

WEEKLY NEWSLETTER (MYANMAR)

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1.1 KALADAN WATERWAY 80 PERCENT COMPLETE

The Kaladan Project support committee has reported that construction on the waterway component of the Kaladan Multi-Modal Transit Transport Project is now 80 percent complete and is expected to be completed by the end of June this year.

"The whole Kaladan project is expected to be completed by 2016 or later, and work on the waterway is expected to be completed this June," said a senior official from the Myanmar Port Authority.

The committee previously announced that work on the waterway was to be completed by the end of this March. Officials said import procedures were the cause of the delay.

The construction of six vessels by the government of India as part of the Kaladan project is also 80 percent complete, officials said.

The multi-modal project aims to create a trade route between Sittwe Port, Rakhine State, and the land-locked region of Mizoram in northeastern India via river and road transport.

The waterway phase involves constructing an integrated port and inland water transport system, including dredging a navigational channel 158 kilometres along the Kaladan River from Sittwe to Paletwa.

2.1 ONGOING HOUSING DEVELOPMENTS FALL SHORT OF LOCAL DEMAND

Housing projects currently in progress in Myanmar can barely fulfill people's need for shelter, according to the Department of Human Settlement and Housing Development.

"Right now, public need differs from region to region. Few are working to fill these needs," said Nay Min Htet, deputy director of the Department of Human Settlement and Housing Development at the recent Opportunities and Challenges for Developing Housing and Construction Business Seminar.

"Tenders have been called for developing 150-acres of land in Dagon Seikkan Township. The project will start soon. Many low-cost and affordable housing units will be created by the project. The exact number of rooms might be announced after a month. Right now, some submitted designs do not match the department's requirements, so we are still negotiating. For example, the developers can't provide the road area we want," said Nay Min Htet.

According to the Ministry of Construction, more than 18,000 rooms will be available in 19 low-cost and affordable housing complexes being built in various regions within the 2014-2015 fiscal year.



Out of the 19 total housing projects, 15 are reportedly located in Yangon Region, one in Mandalay Region, two in Sagaing Region and one in Magway Region.

The Ministry of Construction stated that the Department of Human Settlement and Housing Development has planned to construct 10 low-cost and affordable housing projects with nearly 20,000 units during the 2015-2016 fiscal year.

These housing projects will be implemented in Dagon Seikkan Township, South Dagon, Thingangyun, Mingalardon, Hlaingthaya and Thanlyin in Yangon Region, Patheingyi in Ayeyawady Region and Mawlamyaing in Mon State.

2.2 YANGON AUTHORITIES JOIN CALLS TO END IDLE INDUSTRIAL LAND

Yangon authorities have added their voices to calls for an end to the practice of buying industrial zone land and then holding it fallow in the hopes of flipping it for profit.

Genuine investors are often put off by the high costs for industrial land, and deputy industry minister U Myo Aung on March 17 in Nay Pyi Taw pledged authorities would crack down on the speculation.

Yangon speculators in some case are now left holding land that has slumped in value, as buyers desert the market, industry observers say. And now they stand to lose the plots they have failed to develop.

Yangon's Industrial Zone Management Committee of the Department of Human Settlements and Housing Development has asked people who bought land in industrial zones but who had not conducted any business there as of last December to submit business plans.

The move prompted some owners to put the land on the market, where it languishes, in the absence of anyone willing to buy.

Ko Htun Htun, owner of Phoenix Real Estate Agency, said the investors had been forced to let their land at low prices. "They have to rent it for K2.5 or K3 million instead of the K8-10 million they were anticipating," he told The Myanmar Times.

Industrial land can go for about K200 million per acre. But sales have dried up since the end of last year, agents say.

"Most landowners want to sell industrial land, but since the government asked them to account for their idle plots, demand fell off," he said.

The government has established so many industrial zones in the city that the auction price has fallen to under K100 million per acre.

“Investors bought a lot of industrial land when the property market was hot,” said Ko Htun Htun, adding that high levels of investor interest had driven up the price of a small industrial plot from about K8 million to about K20 million.

One observer, who requested anonymity, said, “Whenever the government announced a new industrial zone, middle-level speculators could hardly get a look in. Speculation drove up the price, but now those lots are idle.”

Yangon has 29 industrial zones, including about 2400 acres of idle plots, said U Myat Thin Aung, chair of the Yangon industrial zone management committee. “We’ve received plans in respect of more than 1000 acres, but some of them don’t look serious – like an application to build a small warehouse on a large plot. We’ve received no plans in respect of about 1090 acres.”

He said the department now planned to sell those 1090 acres to businesses that would use them after buying the plots back at a reduced price.

Most of the unused plots were outside the Hlaing Tharyar industrial zone, he said.

2.3 CONTRACTOR DEVELOPS PROPERTY WITH BUYER’S MONEY

Due to weakness in a systematic housing financial mechanism, Myanmar’s real estate market relies on the presales market in which buyers have to place a down payment for a unit before constructing or developing a property, say experts at a seminar for challenges and opportunities in housing and construction.

“In Myanmar, presales system means 'A fish is fried with its own fat' – buyers have to pay advance for purchasing units to contractor to build. In some cases, buyers want to make more down payments but are not allowed. For some with cash, that wouldn’t be a good deal. So there are some challenges in presales system,” Myint Mo, a retire deputy director for the Department of Human Settlement and Housing, said.

“The government has to focus on developing of low-cost housing. And it needs to invest in those projects. Meanwhile, commercial housing should be developed as well. Construction business for developing commercial buildings seems quite strong at the moment. Currently, the Yangon City Development Committee has allowed at least twenty 20-plus storey building projects and three 30-plus storey tower projects to be implemented in Yangon. But there are very few of low cost housing projects. So there are more squatters. It would be better if more low cost housing and affordable housing are implemented. Now, buildings are being built for money because financial mechanism is weak,” Myint Mo, added.

Writer Than Soe said 80 percent of construction businesses are running with bank loans and the term for the loan is four year. Speculators are playing the real estate market. And the country’s real estate market is always based on upcoming general election.

Experts also discussed about not only challenges in town expansion by horizontally and vertically but also construction quality. The property price in Myanmar is skyrocketing and construction materials are imported as well.

“Experienced technicians are needed for tall tower constructions. Quality should be maintained. Therefore, both contractor and inspector are important for tower construction to meet with standard quality,” Than Myint Oo, the CEO of Soil Energy, said.

“Housing sector is important in the way to develop the country’s economy. It also affects political consequences. For example, if a job is being created in housing sector, there will be two more opportunities in other sectors according to the World Bank. What Myanmar needs is a comprehensive housing policy. We are solving the problems with short term solution.

“In implementing of comprehensive housing policy, private sectors are needed as well as the government’s support,” said Myint Mo.

Due to lack of implementation in low cost housing, there are more squatters in the country lately. Relying on presales system is not good for long term. So a good financial mechanism for housing is needed as well, he continued.

In 2013, a total of 6,000 buildings were built and a total of 4,200 buildings were built last year. Although, more than 10,000 buildings were built in Yangon, the demand is still high.

4.1 SCARCITY OF RESOURCES FOR SECURITIES INDUSTRY

The stock exchange and private enterprises to operate in the securities industry are facing huge problem of human resource scarcity, said a minister.

“Since the stock exchange will be a major entity, it will require a large number of staff. As Myanmar has never experienced this before, there is no talents to use. This human resource problem is being the most important problem,” said Maung Maung Thein, the deputy minister of the Ministry of Finance who is leading for implementation of Yangon Stock Exchange.

Right now, there are 15 people employed for Stock Exchange Certificate Market (SECM) and they are under training programmes.

It was expected that students graduating with degrees in finance would have an advantage over others in finding jobs, due to the scarcity.

Currently, there are offers from international schools to open finance-related courses. SECM is planning to scrutinise their proposals and issue permits.

“SECM hasn’t acknowledged any training schools that are operating now yet. Later, it will scrutinise and acknowledge the training schools as it is worried that our human resource will be wrongly taught by people who are not experts,” said Maung Maung Thein.

The Yangon Stock Exchange is slated for opening in October this year.

According to the deputy minister, Myanmar originally planned to allow only local securities companies to operate at the stock exchange. However, due to human resource scarcity, it plans to allow joint ventures with foreign firms as this would open door to the entry of foreign experts.

4.2 OUTDATED SMES TOLD TO EXPECT TOUGH TIMES

Small- and medium-sized enterprises (SMEs) are still using traditional methods and are not in a position to meet international standards, according to business observers.

“Take a look at the country’s economy, SMEs account for 85 to 90 per cent of trade. Most of them are family businesses. Only a small percentage are commercial businesses. Family businesses show no interest in exports. Most family businesses concentrate on the survival of the family. They pay attention only to covering living costs,” said Dr Wah Wah Maung, deputy director-general from the Foreign Economic Relations Department of the Ministry of National Planning and Economic Development.

he suggested that entrepreneurs should prepare for exporting to the Asean economic community and compare the competitiveness of their produce with the international market.

“The Asean Free Trade Area is going to emerge soon. Myanmar will have to compete with countries from the east Asia in addition to Asean. So the private sector should prepare for it,” said Wah Wah Maung.

There would soon be massive inflows of capital, produce and money when the Asean Economic Community (AEC) emerged and foreign products would dominate the market if Myanmar’s SMEs did not prepare, he said. Currently, SMEs were facing many challenges such as financial difficulties, ensuring product quality and the maintaining their market share.

“SMEs will not get any opportunities from the AEC if they cannot make joint ventures with foreign companies with the use of foreign direct investment. Imports will surpass exports,” Set Aung, vice-governor of the Central Bank of Myanmar, told a forum called “SME Financing and Financial Policy” last December.

4.3 BANK BOTTOM LINE HIT BY INFLATION

Banks are facing a profits squeeze as the gap between deposits and lending narrows, while rising inflation prompts some customers to take out their cash and spend it.

The offer of competitive savings rates to attract more cash deposits is cutting into profits as well.

Although the government-imposed floor is 8 percent, many banks have begun offering higher rates to attract deposits, with some term deposits around 10pc. Meanwhile, interest rates on loans are capped at 13pc.

“To maintain profit levels, banks have to adjust interest rates for lenders, but the Central Bank has already set the high and it’s unlikely change any time soon,” said Kanbawza Bank vice president U Than Lwin. “But if the Central Bank allows us, there are ways of making more money,” he said.

Banks are offering about 15 products, about one-third the number typically offered by international banks, he said. These include issuing recommendation letters for foreign residents, funds clearance or arranging notary public services.

Asia Green Development Bank executive director U Soe Thein said the government had tried to borrow money from the public to relieve the budget deficit, but the banks had insufficient cash.

Interest rates in Myanmar, designed to protect against inflation or to buttress a weak currency, are the highest in ASEAN.

Raising rates on deposits like this is an appropriate strategy for the banks individually, and for the system as a whole, said economist Sean Turnell from Australia’s Macquarie University. It protects depositors somewhat against the erosion of purchasing power from inflation, and also to some extent against the falling value of the kyat against the US dollar, he said.

“In many ways this is also a positive development on another front – competition,” said Mr Turnell. The fact that banks feel compelled to increase the returns they offer to depositors suggests that competition in the industry is working in the consumers’ interests.

“However, one might imagine in the longer term that there will be pressure to increase interest rates on loans too (currently capped by regulation), since bank margins will be eroding and, along with these, bank profitability. When that happens, borrowing consumers will be worse off. “Again, however, all of this is standard practice more or less everywhere,” he said.

Economist U Khine Tun said there are a number of sequential effects from the rise of deposit interest rates. By raising rates, the money supply can be reduced because high rates attract more savings. Fewer kyat in the market will boost the exchange rate and reduce inflation.

On the other hand, if lending rates increase together with the deposit rate, it will discourage investment as investors seek low-cost production methods yielding efficiency gains.

“The negative effect of the increase of deposit interest rates is troublesome for banks in the long run. They will have narrow their profit margins. The fall of a bank can be harmful to the whole economy, unlike the fall of any other industry,” he said.

Despite higher inflation, bank savings deposits rose in 2014, in part because of expanded bank services.

GIZ’s updated analysis of the Myanmar financial sector said the deposit rate was significantly higher, at about K17 trillion (K17,384,273 million) in 2013-14 fiscal year, than the K6 trillion (K6,961,248 million) of 2011-12.

4.4 WESTERN BUSINESS NOT RUSHING TO INVEST IN MYANMAR

Western investors appear reluctant to bid on open public tenders in Myanmar despite having expressed some interest, say analysts examining government foreign investment projects.

The government wants business giants from the West to bid on its projects to take advantage of their state-of-the-art technology and experience. Due to lack of Western involvement, the government has had to choose investors from among countries in the region.

"The situation right now is study time for investors and they are coming in and out," said Dr. Wah Wah Maung, deputy director general from the National Planning and Economic Development Ministry. "Reliable investors are needed.

"International investors should be bidding to win open tenders for joint ventures. If they don’t participate in bidding, a party participating in the bid will be chosen."

Companies from China, Thailand, Hong Kong and Singapore are currently the biggest investors in Myanmar. As of January 31, 2015, 37 countries were permitted to do business in Myanmar with capital investment totaling about US\$ 53.17 billion.

Economists have suggested that more foreign developers should be selected for the upcoming Kyaukphyu Special Economic Zone projects. Myanmar will hold a general election late this year, but the current government will give the go-ahead on these projects.

Meanwhile, American newspapers, including the influential Washington Post, have written that many American investors have said that the unstable political climate in the country and lingering sanctions are discouraging them from greater investment in Myanmar.

4.5 MYANMAR'S TRADE DEFICIT AT RECORD HIGH

Myanmar to suffer huge trade deficit of US\$5 billion for fiscal year 2014-15 which ends on March 31, according to figures conducted from April 1, 2014 to March 3 by the Commerce Ministry.

The country earned about \$10 billion in exports while \$15 billion was spent on imports. This year's trade deficit sets a new record breaking last fiscal year's \$2.65 billion trade deficit.

Meanwhile, the country earned more from exports this fiscal year than last year due to the crackdown on smuggling.

“There are many things to consider what causes the trade deficit. It can impact the local businessmen indirectly,” said a business owner.

The Ministry of Commerce is planning trade related projects such as Enhanced Integrated Framework, National Export Strategy and National Trade Facilitation Implementation Plan to help develop the country's trade sector with assistance from abroad.

4.6 SHUTTERED FERTILIZER FACTORY ASKS FOR INVESTORS

Myanmar Petrochemical Enterprise has invited local and international firms to partner with it in the shuttered No 3 fertilizer factory in Magwe Region.

The invitation for letters of expression of interest come as its parent organisation the Ministry of Energy has been working on a number of planned joint ventures, aiming to professionalise operations of several state-owned firms.

The deadline for expressions of interest is March 23. The chosen firms will partner with Myanmar Petrochemical Enterprise in a joint venture production, storage, distribution and marketing, a statement said.

No 3 factory is located in Kyawzwa village, Aunglan township, of Magwe Region. It is designed for a capacity of 360 tonnes of ammonia per day and 600 tonnes of urea per day. The fertiliser factory makes use of 11.5 million standard cubic feet of natural gas a day.

It has been shut since 2010, with low productions of 450 tonnes of urea per day in the latter days of its operations.

There are currently five state-owned fertiliser factories in the country, with total designated capacity of 3350 tonnes.

The Ministry of Energy has also invited private firms to join it for ventures at a state-owned refinery and LPG plants.

It plans to expand semi-state owned enterprises for various midstream and downstream energy businesses.

4.7 STOCK EXCHANGE DRAWING CLOSER TO OPENING

The process of establishing the Yangon Stock Exchange (YSE) is almost 75 per cent complete with its launch expected in October, Deputy Minister of Finance and Revenue Maung Maung Thein said.

"We can say the process of establishing the Yangon Stock Exchange is 75 per cent complete," he said. "To say the least, the process is between 60 to 70 per cent complete."

Currently, tenders are being invited for renovation and information and communications technology (ICT) work in the stock exchange building.

"The renovation work will be completed before May as the Yangon City Development Committee has instructed," Maung Maung Thein said. "The ICT work will be completed soon after, as we have already applied for cable networking at MPT (Myanmar Posts and Telecommunications)."

The Securities and Exchange Commission of Myanmar has recently been established as required and will be under the Finance Ministry during a five-year transition until it becomes an independent body. The exchange will be established with the Japan Exchange Group and Daiwa holding 49 per cent and the state-owned Myanmar Economic Bank holding a 52 per cent stake.

Domestic investors as well as those from abroad have been showing interest in the YSE as it will be first of its kind in Myanmar.

"It's good to have a new place to invest in as people in Myanmar mostly invest in real estate, gold and dollars collectively," a local observer said. "People are showing more interest in the exchange as they're hungry for a new place to invest."

4.8 DICA ASPIRES TO DOUBLE FOREIGN INVESTMENT

Foreign investment next year could double this year's target as the regulatory climate is made more attractive, according to government officials.

The Directorate of Investment and Company Administration aimed for US\$4 billion in foreign investment in 2014-15, though the actual amount will turn out to be about \$8 billion. It has now targeted \$6 billion for 2015-16, though the actual amount could be larger, according to administration director general U Aung Naing Oo.

The main reason for the optimism is work to revamp the foreign and domestic investment laws into one document, which will help protect investors' rights. It is expected to be enacted in parliament this May.

“As the law emphasises fairness and equity, tax and other incentives for investors who can show a high performance for the country, we hope investment will double,” he said. The new law aims partly to remove the differences between the existing foreign and local investment laws to provide for a fair playing field for all.

Work is also under way on a new Companies Act, which is expected to change the definition of what constitutes a foreign company.

U Aung Naing Oo said over the coming fiscal year he expects manufacturing to draw the most investment, followed by oil and gas and then services like hotels and telecoms. The largest source of foreign investment is anticipated to be Japan, with other investors following including Hong Kong, Taiwan and European countries.

Experts say there are certain steps being taken that make the country more attractive to foreign investment, with some sectors more open than others to foreign involvement.

Economist U Maung Aung said foreign enterprises are increasingly entering manufacturing and power generation. He added the garment industry is a large employment creator.

“The garment industry doesn't use local materials when they add value to products, but it is hugely labour-intensive and helps alleviate the unemployment rate,” he said.

Foreign investors also need to see a stable local environment, though this has been a challenge. U Maung Aung said a favourable climate means a stable country, security, rule of law and accountability. However, industry protests may weaken these principles, and it is possible Foreign Direct Investment will depart from the country.

“Labourers can protest, it's their right, but they can't be hostile. They need to show their skills first to claim more salary,” he said. “The situation may lose the country's dignity.”

Total investment in Myanmar since the Directorate of Investment and Company Administration since it began keeping track has come to about \$53 billion.

[4.9 LAND SPECULATION MAY DWARF ECONOMIC GROWTH, SAY UN EXPERTS](#)

If the government cannot curb land speculation, the economic development of Myanmar will underperform, according to UN experts at the second table discussion over land use policy on Monday in Yangon.

Robert Oberndorf, a resource law specialist from the United States Agency for International Development (USAID) presented the collective opinions of various UN organisations.

According to Oberndorf, land speculation will hinder Myanmar's economic growth because the policy on land taxation is unproductive and the laws on land ownership are incomplete and unclear.

The laws do not mention mortgaging land for loan programmes, land monopolisation and alteration or guarantees of land access for low-income farmers, he said.

The Food and Agriculture Organisation also advised that Myanmar's land policy should be free of discrimination and partiality and ought to contain all-inclusive and sustainable principles.

The first round of land use discussions took place from January 31 to February 1 this year in Nay Pyi Taw.

The second round received delegates from the Japan International Cooperation Agency, Oxfam, the World Bank, USAID and local experts.

A committee for scrutinising land usage was established in June 2012 and the draft of the Myanmar Land Use Policy has progressed to its fifth edition. A national-level workshop was held in 2014, and the results were presented to the President.

The President approved the policy and publicised it by holding forums for community members in 17 states and regions from November 17-30, 2014, according to Kyaw Kyaw Lwin, the director of the Ministry of Environmental Conservation and Forestry.

A total of 909 suggestions were gathered from the forums and will be applied to the land use bill, said Aye Maung Sein, a member of the committee.

[4.10 KENGTUNG COAL PLANT ON DESPITE COMPLAINTS](#)

A controversial coal-fired power plant in Kengtung, eastern Shan State, will move ahead despite opposition from local residents and claims from senior officials that coal plants are on hold.

Thai-based Lumpondum Company has inked a memorandum of agreement with the Ministry of Electric Power to proceed to the next stage, according to officials.

It is the first memorandum of agreement on a large coal-fired plant to be inked, though about 12 large memorandums of understanding have been signed around the country since 2010.



“This agreement will allow the company to proceed after finishing the feasibility study, though a joint venture agreement still needs to be signed before the project can be implemented,” said U Aye San, director general of the Department of Hydro Power.

The Kengtung area near the border with Thailand is believed to be rich in coal, and the agreement calls for it to be fuelled from locally mined sources.

The latest agreement was signed between the Ministry of Electric Power and the Thai firm on March 11 in Nay Pyi Taw, calling for the project to be a total 660 megawatts.

Some local residents say they oppose the project, adding they are uncertain about its effect on Kengtung town.

“Nobody agrees with this project,” said local resident U Sai Tun Tun Naing. “I haven’t heard of any environmental impact study on the project site, but we hear the whole village is going to be moved.”

the plant is expected to be built about 5 kilometres (3.1 miles) from Kengtung town. U Sai Tun Tun Naing said he is unsure if townspeople will be better off from the project, even though the Ministry of Electric Power has been pushing for the electrification of eastern Shan State.

We don’t know who exactly is behind this project. Who is taking responsibility for its consequences? These administrators and authorities are not from this region. Through the whole thing, we don’t get any benefit from this project,” he said.

The Thai firm was approved to conduct a feasibility study in October 2013 after signing the original memorandum of understanding with the Ministry of Electric Power. The initial phase is to see 25MW of installed capacity, with another 400 to 500MW added in the next phase. The project was initially scheduled to be implemented from 2015 to 2018.

Shan State Minister of Industry and Electricity U Sai Tun Yi said the initial project was pitched as much smaller in size. “It was previously said to be only 20MW,” he said. “I am not involved in it anymore, as it is larger than 30MW and, according to the law, belongs to the Union Government.” He added he had not been invited to further study the project or attend the memorandum of agreement signing.

A senior official from the Ministry of Electric Power last week claimed that all major coal-fired power plants in the country are currently on hiatus due to social and environmental concerns.