MANUFACTURING WITH A SPECIAL FOCUS ON SPECIAL ECONOMIC ZONES MYANMAR | THE NEXT HUB

August 2015

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A series of economic reforms have been implemented since Myanmar elected Mr. Thein Sein as the first democratic President in March 2011, emerging from years of debilitating military oversight. These reforms have boosted business optimism leading to strong economic growth and influx of foreign firms, eager to capture untapped opportunities in the frontier market.

Trade and investment liberalization, access to a large domestic market, as well as abundant low cost labor make Myanmar attractive from a manufacturing perspective. The government is actively moving forward to increase share of industrials in the overall economy and boost exports to narrow the trade deficit as part of its 5 year plan.

However, infrastructure remains a key challenge and the government is now depending on the development of industrial zones and special economic zones across Myanmar with attractive tax benefits aiming to lure investments and dispel the hype.

Support from the Japanese poured in, giving credibility to, amongst other areas, the Thilawa Special Economic Zone, which is heralded to support and strengthen Myanmar’s position as a manufacturing hub, offering access to an estimated 2.3 billion consumers across the region.
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MACROECONOMIC INDICATORS

- Economy
- Increasing FDI
- Shift towards industrialization
Economic growth in Myanmar is expected to far exceed that of ASEAN-5 in the coming years.

Economic reforms have boosted business optimism leading to strong economic growth and influx of foreign firms, eager to capture untapped opportunities in the frontier market.

Myanmar’s GDP Trend Compared to ASEAN-5*

2011 Elections, economic reforms initiated
2013 US and EU relax sanctions, boosting trade
FY2014-15 USD 8 bn FDI beats expectations

Note: * ASEAN – 5 includes Indonesia, Malaysia, Philippines, Thailand, Vietnam

Source: International Monetary Fund (IMF), World Bank, Directorate of Investment and Company Administration (DICA) Myanmar, Solidiance Analysis
The 2012 foreign investment law in Myanmar has opened up new sectors for growth, with manufacturing as key focus

Under the old 1988 Foreign Investment Law (FIL), bulk of FDI was directed to Myanmar’s resource-based sectors. Once the new FIL was introduced in 2012, FDI started pouring into additional sectors such as manufacturing, real estate, communications and others, driven by investments via industrial zones and SEZ developments.

With lower wages and abundance of labour, the manufacturing sector is witnessing rising interest from foreign firms as increasing exports remains a key focus for the government’s plans to enhance the industrial sector as part of its national 5-year strategy plan.

The industrial sector share of GDP increased from 11% in 2008 to 21% in 2014.
Infrastructure remains a key hurdle for Myanmar to achieve its strategic long-term visions

Strategically located between China, India, Bangladesh, Laos and Thailand, a large majority of Myanmar’s exports (38.4% in FY-2013/14) go to Thailand while imports originate mainly from China (29.8% in FY-2013/14).

ROAD TRANSPORT

Road is the key mode of transport for local trade in Myanmar, but ~79% of roads are still unpaved. Border transport remains the core mode of trade with neighbouring countries, accounting for ~30% in exports and ~20% in imports in FY-2014.

RAILROAD TRANSPORT

Low investment has led to low speed, low quality and decline of competitiveness of freight and passenger services. This second-largest country in ASEAN has only 5,844.03 km of railroad, majority of which are nearly 100 years old, but international organizations including JICA are starting to support upgrades.

AIRLINE CARGO & TRANSPORT

Despite the presence of 33 domestic airports which are catered by ~30 international and domestic airlines, airline cargo services are not popular due to high costs. According to World Bank, freight via air trade was last measured at 3.53 million ton – km in 2012.

SEA TRADE & TRANSPORT

For sea-trade, Yangon has a major port which handles close to 90% of imports and exports despite the total 9 sea-ports available across the country.

Source: Solidiance Analysis, CIA World Fact Book, ADB
SPECIAL ECONOMIC ZONES (SEZ) OVERVIEW

- Snapshot of Thilawa, Kyaukphyu and Dawei SEZs
- Benefits compared to Industrial Zones
Three special economic zones in progress are expected to further boost economic growth in Myanmar

**KYAUKPHYU SEZ**
- Developed by China & Myanmar
- Deep sea port, industrial and estate area zones, strategically located between China and India
- International firms being reviewed for developing this 75 sq.km zone; expected to be announced by end of 2015
- Implementation scheduled in three phases, expected to finish by 2016, 2020 and 2025
- Expected to rival Singapore as a Petrochemical Hub with a USD 2.5 bn oil and gas pipeline supplying to China

**THILAWA SEZ**
- Developed by Japan and Myanmar private and public sectors
- Deep sea port, industries mainly manufacturing, construction materials and garment over 24 sq km with 3-phases
- Timelines: 1st Phase - operational in Aug, 2015; 2nd phase - end of 2016; 3rd phase - end 2018
- Japan is the main investor while firms from Korea, Thailand, Hong Kong and the US have also invested

**DAWEI SEZ**
- Developed by Thailand and Myanmar with support from Japan
- Deep sea port, multiple industrial zones and shipyard covering a total of 196 sq km with the future largest industrial zone in SEA
- Suspended in 2013 due to financial hurdles faced by developer, Italian-Thai Co. To be re-initiated with a USD 1.7 bn deal for the first phase in August 2015
- Japan, South Korea, Thailand and China are potential investors

Note: *138 km two lane road planned between Dawei SEZ and Phunumron checkpoint in Kanchanaburi province at a cost of USD 115 mn assisted with soft loan from Thai government and expected to start construction by end of 2015

Source: Solidiance Analysis
Myanmar’s SEZ offer more generous benefits than industrial zones in an attempt to attract investors

<table>
<thead>
<tr>
<th>Corporate Income</th>
<th>Benefits under SEZ law</th>
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<tbody>
<tr>
<td><strong>Tax Incentives</strong></td>
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<tr>
<td>Exemption for the first 5 years</td>
<td>Exemption for first 5~7 years depending on type of business</td>
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<tr>
<td>Up to 50% relief on profit reinvested within 1 year, depending on business type</td>
<td>50% relief on subsequent 5 years of exemption and 5 more years on reinvested profit</td>
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<table>
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<tr>
<th>Custom Duty</th>
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<tr>
<td>Exemptions on raw materials needed during construction period</td>
<td>Exemptions on raw materials needed during construction period</td>
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<tr>
<td>Exemption on imported raw material for the first 3 years of commercial production</td>
<td>Exemption on raw materials, machinery and parts and construction materials for first 5 years of commercial operation</td>
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<tr>
<th>Land Lease</th>
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<tr>
<td>Investors can lease land up to 70 years</td>
<td>Investors can lease land up to 75 years</td>
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### Industrial Zones
- **Pros**
  - It has been long established since 1990s and hence the procedures of doing businesses are already in place compared to SEZ – which is a new concept
  - More generous incentives and longer lease
  - More stable and better power supply and infrastructure
  - The lease rate is more competitive (USD 75 per square feet for 50 years) than in industrial zones where the price swings subject to speculation

- **Cons**
  - The electricity and power supply are not unified among different industrial zones
  - Limited infrastructure
  - Carries risk due to the fact that it is new concept which has not been tested
  - As management is decentralized, there is risk of dependency on one single entity

Source: Solidiance Interviews and Analysis, Myanmar Investment Commission, Thilawa SEZ Management Committee
Overview of Thilawa SEZ

- Ownership structure and description
- Investments – by country and sectors
- Investor Benefits
- Risks and Mitigation
Phase 1 (211 Ha) is nearing completion, while investments bids for Phase 2 (149 Ha) are underway

Overview of Thilawa (~USD 180 mn Investment)

49% of the investment is held by a Japanese consortium comprising Mitsubishi, Marubeni, Sumitomo and the Japanese government while the rest is held by a Myanmar consortium, composed of a group of Myanmar firms and Thilawa SEZ Management Committee.

Why Thilawa?

**STRATEGIC LOCATION**
Strategically located both near to new deep water sea port of Thilawa as well as the Yangon port, which handles >80% of the country’s trade.

**PRIORITY IMPLEMENTATION**
Prioritized by government, generous benefits for export-oriented companies.

**EFFICIENT OPERATION PROCEDURE**
One-stop center eliminates lengthy procedures for investment permit. No need for investors to obtain import/export license every time.

# of Companies in Thilawa by Origin (Apr 2015)

- Japan: 52%
- Myanmar: 12%
- Taiwan: 10%
- Thailand: 7%
- China: 5%
- Others: 14%

Source: Solidiance Interviews and Analysis, Thilawa SEZ Management Committee
Low labor cost and generous incentives have drawn manufacturing companies (mostly export-oriented)

**Preferred sectors**: Investments can be both production or service based. Investors may also invest in infrastructure construction businesses such as construction of roads, bridges, communication, utility supply and waste control. Activities such as entertainment, animal facility, blasting and quarrying are prohibited.

**Current Investments**: Majority of the investment in Thilawa comes from manufacturing business lured by the cheap labor cost and generous incentive schemes for export-oriented businesses. The industries range from low-level and labor intensive basic garment industry to manufacturing of steel and electronic products.

**Import substitution**: Enagaged in the manufacturing of items which are mainly imported from other countries due to high local demand. Majority of the items are produced to cater to automotive and construction industries.

**Service** sector involves logistics service and waste management mainly.

Investments in Thilawa by Type of Activity (Apr 2015)

- 79% Manufacturing
- 6% Manufacturing and service*
- 15% Service

Investments in Thilawa by Type of Business (Apr 2015)

- 45% Export oriented
- 24% Import substitution
- 12% Construction support **
- 6% Environmental conservation and human resources
- 13% Others

Note:
*Manufacturing and service refers to production of materials for own use as well as for other manufacturers.
**Construction support investment refers to the production needed for construction sector development such as production of steel structures

Source: Solidiance Interviews and Analysis, Myanmar Japan Thilawa Development Limited
What can investors gain from investing in Thilawa SEZ and investing in Myanmar as a whole?

**DOMESTIC DEMAND**

Opportunity to capture local demand in the booming automotive, construction materials, industrial machineries, and electronic products sectors, largely met through imports.

Lafarge and Ball Corp. have set up facilities in Thilawa SEZ to capture the domestic demand.

**REGIONAL DEMAND**

Offers access to a 2.3 bn consumer base through trade with neighboring countries.

So far, natural gas and agricultural products have dominated exports due to limited manufacturing. With low labor cost and tax incentive schemes, firms can cater to regional demand at competitive pricing.

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**Key Import Partners**

- **India**: 64% (*USD 493.5 mn*)
- **China**: 51% (*USD 4.1 bn*)
- **Japan**: 19% (*USD 1.3 bn*)
- **Singapore**: 15% (*USD 2.9 bn*)

**Note:**

* Import value (FY 2013-14)

% change from previous year

Source: Solidiance Interviews and Analysis, Ministry of Commerce
Low labour costs have predominantly attracted low cost manufacturing and there is a gradual shift toward medium-value manufacturing.

Thilawa SEZ has received investments in manufacturing of steel, electronic products, machinery and automotive parts. Foster Electric (Thilawa) Co Ltd and Unimit Engineering (Myanmar) Co Ltd will manufacture electronic products and machinery parts respectively in Thilawa. Total manufacturing FDI in 2014-2015 was USD 1.5 Bn, a third of which comes from investment in Thilawa.

Currently dominated by low value, labour intensive manufacturing such as garment and food & beverages (F&B).

International companies with manufacturing facilities or have committed to invest in manufacturing in Myanmar:

- **High Productivity**
  - Automotive parts & assembly
  - Electrical machineries
  - Petroleum refineries
  - Communication equipment

- **Low Productivity**
  - Laundry detergent
  - Furniture
  - Jewelry
  - Toys
  - Textiles, Footwear

- **Short Term**
  - Food & Beverage
  - Building materials

- **Long Term**
  - Mineral, rubber, and plastic based products
  - Chemicals

Source: Solidiance Interviews and Analysis
Harnessing the hype – Key success factors for accessing the untapped manufacturing opportunities in Myanmar

Urgency for investing in Myanmar to gain the right contacts and establish a suitable network amidst the influx of international companies. However, the benefits will accrue on a longer term period.

Intensive and continuous training would be needed as the majority of the labour are unskilled and are suitable for low-value, labour intensive manufacturing industries.

Thorough due diligence and background check is required for potential local partners. Judicial system is not properly developed yet and there is limited secondary information available about local companies.

SEZs would be better option than industrial zones due to its efficient operation procedure with plans to develop better infrastructure. However, since there is only one SEZ fully implemented for manufacturing, stiff competition exists in plot ownership.

Source: Solidiance Interviews and Analysis
Developed by Japan and Myanmar

Key success factors to tap on manufacturing opportunities in Myanmar:

- **Timing**
- **Rigorous due diligence**
- **Location**
- **Human resource**

GDP share of industrial sector rose:

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<tr>
<th>Year</th>
<th>Share</th>
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<tr>
<td>2008</td>
<td>11%</td>
</tr>
<tr>
<td>2014</td>
<td>21%</td>
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Total manufacturing FDI 2014 - 2015:

0.33 of which comes from investment in Thilawa SEZ

1.5 BILLION

Thilawa SEZ offers access to ~2.3 BILLION consumers across the region

Road is key mode of transport for local trade, but ~79% of it remains unpaved

Border transport is the core mode of trade with neighbouring countries accounting for ~30% in exports and ~20% in imports

Myanmar has 5,844.03 KM of railroad, majority of which are nearly 100 years old

Investment by activity:

- Manufacturing: 79%
- Service: 15%
- Both manufacturing & service: 6%

Tax exemption for first 5–7 Years

50% relief on subsequent 5 years of exemption

5 more years of reinvested profit

Investors can lease land up to: 75 Years

Source: Solidiance
Naithy | Senior Consultant

Naithy is a Senior Consultant based in our Myanmar office. With over five years of consulting experience across a range of sectors including telecom, healthcare and construction, she has worked extensively with MNCs exploring investment opportunities in ASEAN. Prior to joining Solidiance, Naithy was a senior associate at a Moody’s group company, where she led various consulting projects including market entry strategy, investment opportunity analysis and competitive benchmarking. Naithy graduated with a Bachelors in Science degree from St. Stephen’s College, Delhi University and an MBA from the National University of Singapore and Cornell University.

Thin Zar | Consultant

Thin Zar is a Consultant based in our Myanmar office. Her work experience was built upon her work in the shipping and port industry focusing on the Asia Pacific region and transatlantic trade. She had also handled business analysis on market trends, consumer research, market size estimation and advised on regulations related to Myanmar consumer industries. Thin Zar holds a Bachelors degree of Business Management from The Singapore Management University.

Shin Thant | Analyst

Shin Thant is an Analyst based in our Myanmar office in Yangon and has served clients in doing market landscape analysis and commercial due diligence. Prior to joining Solidiance, he worked as an audit and advisory associate for KPMG on financial advisory services responsible for auditing MNCs and INGOs. With an in-depth knowledge in accounting and engineering, Shin Thant has obtained his advanced diploma in engineering and accounting. He is also member of Association of Chartered Certified Accountants UK (ACCA).
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