treatment, as well as the availability of clean water were crucial for Myanmar's infrastructural development. "As a key policy, the ADB is providing necessary assistance for these projects. Another point is it needs to develop cities like Mandalay in addition to Yangon," said Kamayanau, who is now an adviser to New Star Light Construction.



The massive inflow of money derived from criminal activities, such as the narcotics trade, into the real-estate sector is also fuelling land price manipulation, which creates another hurdle for foreign investors, executives said.

The tender process the construction ministry uses needs to be more transparent, executives said.

4.1 WORLD BANK UNIT LINKS UP WITH YOMA BANK

The International Finance Corporation, the World Bank’s private-sector investment arm, has agreed to provide Yoma Bank Ltd with a US\$5 million convertible loan and help improve its risk management and corporate governance to support its growth strategy, the IFC said on September 16.

It said its loan would help Yoma Bank expand lending to small and medium-sized enterprises (SMEs), which it described as “a sector of Myanmar’s economy in desperate need of financing to grow and create more jobs”.

The loan is the first step in IFC’s financial support for the bank, which may be further increased to up to \$30 million in coming years in the form of equity, senior debt and trade guarantee lines under IFC’s global trade finance programme, a statement from the IFC said. Additional support for Yoma Bank will be subject to further due diligence and subsequent approvals from IFC’s management and board, it said.

“As Myanmar emerges from years of isolation, the demand for financial services in the country is huge. More than 70 per cent of adults do not have formal access to credit, deposit, and other financial services, such as insurance and remittance; only 5 per cent of adults have a bank account in their name,” the statement said.

Yoma Bank CEO Serge Pun said, “Yoma Bank is proud to grow its business in partnership with the IFC to support SMEs in Myanmar, which are critical for the country’s economic and social development. It is our aim to be a leading SME bank in the country and to contribute toward developing a vibrant SME sector.”

He also said that loan amounts are not important in small loans, but the type of businesses the loans are given to is important.

The IFC will also advise Yoma Bank on identifying and installing a core banking system, enhancing its risk management and corporate governance, and developing new products and delivery channels for SMEs over the next three years. “Yoma Bank will also develop policies and procedures to identify and manage environmental and social risks associated with the business activities it finances,” the IFC statement said. It said that its investment and advisory support was expected to help Yoma Bank provide 1,000 more loans worth \$370 million to SMEs in Myanmar by 2019.



“IFC puts a strategic focus on supporting the development of Myanmar’s financial and banking sector as banks are critically important in helping entrepreneurs grow their businesses and contribute to the overall economy,” said Karin Finkelston, IFC’s vice president for Asia Pacific. “IFC supports Yoma Bank and other lenders to develop environmental and social sustainability and standards and governance structures that will help them integrate into the international banking community and better serve the needs of Myanmar’s small and medium enterprises.”

Founded in 1993, Yoma Bank is one of Myanmar’s leading fully licenced commercial banks with 2,300 employees and more than 50 branches. The IFC statement said Yoma is “recognised as one of the most progressive banks in Myanmar and is leading an effort to bring responsible banking to the country with a strong emphasis on good corporate governance and conservative capital-ratio policies”. The lender is well positioned to support Myanmar’s continued economic growth, it added.

The IFC, together with the World Bank, say they are supporting reforms and investments in Myanmar to strengthen the private sector and create jobs to reduce poverty and boost “shared prosperity”. The IFC said it aims to improve the country’s investment climate, access to finance, and infrastructure, with an initial focus on the power and telecommunications sectors.

4.2 CBM TO ALLOW KYAT-DENOMINATED LOAN EXTENSION

Foreign banks in Myanmar will be allowed to extend loans in local currency aside from US dollar, to avoid dollarisation in the country's financial market, said Set Aung, vice governor of the Central Bank of Myanmar.

He noted that this decision is driven by sour experiences in Cambodia. Promoting dollar-denominated loans, Cambodia has witnessed the diminishing role of its currency "riel", he said.

He said that this will be applied first with the new 5 to 10 banks. He said earlier that the licensing process is on schedule, with the new licenses to be issued within this month.

To operate in the country, each bank is required to bring in at least US\$75 million in capital.

“As Cambodia depends heavily on dollar, their local currency becomes extinct. We don’t want such situation happens in Myanmar. That’s why we give room for Kyat-based financial services besides dollar-based,” Set Aung explained.

A number of banks have submitted applications for the new banking licenses including ICBC from China, ANZ from Australia, State Bank of India, Japan's Sumitomo Bank, Malaysia's Maybank, Thailand's Bangkok Bank, Singapore-based OCBC, South Korea-based Kookmin Bank, Taiwan-based Cathay United Bank, and Vietnam's BITV Bank.

4.3 US INVESTMENT IN MYANMAR STUCK AT 2001 LEVEL

Total direct investment by US companies in Myanmar remains at slightly more than US\$243 million as of June 2014, according to the Directorate of Investment and Company Administration (DICA).

The amount is the same as it was in 2001, when cumulative US investment totalled \$243.56 million.

DICA officials said the reason for the small amount of investment was that US companies were investing in Myanmar through their regional headquarters based in other Asian countries.

American companies resumed investment in Myanmar during the previous fiscal year, after Washington lifted most of the sanctions it had imposed on the country. In 2013, Coca Cola teamed up with Myanmar's Pinya Manufacturing Co Ltd, pledging to invest \$200 million. The company's Southeast Asia headquarters oversees the investment.

"Western companies are investing through their branch offices in other countries," a deputy director at DICA said. He said it was easier for the firms to investigate and negotiate deals from their Southeast Asian headquarters. "The actual investments come from the head office, but regional branch offices handle the process," the DICA deputy director said.

Chinese companies remain the top investors in Myanmar, with cumulative investment at \$14.25 billion.

US investment is expected to pick up, however. Visits by US trade officials and delegations of US businesses are increasing. Moreover, during the last week of this month an investment forum will be held in New York City. "Myanmar – Asia's Last Frontier" will begin on September 24. It will draw ministers from Myanmar, including Minister of Energy Zayar Aung, leading tycoons like Serge Pun, and global financiers, including George Soros.

4.4 TWO NEW PRIVATE BANKS TO OPEN EARLY NEXT YEAR, RECRUITER SAYS

Two new banks have already begun recruiting staff ahead of their planned opening early next year, according to the company recruiting for them, Myanmar Tech Solution.

both are in the process of applying for banking licences from the Central Bank of Myanmar.

Set Aung, deputy governor of the central bank, said recently that it was "currently giving the green light only to policy banks". "We have yet to give the nod to the private banks," he added.

The banking sector is widely believed to be laundering money from the narcotics trade, illegal logging and other crimes. The sector is also notorious for the close financial links between the owners of private banks and high-ranking government officials.



There are 22 banks in Myanmar: four government-owned banks and 11 banks linked to the government.

Recently, the central bank allowed two more government linked banks to open: the Construction and Housing Development Bank linked to the Ministry of Construction and the Myanmar Microfinance Bank linked to the Ministry of Cooperatives.

The Myanmar Gem Entrepreneurs Association said it is also planning to open a bank to provide loans to small-scale gem merchants.

4.5 SME BANK SET TO BORROW FROM SINGAPORE, VIETNAM

According to Myanmar’s Small and Medium Industrial Development Bank (SMIDB), only the contract-signing essentially remains for it to borrow US\$50 million (48.75 billion kyat) from Singapore and Vietnam for SME-lending purposes.

The direct loans, expected to be borrowed in October, comprise \$20 million from a private financial institution in Singapore and \$30 million from the Bank for Investment and Development of Vietnam (BIDV).

Discussions have been concluded with the Singaporean institution, leaving just the contract-signing to be undertaken, while some legal issues need to be tied up before signing the contract with the BIDV.

“With Singapore, everything has been discussed, and only the last step is left. With Vietnam, some facts still have to be negotiated. We are negotiating about law-related facts. The Vietnamese side is led by government advocates, and our side is led by me,” said Than Htun, chairperson of the SMIDB.

After all negotiations with Singapore and Vietnam concerning the matter are completed, the results will be reported to the Central Bank. The interest rate for the dual loan is 4 per cent. When the funds are extended to small and medium-sized enterprises, the interest rate charged will be 8.5 per cent.

Small-business people who want to apply for a loan need to submit an “unmovable” mortgage as collateral and a recommendation from their regional or state government.

The SMIDB also plans to borrow a “two-step loan” from the Japan International Cooperation Agency.

Last year, the SMIDB lent \$10 million to 62 SMEs. This year’s lending amount has increased to \$20 million.

According to the Industry Ministry, there are more than 120,000 licensed SMEs in Myanmar, and they make up over 99 per cent of the country's total number of companies.

4.6 CORPORATE BANKING MOVES 'MERELY BENEFIT CRONIES'

Foreign banks will only be allowed to provide financial services to foreign companies and domestic banks, while Myanmar's estimated 70,000 entrepreneurs will not be allowed to obtain loans directly from them, Dr Set Aung, deputy governor of Central Bank of Myanmar, said on Monday.

He described this model of corporate banking as a "win-win situation". He said it balances the needs of local entrepreneurs with protection for domestic banks that could be damaged by competition from foreign rivals.

"Myanmar entrepreneurs need to get financial support from foreign banks, but we don't want domestic bankers to be damaged by competition with their foreign counterparts. So, we have developed a corporate banking system between local and foreign banks. This system is adopted in most countries and creates a 'win-win situation' for both sides," Set Aung explained.

The system allows domestic banks to borrow from foreign banks and re-lend the funds to Myanmar businesses. Critics, however, say only domestic banks will benefit from this system and that those with weak finances might even be damaged by it.

Moreover, they say that because cronies of the military-backed government dominate the domestic banking system the "win-win situation" is just for them.

Foreign banks will only be allowed to provide loans to private banks and can have just one branch in the country. They will also need keep their reserves at 70 per cent of their US\$75 million capital to keep their licences.

Business owner Dr Soe Htun said the entry of foreign banks would have little or no impact on the high interest rates domestic banks charge or the paperwork required for obtaining a loan.

Domestic banks charge an average interest rate of 13 per cent on loans, compared to 5 per cent in Singapore and 7 per cent in Thailand, he said. This rate is unlikely to fall as the banking system benefits the cronies.

Owners of small and medium-sized enterprises (SMEs) say high interest rates reduce their ability to compete, and this lack of competitiveness will hobble them when the Asean Economic Community debuts next year as they will need to compete against SMEs who have far lower interest rate expenses.

"A country's wealth mainly depends on banking and financial transactions. The government should keep its hands off this sector if it wants real economic development," Soe Htun said.

4.7 FOREIGN INVESTMENT ACCELERATING, SURPASSES TARGET, OFFICIALS SAY

Foreign investment is accelerating, with the target for this year – US\$5 billion – likely to be surpassed after more than \$3 billion was invested in the first five months of the fiscal year, according to the Directorate of Investment and Company Administration (DICA).

Aung Naing Oo, its director, told a press conference on August 14 that foreign investment had already passed the six-month target. Foreign investment in the fiscal year beginning April 1 totalled \$3.325 billion as of the end of August, he said, adding that DICA had targetted \$5 billion for this fiscal year.

“Foreign investment is increasing every year and the amounts are exceeding our targets,” he said at the press conference for the upcoming Myanmar Investment Outreach Forum in New York. The forum will be held in the final week of September to encourage American businesses to invest in Myanmar.

Aung Naing Oo said he expected the forum to result in more US investment in Myanmar. He also said that the opening of special economic zones was drawing more foreign investment.

4.8 ALMOST 90% OF BORDER TRADE WITH CHINA: COMMERCE DEPT

Trade with China through the four border checkpoints accounts for more than 87 per cent of total border trade, and has surpassed US\$2 billion so far this fiscal year, according to the department of commerce and consumer affairs.

From April 1 to September 5 the four checkpoints on the border with China have seen combined trade of 2.15 billion, which accounts for more than 87 per cent of all trade that passed through the 15 checkpoints on Myanmar’s borders with Thailand, China, India and Bangladesh. Total trade through the 15 checkpoints was slightly less than US\$2.46 billion during the period, according to the department.

They four official checkpoints along the border with China are Chin Shwe Haw, Kanpitete, Lweje and Muse, with the latter accounting for the lion’s share of all trade: \$1.94 billion. Trade at Chin Shwe Haw totalled \$177 million during the period, while trade at Kanpitete and Lweje was \$15 million and \$22 million, respectively.

Myanmar has seven trade checkpoints along its border with Thailand, and two each along its borders with India and Bangladesh.

Myanmar’s exports overland are primarily agricultural and fisheries products, as well as forestry and mining products. Consumer goods are the main imports.

The government last year began a crackdown on illegal trade in late 2012 to increase revenue and better protect consumers. The crackdown began on land routes and expanded to ports this year.

4.9 GARMENT INDUSTRY HOPES FOR ORDERING RUSH FROM THE WEST

The garment industry is looking to Western orders to help it diversify, as exports look set for a record year, according to the president of the Myanmar Garment Manufacturers Association U Myint Soe.

When the industry was battered during a decade of sanctions in the 2000s imposed by Western countries, it relied largely on orders coming from Japan and South Korea, he said.

“During the period of sanctions, the market in the West was destroyed and exporters had to survive with markets in Eastern countries,” he said.

However, eased sanctions and improved access to the United States and European Union markets is reinvigorating the garment industry to a level not seen in 10 years, he said at the association’s second annual meeting, held at UMFCCI on September 7.

A US trade embargo imposed in 2003 closed the door to the largest buyer of made-in-Myanmar garments, and Japan soon emerged as the largest export market. Shipments also continued to some European countries, though were denied the preferential market access enjoyed by other least developed countries such as Cambodia.

“After earning more than US\$800 million in 2001, the garment sector was in crisis due to sanctions,” said U Aung Win, vice president of the Myanmar Garment Manufacturers Association.

Yet competition in the sector is intensifying, and this fiscal year’s exports look set to hit \$1.8 billion, well above the high in 2001 and later peaks of \$1.2 billion in 2012-13, said MGMA secretary general Daw Khine Khine Nwe. American apparel chain Gap Inc announced in June it would source from Myanmar factories, with its wares on US shelves sporting the label “Made in Myanmar (Burma)”. Businesspeople have said they hope more Western firms follow suit.

While garment factories employed about 80,000 people four years ago, the number has since jumped to more than 250,000 garment workers.

The garment manufacturing industry also welcomes 100 percent foreign investment, which ought to prove helpful in garnering renewed international interest.

Daw Khine Khine Nwe said competition is only going to intensify, as Japan is looking to source relatively fewer garments from China and is eyeing ASEAN, while the US and EU markets are more open to Myanmar garment exports.



It is difficult yet to tell which countries will be the most keen on ordering from Myanmar garment factories in the future.

“It’s hard to say if Japanese firm will continue holding the largest share,” she said.

“We can’t say what the market share will be for each country, but the investment rate will increase more and more.”

MGMA figures also show more than 200 garment factories in the country at present, up from 181 in November 2012.