

## In Brief

**No Newsletter in September, Editor on holiday**

First Credit Bureau to be opened next month

H1N1 death toll continues to rise

To boost the number of companies listed on YSX an incentive of 20% income tax, down from 25%, is being offered

Advisory Commission's final report recommends "Muslim children born in Rakhine State be granted citizenship, to prevent further statelessness"

Death toll in recent Rakhine unrest passes 100

Pope to visit Myanmar in November



# Myanmar Insights August 2017

*By Myanmar Capital Partners*

## News Round-Up

<b>Kyat Exchange Rate</b>	<b>MMK/USD</b>
<b>30/06/17</b>	<b>1363.00</b>
<b>31/07/17</b>	<b>1363.00</b>
<b>30/08/17</b>	<b>1359.00</b>

## Politics

**Progress In Peace Talks?** - Government representatives expressed hope of reaching an agreement in peace discussions with the United Nationalities Federal Council (UNFC) recently, despite UNFC representative Khu Oo Reh saying the trust-level between the parties was zero. The comments were made in opening remarks at the sixth round of formal talks between the government Peace Commission and the UNFC's Delegation for Political Negotiation (DPN) at the National Reconciliation and Peace Center in Yangon. An agreement to have UNFC members sign the nationwide ceasefire agreement (NCA) would be reached at this round of talks after 14 months of negotiations, said Peace Commission chairman Tin Myo Win in his opening remarks. The Peace Commission and the UNFC discussed the DPN's nine-point proposal of conditions leading to the bloc's groups signing the NCA—one of which being that all five members of the UNFC are invited to sign. Tin Myo Win added that chairperson of the National Reconciliation and Peace Center, Aung San Su Kyi had sent a message to say she strongly believed the talks could finalize the ethnic bloc signing the NCA and she hoped they could “walk forward towards peace” at the next stage of the 21st Century Panglong Union peace conference. Active members of UNFC which will decide whether to sign after talks are: the New Mon State Party (NMSP); the Karenni National Progressive Party (KNPP); the Lahu Democratic Union (LDU); the Arakan National Council (ANC); and the Shan State Progress Party (SSPP). Government spokesperson Zaw Htay said that after heated discussions, the two parties were in a position to reach an agreement. Under discussion were the location of Myanmar Army outposts and the inclusion of international observers in the ceasefire monitoring. In July four non-NCA signatory ethnic armed groups resigned from the UNFC: the Kachin Independence Organization (KIO), the Ta'ang National Liberation Army (TNLA), the Myanmar National Democratic Alliance Army (MNDAA) and the Wa National Organization (WNO). Under the Thein Sein administration, eight ethnic armed groups signed the NCA in October 2015. The current National League for Democracy-led government held two rounds of peace conferences in August 2016 and May 2017. The next round is scheduled to take place within the next six months.

**China's Charm Offensive** - Aung Sang Suu Kyi hosted an important guest for dinner in Naypyitaw residence on August 4. He was Song Tao, head of the International Liaison Department of the Communist Party of China, on his second official trip to Myanmar. During his first visit, in August, he met the reclusive ex-junta head Snr-Gen Than Shwe at his residence, a testimony to China's reach and influence in the country. Although details of the meeting were not released, sources said the discussion touched on a wide range of issues, including the peace process.

Sources familiar with China-Myanmar relations suggested that Song Tao was laying the groundwork for a high-level visit by China to Myanmar. Whatever the case, China's engagement with Myanmar is paying off. On the same day as the dinner, it was reported that the two countries were holding initial talks about buying electricity from China since Yunnan had been left with a surplus of power after a switch to less energy-intensive industries amid an economic slowdown.

Three days later, Aung San Suu Kyi told villagers in central Myanmar that peace and power supply are priorities. As part of its ambitious “Belt and Road” initiative, a development strategy that links China with the rest of Asia, Beijing will likely fund infrastructure projects, trade and investment that will stimulate the economy in Myanmar. With that, Beijing is likely to push for stability along

the China-Myanmar border, where powerful ethnic armed groups are based. Chinese officials have told the groups to sign the nationwide ceasefire agreement (NCA). Regardless of whether they follow the directive, the groups will remain under China's influence, a part of Beijing's strength over Naypyitaw. Song Tao's trip, coupled with his briefing and assessment delivered to Beijing's top leaders, could shape Beijing's future policy toward its southern neighbour. During his visit, Song Tao also met top army leaders, with the exception of army chief Snr-Gen Min Aung Hlaing, who was visiting Japan at the invitation of Nippon Foundation Chairman Yohei Sasakawa. Japan's Sasakawa Foundation is also involved in the peace process, but it is known to have more contact with ethnic armed groups in southern Myanmar. China also promised to assist in the peace process, and last May, a Chinese special envoy, Sun Guoxiang, helped to negotiate a trip involving members of several ethnic armed groups based in northern Myanmar to Naypyitaw so that they could attend a government-sponsored peace conference. Despite its involvement in Myanmar and its promise to assist in the peace process, China has little influence on ethnic armed groups in the south.

#### *China as Big Brother*

When Western nations, including the United States and those in the European Union, imposed sanctions and condemned Myanmar's former military regime, China was the government's main backer and largest investor. As a powerful neighbour, Beijing supported Myanmar through aid and investment, helping build strategic infrastructure projects such as oil and gas pipelines, ports and dams. China has poured money into hydropower projects in the country's ethnic regions, and its three major oil corporations have a strong foothold. However, China did not win the hearts and minds of the Myanmar people, this was Beijing's disadvantage.

Many in Myanmar worry that Chinese investments and aid programs are like a Trojan horse. They view the activities of its resource-hungry neighbour in Myanmar as exploitation. Song Tao's recent visit, or soft diplomacy, may not help to lessen the public's anti-China sentiment, either. But the government in Myanmar needs China. For decades, Myanmar's leadership has seen China's rising power differently.

Song Tao has been enforcing the closeness between the two countries on his recent visit by meeting key figures in the political landscape of Myanmar, including leaders of the USDP. Interestingly, he also visited former commander-in-chief Gen Tin Oo, who has been hospitalized since May. Tin Oo went on to become a founder and patron of the National League for Democracy (NLD). Paying respects to Tin Oo, some China analysts in Yangon concluded, was Beijing showing its long lasting gratitude to Myanmar generals who fought against the Kuomintang (KMT) troops on Myanmar soil in the 1960s. Beijing has a long memory when it comes to its southern neighbor, both political players and the military.

#### *The West is Losing on Myanmar*

Since taking office Aung San Suu Kyi has surprised her Western friends and supporters by developing a warm relationship with the Chinese. Equally, Beijing was also ready to repair the strained relationship with Myanmar. China was trying to bring back Myanmar into its fold even before Aung San Suu Kyi came to power. Months before the election in 2015, she was invited to visit China where President Xi Jinping received her. The political gambit was well calculated. The NLD won a landslide election, and soon after, China sent its foreign minister Wang Yi to meet Aung San Suu Kyi, the first foreign official to do so.

While Beijing has shown support, the West has lost its interest and position in the country, putting its focus on the human rights issues concerning the

Rohingya people in Rakhine State and applying pressure on the government and Aung San Suu Kyi. This has not gone unnoticed in Naypyitaw. Myanmar's past connections with North Korea have also resurfaced under the Trump administration, with US Special Envoy for North Korea Joseph Yun visiting Myanmar in June. He met with leaders including Aung San Suu Kyi and Snr-Gen Min Aung Hlaing to try and ensure that Myanmar does not pursue any links with North Korea.

It remains to be seen if Song Tao's visit will yield any major change in Beijing's engagement policy with its troubled neighbour. But one thing is certain, China has revealed its strategy of regaining its foothold in Myanmar.

**Bad Press** - Prior to becoming Myanmar's State Counselor, Suu Kyi was considered a hero among Western democrats due to her role as a leader during the 1988 uprisings against the military-run government, which resulted in her being placed under house arrest repeatedly from 1989 until 2010. In 1991, she won the Nobel Peace prize for her efforts. Now, however, that image has been sullied. Human rights advocates and journalists are alarmed by her treatment of the media and fear the erosion of gains in freedom of speech. As reported recently, she is calling on the nation to follow state-run news reports about government activities and keeping independent media at a distance. Foreign media are given more access here than the domestic press, but their movement in conflict zones is still sharply limited. Suu Kyi's security detail has even physically prevented foreign reporters from asking her questions. "Despite hopes a Suu Kyi-led government would improve press freedom conditions in Myanmar, the situation for reporters has not materially improved," says Shawn Crispin, the Committee to Protect Journalist's Southeast Asia senior representative. "It's been eye-opening for anyone who remembers her as a pro-democracy icon standing up to military power."

In 2013 Myanmar's legislature enacted the Telecommunications Law, the most controversial aspect of which is arguably section 66d. Under 66d, anyone can press charges over internet, telephone, radio and television content, regardless of whether he or she is the subject of the content. The maximum prison sentence for being convicted on 66d charges is three years, though fines may also be imposed. According to the free speech advocacy organization PEN Myanmar, at least 80 cases invoking 66d have been filed since the law passed; 73 of those occurred since Suu Kyi came to power in 2016. Some of the law's victims were prosecuted, and served months in prison, for making controversial comments about Suu Kyi. There are small signs that Suu Kyi's party is beginning to reform media law. The upper house of Myanmar's Assembly approved amendments to 66d in August that would prevent third parties from pressing charges without permission from the aggrieved individual, and make it easier for defendants to obtain bail. A proposal to abolish 66d entirely, however, stalled.

Then there's the Unlawful Associations Act's section 17(1), in which even covering an event can land a journalist in jail if the government disapproves of a person or group present. While the act has been on the books since 1908, it's still wreaking havoc under Suu Kyi's pro-democracy government. Earlier this month, three journalists were denied bail after they were detained under the Unlawful Associations Act for covering a ceremony organized by the Ta'ang National Liberation Army, the armed wing of a rebel group based in Myanmar's northeastern Shan State. Suu Kyi herself doesn't speak in direct opposition to these laws and the fallout from them, opting instead to talk in broad terms about potentially changing them. Perhaps that's because of the fragility of her country's first steps towards democracy and constitutional liberty. The Burmese military has 25 percent of seats in the legislature and it could retake power under an emergency clause in the Constitution, which requires over 75 percent

approval in the legislature to be modified. So legislators from the military can undo any progress if they think reformers have gone too far.

## **Business**

**The Poor Economy** - The NLD's economic advisor Myo Myint blamed a legacy of inept bureaucracy, deep-rooted corruption, military control, and a lack of cooperation among ministries for his party's poor economic performance. "The lack of cooperation is a big challenge. As there is no cooperation between the government departments, the NLD has not been able to adopt comprehensive plans," said the economic advisor while discussing the challenges of a shift from a centralized economy to a market economy at a recent forum in Naypyitaw. He described the military-drafted 2008 Constitution as the first obstacle in revamping the country's economy. Myo Myint listed the reasons behind Myanmar's stagnant economy: Armed clashes, drug abuse and trade, declining export values, low productivity in the workforce and low utilization of farmland. "The first challenge to improve the stagnant economy is the constitution and its limitations: the Tatmadaw takes 25 percent of seats in the parliament and three ministries are under the control of the military," he added. Myanmar Army representative Col Aung Myint Oo said the role of the military could be reduced when there was stability and good economic performance in the country. He said the country's economy was an urgent issue for the government. "People's anger builds up with economic hardship, the explosion of anger is followed by revolution. So, the government needs to urgently provide secure livelihoods for people," he said. "Only after that, the government can work to adopt a strategy in cooperation with experts, military and other members of society," he added. Another NLD economic advisor Lay Nyunt admitted the government had not fulfilled the expectations of farmers. "There is a need for immediate reforms in the agricultural sector. I hate to ask farmers to wait until the agricultural development strategy is adopted." He suggested amending the 2012 Farmland Law, as well as policies regarding provision of agricultural loans and investment, and taxation. "I think it is time we made bold changes no matter what the obstacles are," he said. He also pointed out the country's failure to produce animal feed at home. "We have 26 animal feed processing plants in our country, but only six of them are operating and are not even running at full capacity. This is a big loss for our country".

**Budget Woes** - The budget deficit for the 2016-2017 fiscal year ended March 31, 2017 was a little over half of the official target because of government under-spending, according to preliminary data released recently. A statement presented in parliament revealed that the fiscal deficit for 2016-17 had halved. The data revealed an actual deficit of just K2.62 trillion compared to the official target of K4.01 trillion for the fiscal year. This was mainly due to a shortfall in government spending, which amounted to K18.6 trillion versus the target of K21.1 trillion. However, the government only managed to collect K16.54 trillion in revenues compared to its target of K17.09 trillion. In comparison, during the 2015-2016 fiscal year under Thein Sein's government, total revenue collected was K16.29 trillion while total expenditure amounted to K19.33 trillion, resulting in a deficit of K3.16 trillion. While spending less than anticipated implies that the government is making progress towards reducing the fiscal deficit, Ba Shein, the chair for the Bill Committee, said "it cannot be taken as a good sign." "It's not good to have big difference in either the deficit, the spending, or any of the targeted revenues," he said, as huge differences between the government's targeted and actual spending could have an adverse impact on

Myanmar's economic goals.

## **Infrastructure**

**Power Generation** - In 2017, Myanmar is projected to generate a maximum of 2,700 megawatts of electricity, up from around 2,500 MW in 2016, as the population expands and demand for power in the country continues to rise. Yangon, its largest city, is expected to generate almost half, or 1,300 MW of the country's maximum electricity demand for the year, and that is expected to rise by 30 percent per year in 2018 and beyond.

Yet, that is just a fraction of the total energy consumed in Myanmar and 10pc of Thailand's annual maximum demand. According to the Asian Development Bank's (ADB) Energy Sector Assessment, Strategy and Roadmap dated December 2016, total final energy consumption in the country totaled some 14,000 MW in 2012-13.

With foreign investors taking a keener interest in Myanmar, the government is under pressure to provide companies and businesses with reliable sources of electricity to operate. "We need lots of power. We need billions in investment," said Aye Kyaw Kyaw, secretary of the Yangon Region Electricity Development Management Committee.

Two major master plans setting out targets and strategies for electricity supply and demand have been drawn out. One is the Myanmar Energy Master Plan by the ADB and another is the National Energy Master Plan by the Japan International Cooperation Agency. "Any plans for power generation at the regional level in Yangon must be in line with these two master plans. But, all the goals set out in previous master plans have hardly been implemented and we have missed all the targets," Aye Kyaw Kyaw said.

### *Loss-making tariffs*

The main reason for the persistent shortfall is overly low electricity tariffs. Currently, the government is losing US\$300 million a year by subsidising tariffs, particularly to the residential sector. Meanwhile, it is running a fiscal deficit that is fast approaching 5% of GDP. As such, building new infrastructure to expand the production of energy in the country is stymied by the government's lack of fiscal flexibility.

"The electricity tariff to residential consumers is very low and day by day their demand is rising. Even now, some shopping centers have resorted to running their own generators because we cannot supply enough power for them," said Aye Kyaw Kyaw. "This is the biggest obstacle in the energy sector. Investors come with financing and ideas to boost energy production. But we cannot connect the funds to the demand until the government is able to get out of the red," he said. "We can only move ahead with expanding power production when the tariffs are revised to more sustainable levels. The government is preparing a national energy policy. After it is approved, they will be able to review and revise the tariff policy to more sustainable levels."

### *Confusing policies*

Another obstacle is the lack of clear and transparent policies. For example, under the new electricity law, regional governments are permitted to authorize new power plant projects with power generation capacities of not more than 30 MW. "However, according to the constitution, regulations enforcing the law must follow within 90 days. But since 2014, those regulations are still under preparation," said Aye Kyaw Kyaw.

Sometimes, regional governments must also negotiate with the state government for approvals to build new plants under their own regional master plans. For example, Yangon is planning to upgrade and expand its aging power infrastructure. "However, we always have to wait for the Union government to

review and approve so things move very slowly. That is why we have never achieved our targets in the past two years. Of the 10,000MW of installed capacity targeted for 2017-18, we have only achieved half. And, as time passes, the gap between our targets and reality widens,” he said.

All that deters potential investors, many of which can easily help the government generate pockets of additional energy across the country. “Many independent power producers can easily generate 30MW of power through renewables and other means. The private sector can help to generate power for the country but this is inhibited by the lack of communication between the regional and state governments,” one member of the Renewable Energy Association of Myanmar said.

What needs to be done? The way Aye Kyaw Kyaw sees it, “we must have a clear energy, tariff, investment and financial policy so that we can draw up a practical master plan and implement it.”

“Investors from Germany, the US, China, South Korea, Singapore, Malaysia and Japan have been knocking on our doors wanting to invest in our energy infrastructure and other sectors of the economy. There is a lot of opportunity. But, to be practical, we first need to do our homework and set up the proper policies so that everyone benefits from these investments,” he said.

And how long will it all take? Aye Kyaw Kyaw said: “We know our problem. And sooner or later we will solve it.”

**Dawei Revisited** - Japan is looking to revive the long-delayed Dawei Special Economic Zone (SEZ) project, according to deputy commerce minister Aung Htoo. “Japan International Cooperation Agency (JICA) is conducting a master plan survey. The Dawei project has been delayed for various reasons, but the current government is encouraging the resumption of the project with fresh momentum,” said the deputy minister in response to a question from lawmaker Thet Naing Oo in the Lower House. “The project is big, but I’ve heard there have been many delays. Myanmar migrant workers in Thailand hope to come back if this project resumes. People want to know when exactly that could happen,” Thet Naing Oo said. Dawei local Lay Lwin questioned the electricity supply for the project as Dawei residents have to pay 210 kyats – five times more than average prices in Yangon – per unit of electricity from private power suppliers. Myanmar and Thailand formed a joint task force comprised of representatives from the National Economic and Social Development Board and the Fiscal Policy Office of Thailand and Myanmar to supervise implementation of the initial phase of the project. “The task force will review the initial works from various perspectives and complete the works on schedule,” said the deputy minister. Thailand and Myanmar signed a memorandum of understanding to develop the billion-dollar Dawei Special Economic Zone in 2008, and expected to complete it in 2015. Myanmar initially granted Italian-Thai Development PCL (ITD) a 75-year concession to develop the project in 2008. But the project has been suspended since 2013 and construction on the project has been minimal due to funding shortfalls. In 2015, Japan joined as a third equal partner in the project, but new delays arose when Japan called for modifications to the original drafts. Meanwhile, there is also local opposition to the project for environmental concerns and issues of land compensation. According to a new, 2015 plan by ITD, the initial phase will include the construction of 160-kilometer road to the Thai-Burmese border, as well as the construction of a small port, reservoir, telecoms network and other basic infrastructure within five years.

**Website:**

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