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Costs of Doing Business in Myanmar



Play to Play: The Costs of Doing Business in Myanmar



About Tractus

For the last 20 years, Tractus has advised and assisted multinational companies to help them make intelligent decisions about where to locate and how to structure their direct investments in Asia. We have a team of 60 professionals in offices in Myanmar, Thailand, Indonesia, Vietnam, China and India. Tractus' full service market-entry and expansion practice areas include initial market research and corporate strategy implementation; distributor and partner search assistance; merger & acquisition and fund raising; site location advisory, and; regulator and private-party negotiations assistance. Tractus also has a substantial public sector practice area that provides services such as government advocacy, trade and investment promotion, public policy and economic development program advisory services.

Introduction

Rising costs in Myanmar have been a frequent topic of conversations of late, in both board rooms and around dinner tables in Yangon's burgeoning restaurants. The dramatic increase of new investors to Myanmar, soaring demand for office space in the commercial capital and limited supply of both soft and hard infrastructure has driven prices completely out of sync with historical norms.

Exacerbating challenges posed by the supply and demand gaps for many of the inputs required to feed growing interest in Myanmar has been the limited information about prevailing market prices. The cost of accommodation, salaries and SIM cards, until recently, available only on the secondary market, have varied wildly as new investors struggle to understand what the market clearing price is and sellers test the limits of what the market will bear.

Over the last year, Tractus Asia, a US business advisory firm with offices in Myanmar and across the region, has carried out a study of the basic costs of doing business in the country. The research looked at costs ranging from commercial and industrial real estate to long distance telephone calls, salaries and taxes. The study is a product of more than 100 interviews with local and foreign companies, service providers, government officials and other informed sources. While every effort was made to ensure the data presented is reliable and accurate at the time the report was written, the rapid pace of change in the Myanmar economy may result in differences with those experienced by others.

Labor and Compensation

Wages and salaries have been among the most rapidly escalating costs of doing business in Myanmar. In Yangon, the commercial capital, university educated managers and professionals, such those working in research, sales or distribution teams, for international NGOs and professional employees such as lawyers, accountants and engineers with five years of experience are earning base salaries averaging about US\$1,388 per month compared to US\$2,398 in Thailand. Salaries for a given position will vary widely depending on the industry sector and whether it is a Myanmar or multinational firm and the country of origin. Wages for unskilled and semi-

skilled workers and factory operators have risen much more slowly with factory operators in industrial zones around Yangon reporting wage increases between 10 percent per year over the last two years. Base wages for unskilled factory workers average about US\$90 per month compared to about US\$468.75 per month in Thailand.

	Basic Compensation (Myanmar)	Basic Compensation (Thailand)
USD		
Skilled Labor (Manufacturing)	300	937
Un-skilled Labor (Manufacturing)	90	468
Production Engineers	700	884
Accountant	150	625
Plant Manager	800	4688
Driver	200	438

Source: Tractus Research

Real Estate

Skyrocketing real estate costs in Myanmar have been widely reported by local and international media. In Yangon, the highest quality office space in multi-story commercial office buildings is being rented for more than double comparable prices in Bangkok – about US\$43 per square meter per month compared to about US\$13.10 in Bangkok - and its availability is extremely limited. Like high quality space in Yangon's CBD, the availability of space in older, lower quality towers in Yangon is also quite limited. Outside of Yangon's Central Business District (CBD), office space was reported as renting for about US\$25 per square meter per month, compared to about US\$7.80 in Bangkok for comparable space.

Office Rentals	Myanmar (Yangon)	Thailand (Bangkok)
Rent (US\$/ M2/ Month)		
CBD	43	13.10
Non-CBD	25	7.80

Source: Tractus Research

There is a similar trend in the cost of serviced apartments. Average rent is about US\$37 per square meter per month in the CBD for a one-bedroom apartment, compared to about US\$24.98 in Bangkok. Unlike office space, moving outside of the CBD has a reverse impact on price in Myanmar with service apartments due to newer buildings and residential apartments being developed more outside of the CBD. The rents are about US\$56 per square meter per month for a one-bedroom apartment near Inya Lake and US\$16.23 for comparable space in Bangkok.

Serviced Apartments	Myanmar (Yangon)	Thailand (Bangkok)
Rent (US\$/ M2/ Month)		
CBD	37.00	24.98
Non-CBD	56.00	16.23

Notes: Serviced apartments are at a premium in Myanmar as a function of extremely limited supply. None of the serviced apartments surveyed in the scope of this report had available apartments. Due to the limited number, only three quotes were used in the collection and calculation of rental rates.

Source: Tractus Research

Average factory rentals, primarily for steel structure, single story buildings, are one area where Myanmar has cost advantage over Thailand. The rents range from between US\$1.67 and US\$2.20 per square meter per month compared to US\$3.91 and US\$4.38 per square meter per month in Thailand. However, the quality of these buildings suggest a different story. The quality of infrastructure within industrial zones in Myanmar is very poor. Zones have none of the even minimally required infrastructure (electrical supply, wastewater treatment, telecoms, roads, etc.) required for effective operations compared to their Thai counterparts.

Factory Rentals(US\$/M ² /Month)			
Myanmar		Thailand	
Hlaing Tharyar	2.2	Chonburi	4.38
South Dagon	1.67	Samut Sakorn	3.91
Shwe Pyi Thar	2.2	Rayong	4.38

Source: Tractus Research

Building costs in Myanmar are also more expensive than in Thailand. The approximate cost for construction of a steel structure building with basic electrical work (exclusive of land, civil works and air conditioning) is about US\$480 per square meter compared with US\$469 per square meter in Thailand. Even though these numbers might suggest similar construction qualities, construction companies interviewed reported that construction quality and standards of local builds as falling below international standards.

Factory Construction Costs	Myanmar	Thailand
	US\$/sq.m	
Factory Construction Cost	480	469

Notes: Thailand's data is based on cost of raw materials, labor, overhead and VAT; cost applicable only in Bangkok Metropolitan, excluding cost of sheet pile in construction process. Data for Myanmar is based on quotes for the construction of a steel structure building with basic electrical work and also excludes the cost of land & civil works, electrical switchgear and fit-out and air conditioning.

Source: Tractus Research

Communications

Over the last eighteen months there has been an improvement in the quality of telecommunications services, if not costs. Improvements to network infrastructure, the entrance of new Internet service providers and the release of additional mobile numbers (SIM cards) has meant more people have been able to connect and communicate. However, some costs remain extremely high and the reliability of all communications modes, while better than it was even last year, is inconsistent and the cause of endless frustration for investors and an impediment to economic growth. Fixed-line long distance calling rates are comparable to Thailand's US\$0.028 per minute at US\$0.025. However, installation fees for fixed line telephones are much higher at US\$650 to US\$104.69 in Thailand. Until recently, a limited supply of mobile telephone numbers has meant long waits for permanent numbers necessitating that investors and visitors rent numbers on a temporary basis. The recent roll out of mobile phone services by Qatar-based Ooredoo and Norway's Telenor has made SIM cards available for as little as US\$1.50, though the network infrastructure is still under development.

Fixed Land Line	Myanmar	Thailand
	US\$/min	
Installation Fee	650	104.69
Monthly Fee	0	3.13-6.25
Fixed land line to fixed land line		
Local call within province	0.015	0.09
Local long call within country	0.025	0.028
Fixed land line to mobile		
Local call within province	0.025	0.06-0.09
Local long call within country	0.025	0.06-0.19

Source: Tractus Research

Prices for internet access run over fiber optic cable, delivering maximum download speeds of 4 MB per second are also extremely high. The most used service provider servicing Yangon charge US\$230 per month with an installation cost of US\$ 450. This compares with monthly rates of between US\$18.35 per month and US\$27.21 per month for comparable service in Thailand where installation is either free or at most about US\$105.51. WiMax (wide area WiFi) services delivering similar speeds are priced more affordably at US\$90 per month and US\$444 for installation, but speed is limited to 2 MB per second.

	Myanmar		Thailand		
	US\$				
	Redlink	FTTX	True Hi Speed	3BB	TOT
Installation Cost/Initial Payment	450	500	63.03	0	105.51
Additional Cost			81.94 for coaxial cable less than 70 meters, 100.85 deposit for wifi router	28.36 deposit for wifi router	0
Annual Fee	60	60	0	0	0
Download Speed	2 MB	4 MB	4MB	5 MB	2 MB
Monthly Fee	90	230	18.35	27.21	57.91

Notes: Data for Myanmar is for the highest speeds available.

Data for Thailand is for the most comparable Internet packages.

Source: Tractus Research

Electricity

The cost of electric power in Myanmar tells two stories. A review of applied utility rates suggests the cost of power is low at between US\$0.038-0.083 per kWh for a Myanmar company, with the cost for residential service on the lower end of the range and business service on the upper end. This compares favorably to Thailand rates which range from US\$0.08-0.11 per kWh.

Myanmar ¹	Basic Monthly Charges (US\$)			Utility Rate (US\$)	
	Residential	Business	Business (Private Transformer)	Residential	Business
Local Entity/Resident	1.10	3.33	5.55	0.038/kWh	0.083/kWh
Foreign Entity/Resident	1.00	10.00	10.00	0.12/kWh	0.12/kWh

Thailand ²	Basic Monthly Charges (US\$/month)		Utility Rate (US\$/kWh)	
	Residential	Business & Industrial Rate	Residential	Business & Industrial Rate
More than 150 kWh/month	1.19	9.76	0.09	0.08-0.11
Less than 150 kWh/month	0.26	9.76	N/A	0.08-0.11

Notes: ¹ - Tractus Research

² - Thailand Board of Investment

³ - Business, industrial, government institutions meeting certain energy usage restrictions

However, frequent blackouts, caused by limited generation capacity and substantial losses through transmission and distribution and an overburdened grid, mean most businesses are required to provide their own back-up power. Generators can cost anywhere between US\$3,529 for a locally made 20 kVA gen set for a household or small office to US\$14,000 for a foreign manufactured 30 kVA unit for a larger office or home. During the dry season, when blackouts are most frequent, operating costs for a 20 kVA generator can be up to US\$503 per month when they need to be run for typically four hours per day when the power is out. During the wet season, when hydroelectric dams provide more power to the grid, operating costs fall to about US\$126 per month when generator power is only needed for about one hour a day, increasing the effective cost of electricity to between US\$0.20 and US\$0.30 per kWh.

	Generator	kVa	Purchase Cost (US\$)
Fixed Costs	Kohler	30	14,000
	Denyo	25	13,529
	Daiden	25	12,941
	Kohler	20	12,941
	Himoinsa	34	12,100
	Himoinsa	20	10,600
	High Power	30	4,941
	Sunshow	13	4,706
	Ruby Family	20	4,118
	High Power	20	3,765
High Power	20	3,529	

Operating Costs	Hours Per Day	Yield (Liters/Hour) ¹	Cost of Diesel (US\$/Liter)	Cost Per Month (US\$)
Dry Season	4	3.78	1.11	503.49
Wet Season	1	3.78	1.11	125.87

Source: Tractus Research

Notes: ¹ - Based on consumption estimates of a 20 kVA diesel generator or similar for residential use.

² - Generator running times are based on Tractus estimates for Yangon Oct 2012 – September 2013 in Ma Yan Gone

Township but could vary dramatically based on a range of conditions. Cost per month is based on 30 days of operation.

Conclusion

The costs of doing business are a fundamental factor in deciding where to locate and it is imperative to have a clear understanding of what value you are getting for your money. The quality of services and goods being purchased can be very different from market to market and within markets, so a clear understanding of the costs and conditions in a particular location are important so that an apples-to-apples comparison can be made. Wages paid by international companies and organizations are dramatically higher than those paid by their local counterparts in many cases. Real estate costs also came in dramatically different even between similar properties in comparable areas. In these and other cases, dramatic disparities between prices paid for basic products and services is largely driven by a lack of reliable and up-to-date information about prevailing market rates. The full version of Tractus Asia's "Pay to Play: Evaluating the Costs of Doing Business in Myanmar" details in greater depth and breadth the basic costs of doing business in emerging Myanmar and aims to provide a base of understanding for companies entering Myanmar. Those wishing to receive a copy of this complimentary report are invited to contact Joshua Brown, Consultant and Chief Representative (Myanmar) at Joshua.Brown@tractus-asia.com. Representative



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