

## **Chapter 6**

### **Business Conglomerates in the Context of Myanmar's Economic Reform**

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#### **Abstract**

The purpose of this paper is to identify the role of conglomerates in the context of Myanmar's economic reform process. The paper addresses the research question of the role of business conglomerates and the Myanmar economy, such as are they growth engines or just political cronies? We select some of the top conglomerates in Myanmar and assess their profile, performance, and strategies and examine the sources of growth and limitations for future growth and prospects. The top groups chosen for this paper are Htoo, Kanbawza, Max, Asia World, IGE, Shwe Taung, Serge Pun Associates (SPA)/First Myanmar Investment Group of Companies (FMI), Loi Hein, IBTC, Myanmar Economic Corporation (MEC), and Union of Myanmar Economic Holdings Ltd. (UMEHL). There are other local conglomerates that this paper does not address and they include Shwe Than Lwin Group, Eden Group, Capital and Dagon International etc., which are suggested for further research about Myanmar's conglomerates in the future.

Sources of growth and key success factors of the top business groups are their connection with government, contact with foreign partners, and their competency in the past and present. In the context of the economic reform, previously favored business people appear to recognize that the risks of challenging economic reform could outweigh the likely benefits. In addition, some of the founders and top management of the conglomerates are still subject to US sanctions. Market openness, media monitoring, competition by local and foreign players, sanctions, and the changing trends of policy and the economy limit the growth of conglomerates. With limited options, the cronies of the conglomerates will have to reform themselves from their murky past and rebrand and re-establish themselves as valuable contributors to Myanmar's new economy. On the other hand, the US government needs to show clear criteria why they put these business entities and persons on the sanctions list. Moreover, the US government needs to show the due procedures how these business entities and persons subject to the sanctions can be reinstated, or does the US government have no intention lifting the relevant sanctions? The paper also suggests putting in place some measures by

government to create a level playing field and encourage conglomerates to become involved in both the regional and international markets.

## **1. Introduction**

After Myanmar's independence from the British in 1948, the country adopted a market-oriented economy and enjoyed the economic benefits of this system. However, in 1962, due to political reasons, Myanmar abolished the system of the open market economy and "The Burmese Way to Socialism" was declared as the official policy for the future economic development of the nation. The nationalization of private enterprises, factories, and businesses, and the negligence of market forces worsened and deteriorated the economy in every aspect. Under the military rule after 1988, the government attempted to revive the market economy system. Although changes in the economy took place during the military regime, some legacies of the socialist system were still prevalent. 'Nepotism and Cronyism' practices were initiated with the objective of quick infrastructure development and shaping the economy in the hands of the state and local people.

Myanmar is an emerging economy with an estimated GDP of \$83.74 billion (Cia.gov, 2013), a real GDP growth rate of 5.5% (2013 est.), and a labor force of 32.5 million. Myanmar's economy was as small as USD 2.3 billion in the early stages of the market oriented economic system in 1990. It gradually increased until 2005 when GDP stood at about USD 12 billion. The economy has increased tremendously since 2005 due primarily to gas exports, and also timber, jade, pulse, and bean exports. Growth of the economy has doubled and tripled in the recent 5-year terms. The composition of the GDP has changed significantly from an agriculture based economy to one dominated by industry and the service sector since 2000-01. Myanmar's political reforms were essentially derived from the former military regime's "Seven Road Map" of August 2003, which was the orchestrated product of the decade-long military plan for an orderly "transfer" of power. After taking over power from the military government, the new government has initiated various reform processes since 2011. The first reforms were political reforms, and economic and social reforms followed. President Thein Sein first expressed in June 2011 that the government would implement reforms to develop the country in line with democratic practices, and each Union and Ministry must adopt and implement a reform strategy to determine exactly which functions in its sectors and

businesses need reform.<sup>1</sup> The President reiterated in the reform workshop held in August 2011 that management and procedures must be transparent, and to set up an enabling business environment and cut out bureaucratic red-tape. "In the reform of macroeconomic policies, there might be situations of sacrifices so as to achieve better results for the people, and we need to prepare our mind for this. Scholars and officials concerned are also to focus on flexibility and the correct ratio of policy reforms by implementing a mixture of macroeconomic policies", he stated.<sup>2</sup> The government adopted various economic reform measures as the second stage. Macroeconomic reforms, for example – exchange rate unification, more consumer-oriented banking operations, and trade liberalization have appeared since late 2011. In 2012 the government declared public sector reform with good governance and clean government as the third stage of reform. In 2013, private sector reform was initiated as the fourth reform combined with corporate governance. In the reform process, there is an issue by internal and external observers that the reform process should create a level playing field for economic growth, open door policies, and FDI inflows, ease international sanctions against Myanmar. Myanmar has long been subject to a patchwork of sanctions and other measures, implemented at different times by the US and various western countries since 2003, and most observers believe that these have been highly counterproductive. In response to the rapid changes that have taken place as a result of the reform process in Myanmar, these sanctions and measures have been eased considerably, although some remain in place. The European Union (EU) announced in July 2013 that it would re-open its market to Myanmar and permanently remove trade, economic, and individual sanctions against the country. The EU will bring Myanmar back under the so-called 'Everything But Arms' policy, which is part of the EU's Generalized Scheme of Preferences, and will grant duty-free and quota-free access to the European market for all products except arms and ammunition. Because of this, future exports to the EU from Myanmar will increase. Other countries such as Australia, Canada, and Great Britain etc. have also lifted some of the trade, economic, and individual sanctions targeted against Myanmar during the past couple of years following these political and economic reforms. The U.S. also eased some of its financial and investment sanctions to support Myanmar's economic reforms and democracy-building process. While the underlying legislation remains in place, President Obama has used

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<sup>1</sup> With regard to the process of reform for development of the State, President U Thein Sein delivered an address at a meeting with Union level organization members, Region/State Chief Ministers, Chairmen of Self-Administered Divisions/Zones, deputy ministers, and departmental heads in the meeting hall of the President's office on 19 June 2011.

<sup>2</sup> Speech delivered by President U Thein Sein at the National Workshop on Reforms for National Economic Development held in Nay Pyi Taw on 19 August 2011.

his executive powers to authorize new U.S. investment in the country that was prohibited since 1997. He has also authorized the export of financial services, prohibited since 2003 – a key step because this measure had effectively excluded Myanmar from the international, U.S. dollar-based, clearing system. New investment over \$500,000 is subject to a reporting requirement intended to promote responsible business activity. In May 2013, the Obama administration decided that a 1996 ban on granting U.S. entry visas to the former military rulers of Myanmar, their business partners, and immediate families, was no longer necessary after two years of reforms. However, termination of that visa ban did not mean that people subject to it would automatically be eligible for visas. President Obama extended for another year the annual National Emergencies Act, which prohibits U.S. businesses and individuals from investing or doing business with Myanmar people involved in repression of the democracy movement since the mid-1990s. Some founding members and top management people in these conglomerates, and connected business people, as well as the subsidiary companies of these conglomerates are still on the sanctions list imposed by the U.S. Government. The Htoo Group of Companies, Max Group of Companies, Asia World Group, Myanmar Economic Corporation, and the Union of Myanmar Economic Holdings Ltd. are still on the U.S. Department of the Treasury's sanction list as of November 2013. On the other hand, individuals such as U Tay Za of the Htoo Group and his family members, U Tun Myint Naing of Asia World and his family members etc., are still on the U.S. Government's sanction list.

We have researched questions about the role of business conglomerates in the context of Myanmar's economic reforms- are they an engine of growth for the economy, or just political cronies? This paper discusses this question in detail in the following chapters.

## **2. Selection of the Conglomerates**

### **2.1 Business conglomerates and Myanmar's economy**

A conglomerate is formed by a combination of two or more companies engaged in entirely different business sectors, which fall under one corporate group, usually involving a parent company and several subsidiaries. A conglomerate is often a multi-industry and multi-national organization. The conglomerates in Myanmar are not truly global conglomerates. They are multi-industry but they do not have a presence in other countries, i.e. they are not multi-national. Myanmar has at least 30,000 companies, but only about 30 of them are regarded as conglomerates by the business arena and

observers.

The most successful family-owned business conglomerates in Myanmar have been built up since the late 1980s after the fall of the Socialist Government. During the late 80s and the early to mid-1990s, these conglomerates enjoyed substantial growth, whereas Myanmar saw the establishment of new conglomerates in the late 90s that have been built up by individuals who had close relations to the ruling military junta for several years.

The Myanmar Billion Group (or Biz-15), is described by author Stuart Larkin in “Myanmar at the Crossroads: Rapid Industrial Development or De-Industrialization (2012)”, as “The country's best-connected businessmen with their large family-owned conglomerates”. Furthermore, Larkin states that “The Biz-15, are important enough to secure access to the power salons of Nay Pyi Taw under almost all scenarios. Some have multiple patrons while others are close to just one or two top power-holders”.

Large business groups are important for Myanmar's economy as they drive the economy and as they grow steadily with the economy by attracting foreign corporations to establish joint ventures with them, or start other kinds of business partnerships, thus attracting more FDI inflows to Myanmar. Conglomerates can use their managerial skills, knowledge about local markets, established brand image, and financial capacity, to venture into new industries. They can start things on a scale that would be impossible for a typical start-up. In addition, large conglomerates create new jobs, thus reducing unemployment, aiding both the economic and human resource development of Myanmar's people.

Nobody knows exactly how large the conglomerates are, however this paper assesses the scale of the selected conglomerates in terms of lines of business and ownership one by one.

## **2.2 Rationales for selection of the conglomerates in Myanmar**

The conglomerates in Myanmar selected for this study are based on the top tax-payer list by business establishments and their popularity. Conglomerates are found in the 15-Biz Group, meaning the 15 top business groups, 30 conglomerates/30 cronies, and the Partial List of Cronies Who Provide Political and Financial Support for Burma's Ruling Regime; Prepared by Aung Din, in the U.S. Campaign for Burma, June 2011. The Internal Revenue Department of the Ministry of Finance has released the top tax-payer list since 2011-12, that declares the top 100 income tax payers and top 100 commercial tax payers. The Department has issued the top 500 list for the 2012-13 budget year. It included the names of the tax payers, addresses, and line of business only and no

financial data was released. The public can see who are the top tax payers at the corporate level rather than as individuals. Although the media pointed out that some top companies in the conglomerates are not in the list, the top tax payers enjoyed presidential awards and hold diplomatic passports. Some companies from Kanbawza, UMEHL, IBTC, Shwe Taung, Max, MEC, and Asia World are in the top ten income tax payer list. Some companies from UMEHL, MEC, IBTC, and Max are in the top ten commercial tax payer list of 2012-13.

Table 1

Table 2

Thus, altogether 11 business groups were selected as the conglomerates in Myanmar.

- Htoo Group of Companies
- Max Myanmar Group of Companies
- Kanbawza Group of Companies
- Asia World Co., Ltd.
- IGE Group of Companies (International Group of Entrepreneurs Co., Ltd.)
- Shwe Taung Group of Companies
- SPA/FMI Group (Serge Pun Associates and First Myanmar Investment Co., Ltd.)
- IBTC (International Brewery Trading Co.)
- Loi Hein Group of Companies
- MEC (Myanmar Economic Corporation)
- UMEHL (Union of Myanmar Economic Holdings Ltd.)

### **3. The Conglomerates' Profiles, Performance, and Strategy**

#### **3.1 Htoo Group of Companies**

The Htoo Group of Companies is one of the most influential top conglomerates in Myanmar. U Tay Za is the founder and Chairman of the Htoo Group, which has over 14 subsidiaries, engaged in numerous business sectors from banking and gems to hotels/tourism and airlines. He was born in 1963 to a former army cadet from the Defense Service Academy. He is perhaps Myanmar's best known and admired “business tycoon” or in a negative sense, a “top crony”, and seen by the public as a man who has close relationship ties with the former Senior General Than Shwe, and the previous SPDC military regime. In the late 1980s, U Tay Za founded Htoo Trading Ltd. by

leasing a rice mill and engaging in the agricultural sector. Later, the company profited from the teak extraction and timber business and enjoyed close ties with the top ruling junta. Over the next decade, the Htoo Group morphed into a conglomerate with several new business ventures. In 2004 it launched Air Bagan, the first private airline in Myanmar. It also rolled out branded luxury hotels and began leasing heavy machinery. Of the 14 subsidiaries, the Htoo Group's well-known companies and firms include AGD Bank, Air Bagan, Elite-Tech Co., Ayer Shwe Wah, Aureum Palace Hotels and Resorts, Htoo Trading, and Htoo Wood Products Ltd. etc. The group owns 17 hotels across Myanmar. The annual income of the Htoo Group of Companies is USD 500 million according to U Tay Za and according to a Forbes article, thus making the Htoo Group of Companies Myanmar's largest conglomerate. Future projects will concentrate in the trading, tourism, construction/real-estate development, and airline sectors. U Tay Za has recently started to rebrand himself as a good ethical business tycoon and has been trying to shed off his image of being regarded as Myanmar's "top crony". Several subsidiaries of the Htoo Group of Companies, together with U Tay Za and his family members, are still on the sanctions list of the US Department of the Treasury citing U Tay Za and the Htoo Group as being actively involved in the arms trade business during the former military regime. Recently, the group has moved and diversified into an insurance business, become a private fuel pumping station operator, and is involved in tourism and hotels etc. The group was granted one of the earliest licenses to import fuel directly as part of the SPDC's efforts to privatize the fuel industry. The Htoo Group of Companies has recently acquired a development project near downtown Yangon to construct a number of properties including a four-star hotel, an apartment complex, shop houses, and a shopping mall, on a 21.9 acre site. Air Bagan, with 12 aircraft, is one of the best performing local airlines in Myanmar, but has branding perception problems by Myanmar's public. As a result, Htoo has launched another new airline known as Asian Wings Airways with 4 aircraft. Htoo owns two airbus aircraft for domestic and overseas routes (Chaing Mai and Buddha Gaya). All Nippon Airways announced in 2013 that it would purchase a 49% stake in Asian Wings Airways for around 3 billion Japanese yen, the first foreign investment in a Myanmar-based airline since democratization. The Htoo Group's main strategic focus is on the trading, construction and real estate, airlines, banking, and tourism sectors.

### **3.2 The Kanbawza Group of Companies**

The Kanbawza Group is also a well-known local conglomerate. U Aung Ko Win, also known as Saya Kyaung, is Chairman of the Kanbawza Group. He was a school teacher

who rose to wealth via strong connections with Gen. Maung Aye, former Vice chairman of the State Peace and Development Council (SPDC). U Aung Ko Win started in business with support from the military leaders during the 1990s, when he struck it rich by gaining access to rich sapphire and ruby mines. His ties with the top ruling junta were strengthened by his marriage to Daw Nan Than Htwe, the niece of former Secretary 3 of the junta, Lt. Gen. Win Myint. He is also engaged in the agriculture business and served as the President of the Myanmar Billion Group, Nilayoma Co., Ltd., East Yoma Co., Ltd., and the Kanbawza Hospital in Taunggyi, Shan State. He is also the agent for London Cigarettes for the Shan and Kayah States. The Kanbawza Group was chosen for the Best Corporate Governance award for 2013 by the World Finance Magazine, which is the first time in the history of Myanmar's companies. The group includes various businesses such as construction, garments, insurance, banking, oil, communications, cement, aviation, and mining. There are altogether 11 subsidiaries and the major subsidiaries of the KBZ Group include Air KBZ, Myanmar Airways International, the Kanbawza Bank, and IKBZ insurance. The Kanbawza Bank, which is the flagship subsidiary of the Kanbawza Group, is the number one income tax payer for 2012-2013. U Min Htut, Director-General of the Ministry of Finance and Revenue, said the Kanbawza Bank earned over 10 billion Kyat (US\$10 million) last fiscal year with tax levied at 25 percent on net profits (DVB, 2013). U Aung Ko Win's Kanbawza Group's main business segment is undoubtedly banking and finance. He founded the *Kanbawza Bank Limited (KBZ Bank)*, now the largest private bank with over 130 branches in Myanmar. It was also one of the first private commercial banks in Myanmar founded in Taunggyi, Shan State. At that time, it was one of five major private commercial banks in Myanmar (Myanmar Universal Bank, Yoma Bank, Myanmar May Flower Bank, and the Asia Wealth Bank are the others). It won the "Best Commercial Bank in Myanmar" and "Best Banking Group in Myanmar" awards for 2013. The Kanbawza Bank declared US\$10 million in total net profits in 2012-2013 (DVB, 2013). Moving to the airline industry, on 1 April 2011, the bank launched *Air KBZ*, one of the four privately owned domestic airlines in Myanmar, with plans to expand to international flights in the near future. Air KBZ has a fleet six of 6 aircraft with 1 on order, and flies to 14 destinations locally. The Kanbawza Group also holds stakes in another airlines, MAI. In 2010, the then government of Myanmar sold an 80% stake in MAI to Kanbawza Bank Ltd. and 20% is retained by the state-owned domestic carrier, Myanmar Airways. It has currently a fleet size of 7 aircraft flying to 12 destinations locally and abroad. Kanbawza also has fuel pumping stations operating across major



cities in Myanmar. The Kanbawza Group also owns IKBZ Insurance Co. Ltd. The Kanbawza Group's main strategic focus is in the banking, finance, and airline sectors.

### **3.3 The Max Myanmar Group of Companies**

The Max Myanmar Group was first founded in the early 1990s by U Zaw Zaw. U Zaw Zaw is one of the well-known Myanmar business tycoons/cronies in the country and Chairman of the Max Myanmar Group of Companies, a major conglomerate with interests in the timber, gems, construction, mechanical engineering, transportation, hotel and tourism, rubber plantations, and banking industries. He also serves as the Chairman of the Myanmar Football Federation. He is also an AFC Exco Member and the Chairman of AFC Organizing Committee for Youth Competition. The Max Myanmar Group of Companies was originally established as Max Myanmar Co., Ltd. in 1993 and now, the company has expanded into a conglomerate with 9 subsidiary firms. It started operation by importing buses from Japan, simultaneously with the import of generators and earth-moving equipment and machinery. Through an aggressive growth strategy, the company expanded steadily and diversified into other business sectors and industries. In 2010, the ruling junta oversaw a rush of privatizations before handing power to a nominally civilian government. Max Myanmar acquired 12 gas stations, part of the land for the coming Novotel hotel, and a banking license for the Ayeyawaddy Bank, putting U Zaw Zaw in good position to capitalize on the ensuing opening of Myanmar's economy. Recently, U Zaw Zaw, without success, tried to bypass US sanctions by involvement in a process known as a reverse takeover of a Singapore company called the Aussino Group Ltd. The process, known as a reverse takeover or reverse merger, in which a private company (Max Group of Companies) merges with a publicly traded shell (Aussino Group Ltd. of Singapore) to gain access to capital markets. Aussino would buy U Zaw Zaw's Max Strategic Investments Pte. Ltd.—a holding company set up to run the conglomerate's gas-station operations—by issuing 70 million Singapore dollars, or roughly US\$55 million in new shares to the Max Myanmar Group of Companies. Eventually, this plan was rejected by the Singapore Stock Exchange. Max Myanmar Co., Ltd. is principally engaged in the business of trading, mainly in the supply of private and commercial vehicles and heavy machinery. The company is the sole distributor in Myanmar for the Japanese brand of “Airman” generators. In the construction sector, the company is participating in the Yangon Nay Pyi Taw Expressway construction project and the government’s ministry buildings in Nay Pyi Taw. Max was awarded almost all the construction projects for the stadia and gymnasiums for the 2013 South East Asia Games. In hotel and tourism, the group has a

total of three hotels in operation, namely, the Hotel Max Chaung Tha Beach, the Royal Kumudra Hotel, and the Landmark Hotel. The growth strategy of the Max Myanmar Group is to open more hotels and resorts in key cities and become the owner of the largest chain of hotels in Myanmar. One of the most recent ventures of the Group was the acquisition of a 5,000 acre rubber plantation project in 2005. In the near future, its aim is to participate in the manufacturing of tires and related products.

**3.4 The Asia World Group of Companies** U Tun Myint Naing (alias Steven Law and Lo Ping Zhong) is the Managing Director of the Asia World Group of Companies. Born in 1958, he is the son of the late Lo Hsing Han, the infamous drug lord and Chairman of Asia World. Asia World Co., Ltd. was founded on June 5, 1992 with strong financial backing, and engages in a broad range of business activities. Steven Law married Singaporean Cecilia Ng, a business partner, in 1995. In 1996, Asia World's Lo Hsing Han created a joint venture with Shangri-La Hotels and Resorts' Robert Kuok to build the Traders Hotel in Yangon, in which Asia World holds a 10% stake. There are three "Overseas branch companies" of Asia World in Singapore run by Steven Law and his wife. More than half of Singapore's investment in Myanmar goes through partnerships with Asia World, totaling more than US\$1.3 billion. U Tun Myint Naing is still on the US sanctions list. According to some sources, Asia World is Myanmar's largest conglomerate although it has fewer subsidiaries, only six companies, compared to its counterparts. However, it is also the most diversified with interests in industrial development, construction, transportation, import-export, and a local supermarket chain, in contrast to the Htoo Group of Companies (Asia Times, 2009). The Asia World Co., Ltd. was one of two major contractors (the other being the Htoo Group of Companies) to build the country's new capital at Nay Pyi Taw, including the National Landmark Garden (The Myanmar Times, 2009). The company, with the technical assistance of Singaporean firm CPG Consultants, was also responsible for developing and constructing the Nay Pyi Taw International Airport, which opened on 19 December 2011 (The Myanmar Times, 2011). Asia World is currently operating the Nay Pyi Taw Airport. In Yangon, the company has stakes in supermarkets, office towers, condominiums, and road construction projects. In 2011, it partnered with the Yangon City Development Committee to construct the extension of Strand Road. The company is also involved in garments, paper mills, palm oil, and infrastructure development. Asia World has also operated a port in Yangon's Ahlone Township since 2000. There are three wharfs controlled by the Asia World Port Management Co., Ltd. and they are the No. (1) Wharf with quay length 198M, No. (2) Wharf with quay length 156M and No.

(3) Wharf with quay length 260M, and total container storage capacity of 4,651 TEUs. In December 2010, Asia World was granted a contract to build 13 jetties at the Thilawa and Yangon ports. Asia World is one of 18 Myanmar firms involved in the development of the 50,000 acre (20,000 ha) Thilawa Special Economic Zone near Yangon (Weekly Eleven, 2012). In August 2011, Asia World was one of four companies granted government licenses to import and sell fuel in the country, together with the Htoo Group of Companies. In August 2013, Asia World was granted permission to distribute electricity to 37 townships in the Eastern Bago Region. The company is one of 20 private enterprises recently granted permission by Myanmar's government and President Thein Sein to supply electricity to 84 townships in other states and regions (Eleven Myanmar, 2013). Asia World Industries Ltd. produces co-extrusion CPP film, CPP metalized film, and flexible packaging film bags used for packing consumer products and the company provides and services advanced technology machines for extrusion, metalizing, printing, dry-laminating, slitting, cutting, and bag-making. The company's major export markets are the Asian countries, Australia, the USA, and Europe. Asia World established one of the first major chains of cold-storage supermarkets in Yangon, which is the Asia Light Supermarket chain, during the early 1990s. Under the former junta, Asia World Energy Ltd. partnered with the China Power Investment Corporation to build controversial dams (including the Myitstone Dam) along the Irrawaddy River in Kachin State. The Myitstone Dam project has been suspended by President Thein Sein's government. In September 2012, Asia Mega Link Ltd., a subsidiary of Asia World, was granted a joint venture with the Myanmar Post and Telecommunications Department to sell cellular phone SIM cards.

### **3.5 The IGE Group of Companies**

IGE is one of the top five conglomerates in Myanmar with just 8 subsidiaries employing 3,000 people. Former Minister U Aung Thaung's sons, U Nay Aung and U Pyi Aung, founded the IGE Company Ltd. in Myanmar in 1994. The company's registration in Singapore in 2001 serves as an umbrella firm for subsidiaries engaged in the timber, oil, gas, electricity, banking, hotel, telecommunications, and construction sectors through its subsidiary firms. Aung Yee Phyo Co. Ltd, an affiliate of IGE, is much smaller and is involved in agricultural production and timber trading. UNOG Co. Ltd., established in 2000, deals in the import/export of chemicals, electrical and power generating products, steel, and plastics. IGE was established in 1994 and registered in Singapore in 2001, when the company opened its office in Shenton Way, Singapore. However, despite its smaller size, it is still one of the top conglomerates in Myanmar with a successful

business as a major supplier of materials used in the construction of electrical substations and transmission lines, and sells equipment and machinery to both private- and public-sector companies in the oil and gas industry. It also provides compressed natural gas (CNG) filling stations for government projects. The company exports rice and imports machinery and spare parts for electricity generating projects, as well as steel, fertilizers, and chemicals. IGE subsidiaries also include a bank, hotels, a telecom company, and a trading company etc. The rise of U Nay Aung and IGE could not have happened without the influence and support of his father, Minister U Aung Thaung. IGE is the second largest timber company in Myanmar, earning more than US\$75 million in 2007. A revealing US diplomatic cable quotes a Rangoon-based businessman as stating that both men “Have used their family connections and close ties to the regime to amass great wealth”.

### **3.6 The Shwe Taung Group of Companies**

Founded in 1990, the Shwe Taung Group (STG) of Companies' core business sectors include real estate, construction and engineering, cement and construction materials, energy, infrastructure, trading, retailing, and hospitality. It has 10 subsidiary companies engaged in these sectors. Aik Htun currently serves as Chairman of Shwe Taung Group of Companies. He was born on 10 October 1948 in Mongkai in the Southern Shan States, the eldest of six children. The Olympic Construction Company was established in 1990 and focuses primarily on residential and hotel development in Yangon, and was one of the largest construction companies at that time. He and his family members were subject to European Union sanctions, due to benefiting from close ties with the previous junta, the SPDC. The Olympic Construction Company was renamed the Shwe Taung Group in 2004, after money laundering accusations and drug links by the US Department of the Treasury against its affiliated Asia Wealth Bank. As of 2013, Aik Htun remains the Chairman of the Shwe Taung Group of companies. STG is one of the country's largest employers with a workforce of more than 5,000. The company achieved an annual revenue of \$300 million in 2012. STG has plans to invest about US\$500 million in expansion over five years, focusing on property, shopping complexes, and office towers, and the Shwe Taung Group is interested in partnering with investors from Thailand and other countries (Irrawaddy.org, 2013). Prominent subsidiary companies include Shwe Taung Development Company, Octagon International Co., Ltd., and Octagon International Services Co., Ltd., Shwe Taung Cement, and Future Energy, etc. One of its subsidiaries, the Shwe Taung Development Company has more than 20 years of experience in the design, development, and

construction of real estate projects in Myanmar. From 1992 until today, the company has developed over 788 acres of land, including thousands of residential and commercial properties. It manages a diverse portfolio of residential developments, including the Malikha Garden housing project, the Central Area Development Project, May Kha Home Place, and the Twin Centro Condo. STG also manages the Junction Centre Group, which has a portfolio comprising 4 shopping centres in Yangon - Junction Center: 8 Mile, Maw Tin, Zawana, and the Junction Square and 1 Shopping Centre in Nay Pyi Taw – Junction Center Nay Pyi Taw. The Junction Shopping Centre Group has developed, owns, and manages 612,358 sq. ft. retail space in total. Another subsidiary, the Octagon International Co., Ltd., provides logistical services and has formed alliances with Sin Main Pte. Ltd., A.T. Global Investment Pte. Ltd., Builders International Trading Co., Ltd., and Sin Main Guangzhou Trading Co., Ltd., located in major Asian cities such as Bangkok, Singapore and Guangzhou etc. The Octagon International Services Co. Ltd. is the local distributor and dealer for Scania and Liebherr vehicles in Myanmar and offers a wide range of products under these brands and organizes sales, rentals, and after-sales services. It imports Scania buses and coaches for transport companies and individual clients, as well as heavy trucks for construction, mining, and the power generating sector. Liebherr's heavy machines such as cranes, excavators, dozers, multi-wheel loaders, truck mixers, concrete mixing plants, and industrial machines, are available for sale and lease. OIS has undertaken projects such as the Yangon-Mandalay Highway Project, Nay Pyi Taw Road Project, Pathein-Monya Highway Project, Sagaing-Monywa-Shwebo Road, Upper Paung Laung Hydropower Project, Baluchaung (3) Project, Tha Htay Chaung Project, Sai Din Project, and the Shwe Li (3) Project etc. Shwe Taung Development Pte., Ltd. ventured into a cement manufacturing project, later known as the Pyi Nyaung project, and in 2008 commissioned a 700 tpd wet process clinker production plant in Tharzi Township with permission granted by the Ministry of Mining. In 2010, the company formed the Shwe Taung Cement Co., Ltd. (STC) to implement this project. Fortunately, the original permit was upgraded to a 1000 tpd dry process clinker production plant. The core activities of the company include exploration mining for cement raw materials, and production and distribution of cement, with a planned annual production capacity of 450,000 tons. STG has also ventured into the insurance business and manages the Grand Guardian Insurance Public Co., Ltd., which is a public company.

### **3.7 The SPA/FMI Group**

Serge Pun, alias U Thein Wai, is the founder of the SPA/FMI Group of Companies. He was born in Myanmar in 1953 and moved with his family at the age of 11 in 1963 to China during General Ne Win's Socialist Government's reprisals against foreign residents in Burma at that time. In 1983, after working in the property industry for many years, he founded the Serge Pun & Associates (SPA) Group in Hong Kong as a real estate developer. Serge Pun & Associates (Myanmar) Ltd. (SPA) was founded in 1991 by Serge Pun as an investment holding and operating company pursuing various key manufacturing and service sectors. Currently, there are 30 operating companies within SPA, which includes its flagships, the First Myanmar Investment Co. Ltd. (FMI), a Myanmar Public Company, and Yoma Strategic Holdings Ltd. (YSHL), a Singapore Exchange Main Board Listed Company. Serge Pun was ranked #38 in Singapore's Richest 50 in the August 2013 issue of Forbes Asia, with a net worth of USD \$500 million (Forbes Asia, 2013). The First Myanmar Investment (FMI) Group of Companies is the only public (sells shares to the general public) "Top group" conglomerate and it is engaged in 8 core sectors with 25 subsidiaries (amongst the largest)- automobiles, real estate, retailing, services, luxury tourism, agriculture, and financial services. FMI is the flagship company of the SPA Group. Established in 1992, FMI was one of Myanmar's earliest public companies. With over 4,700 individual shareholders, FMI is an investment holding company that boasts a balanced portfolio of investments in seven different spheres of business. Real estate is FMI's main business in Myanmar. Although FMI's real estate assets only accounted for 31% of total assets in 2012, the real estate sector contributed 87% of revenue (Thura Swiss, 2013). Three properties contribute to the bulk of FMI's real estate revenue, and they are FMI City, Star City and FMI Centre. FMI City, located on a 465 acre site at the outskirts of Yangon, was developed throughout the 1990s. For the automobile industry, SPA Motors is in the business of servicing Nissan, Suzuki, and other Japanese made vehicles in Myanmar. With the relaxation of car import restrictions by Myanmar, SPA Motors has now experienced increased demand for its business operations. The company declared a K200 million dividend to FMI in 2012 and expectations for 2013 remain high. Successful Goal Trading is the sole distributor of China-made Dongfeng trucks in Myanmar. The operation started in 2010. Convenience Prosperity Company was set up in 2012 to import and distribute New Holland tractors in Myanmar. Yoma Yarza Manufacturing started out as a motorcycle manufacturing company but now it has switched to the importing business. The company imports Dayang brand motorcycles. FMI signed a MoU with Japan's Hino Motors in 2012 to open Hino service stations in Myanmar. On the other hand, FMI also owns and manages the Yoma Bank, with 46 branches across

the country. The group also owns the Pun Hlaing International Hospital, which was a struggling service-providing subsidiary, and after years of cost-cutting and shutting down unused wings of the hospital, it is now at least cash positive, but it is yet to return a profit.

### **3.8 The International Beverages Trading Company (IBTC) Group**

IBTC was established in 1995 with just 50 employees and has launched its first brands such as Grand Royal Whisky and Royal Dry Gin. Aung Moe Kyaw is the son-in-law of Thein Tun (also known as Pepsi Thein Tun, who brought Pepsi to Myanmar in 1991, and is now the Chairperson of Myanmar Golden Star, a group of 13 companies employing 4500 staff). In 1997, the Hlegu Distillery was opened to increase the production and expansion of bottling capacity. In 2000, IBTC opened its Mandalay factory to cater for demand in Upper Myanmar. In 2001 and 2002, IBTC introduced Eagle Whisky and Grand Royal Special Reserve Whisky to the local market. In 2003, Shwe Pyi Thar Factory 1 was set up to expand the blending and bottling capacity. In 2009, Shwe Pyi Thar Factory 2 was opened. Some products went through a re-launching process such as Special Reserve Whisky, Eagle Whisky, Hero Whisky, and Golden Island Whisky. In 2010, IBTC launched the Jazz wine cooler and the New Mandalay distillery commenced operations. The International Beverages Trading Company Limited (IBTC) now has over an 80% share of Myanmar's whisky market. The IBTC Group has an annual turnover of US\$ 100 million. Looking to change focus and diversify into other sectors and industries, IBTC has recently signed several high-profile deals and agreements with prominent multinational corporations. In May 2013, Alliance Brewery Ltd. (in which Aung Moe Kyaw is a major shareholder) signed a joint venture agreement with Heineken to distribute Heineken beverages in the local market. The brewery will be located near the country's capital Yangon and is expected to be operational by the end of 2014. The joint venture company plans to invest US\$60 million in the brewery, create more than 400 jobs and brew leading brands, including Heineken (Heineken N.V., 2013). In mid-2013, IBTC joined hands with Singapore-based Jardine Cycle & Carriage (JC&C) to launch showroom and service centers as Daimler AG, the manufacturer of Mercedes-Benz cars and Fuso trucks, and appointed JC&C as their authorized distributor and service provider in Myanmar, as the company's strategy changes from beverages to trading.

### **3.9 The Loi Hein Group**

Dr. Sai Sam Htum is the founder and Chairman of Loi Hein Company Ltd., a FMCG giant engaged in manufacturing, marketing, selling, and distribution of consumer products in Myanmar since 1996. An ethnic Shan, Dr. Sai Sam Htum earned a medical degree M.B.B.S in 1971 and his MBA degree from the United States in 2008. He lived for 5 years in Canada and the United States from 1987-1991, and he returned to Myanmar in 1992. In 1992, Dr. Sai Sam Htum assisted with the distribution and marketing of a local cigarette brand – Duya – manufactured by Myanmar Foodstuffs Industries (MFI). Later, MFI went on to trust Dr. Sai Sam Htum with more consumer products ranging from soft drinks to beer and rum. He also owns a football club, Yadanarbon FC, which was formed in 2009. In 1996, the Loi Hein Company Ltd. was established. In 2000, in association with Osotspa Co., Ltd. (Thailand), the Loi Hein Company launched the Shark energy drink and quickly gained market leadership. In 2002, LHC launched its first own brand, Alpine, that quickly became the market leader in bottled purified drinking water. In 2008, in association with the Green Spot Co., Ltd. (Thailand), LHC developed and launched a non-carbonated California Orange soft drink. In 2009 LHC was appointed as the exclusive distributor for the SPY Wine Cooler manufactured by the Siam Winery Co., Ltd. (Thailand). The Loi Hein Company Ltd. does not have any subsidiaries, and focus on their product portfolio of six main product lines, (a) Purified drinking water, (b) Non-carbonated soft drinks, (c) Carbonated soft drinks, (d) Energy drinks, (e) Wine coolers, and (f) Wine cocktails. Loi Hein manufactures 3 purified drinking water brands namely *Alpine*, *Life*, and *Blue Mountain*. In the non-carbonated soft drinks segment, the company produces *Boomy* and *Greenspot*. In the carbonated soft drinks segment, the brands are *Lemon Sparkling*, *Fantasy*, and *Blue Mountain*. Loi Hein distributes the Shark energy drink in Myanmar, which is a trademark of the Osotspa Co., Ltd. (Thailand). It also manufactures and markets *Royal Lipo* brand energy drinks. In the wine cooler and wine cocktail segments, the company markets the *Spy* brand from Thailand. In addition to these six core product segments, Loi Hein Ltd. also operates the Loi Hein Distribution Company (LHDC). LHDC is managed as an independent business unit within the Loi Hein Group of Companies. The company has relationships with wholesalers, hypermarkets, supermarkets, convenience stores, mini-marts, hotels, restaurants, schools, hospitals, small retailers, mom-and-pop shops, and kiosks, and LHDC serves over 30,000 outlets in Myanmar. LHDC's main manufacturing center is located on a 10 acre site 40 minutes drive North West of Yangon in the area of Htaut Kyant. This state of the art facility comprises a water processing plant utilizing the latest technology, fully automated bottling lines for purified drinking water and non-carbonated soft drinks as well as



integrated high capacity packaging lines. In order to benefit from this strategic advantage, LHC is in the process of opening representative offices in China and India to support trading activities in these two major markets. As the country opens up, the vision is to significantly increase the range and volume of products traded with neighboring countries.

### **3.10 The Myanmar Economic Corporation (MEC)**

The Myanmar Economic Corporation (MEC) is a holding corporation owned and operated by Myanmar's military, similar to the Union of Myanmar Economic Holdings Ltd. Founded in 1997 under Section 8-A of The State-Owned Economic Enterprises Law to establish profitable heavy industries to give Myanmar's military access to supplies of important raw materials (e.g. cement and rubber). MEC's operations are shrouded in secrecy (International Crisis Group, 2012). There are altogether 34 subsidiaries under the MEC umbrella. MEC is operated by the Ministry of Defense Quartermaster's General Office, with its private shares exclusively owned by active-duty military personnel. The corporation's capital was established through revenues generated from the public auction of state-owned enterprises throughout the 1990s. The Chairman of MEC is Lt. Gen. Wai Lwin and the MD is retired Brig. Gen. Thant Swe. The MEC's major business lines are in transportation, trading, services, and mining. According to a pamphlet produced by the Myanmar Economic Corporation, it has 26 fully running operations and 5 upcoming projects. The MEC is still on the sanctions list of the US Treasury as of November 2013. The Myanmar Economic Corporation has recently commissioned production of the country's first tire factory. The plant, under construction in Yangon City since late 2010, will have capacity for radial passenger vehicle and truck/bus tires along with other miscellaneous bias tires, inner tubes, liners, and bladders, according to the Chinese tire machinery manufacturer Qingdao Mesnac Co. Ltd., which provided turnkey engineering assistance for the project. The 1.5 million sq.ft. plant, operating as the Myanmar Economic Corporation Tire Factory—known locally as the Ywama Tire Factory—will have an estimated annual capacity of 855,000 units, according to local news reports. Mesnac said the company will produce and sell under the Tristar brand. The Myanmar Economic Corporation (MEC)'s upcoming projects are to build a (1) Refractory Plant, (2) High Tension Bolts and Nuts Factory, (3) Cold Rolled Coil, Hot Rolled Coil Reduction, Galvanizing, Color Coating, Forming Line Plant, and a (4) Direct Reduction Iron (DRI) Plant. Most of the heavy industries owned by the Ministry of Industry have been transferred to the MEC in the form of a privatization scheme.

### **3.11 The Union of Myanmar Economic Holdings Ltd. (UMEHL)**

The Union of Myanmar Economic Holdings Ltd. (UMEHL) was the first business venture formed by Myanmar's military after its takeover of the state in 1988. It was formed in 1990 with an initial capital of \$1.6 billion USD under the 1950 Special Company Act. The UMEHL is a military-managed business entity engaged in small-to-medium sized commercial enterprises and industries. The UMEHL conglomerate is jointly owned by two military departments with 40% of the shares owned by the Directorate of Defense Procurement and 60% owned by active and veteran defense personnel, including high-ranking military officials of the former ruling military junta, the State Peace and Development Council (SPDC), and veterans organizations. UMEHL is exempt from commercial and profit taxes. The conglomerate organizes its affiliated firms in the form of JVs or partners. UMEHL's main lines of business are manufacturing, trading, and services. The Union of Myanmar Economic Holdings Ltd. stands as a formidable military-owned conglomerate and poses a great deal of challenge and competition not only to local conglomerates but also to foreign firms looking to invest in Myanmar. With 54 subsidiaries, joint-venture companies, and factories spanning mining, banking, manufacturing, livestock and fisheries, trading, logistics and transportation, food and beverages, steel, and pharmaceuticals etc, UMEHL had annual profits of US\$ 48 million USD for the 2010-11 financial year. In the 2000s, several state-run enterprises including sugar factories were transferred to the control of UMEHL and MEC. In 2010, UMEHL opened Ruby Mart, a 50,000 square foot (4,600 m<sup>2</sup>) 5-storey shopping complex in Yangon's Kyauktada Township, in a building that once housed the Ministry of Commerce's Myanmar Agricultural Produce Trading. UMEHL is one of 18 Myanmar firms involved in the development of the 50,000 acre (20,000 ha) Thilawa Special Economic Zone near Yangon. UMEHL has a monopoly on several sectors such as gems and jade, cigarettes, etc. and UMEHL has exclusive access to secure preferential contracts with foreign firms. Most FDI in Myanmar was done through joint ventures with UMEHL during the SPDC government era. Its subsidiaries include Bandoola Transportation, Myawaddy Trading, Five Stars Ship Company, Myawaddy Bank, Myawaddy Tours and Travel, Myawaddy Enterprises Group, jade mines in the Kachin State and ruby and sapphire mines in Shan State, etc.

## **4. Sources of Growth and Key Success Factors of the Top Business Groups**

#### **4.1 Government support and special rights**

The conglomerates could not have achieved immense growth and rapid business success without the support and encouragement, and also the provision of special rights, of the military government, named the State Law and Order Restoration Council (SLORC) (1988-1997) and later changed to the State Peace and Development Council (SPDC) (1997-2011). It is also alleged that the top leaders of the former junta have their own favorite businessmen or cronies in these top groups. They would assign them to implement infrastructure projects such as by allowing timber concessions and special import rights (car permits, palm oil, diesel, etc.) and certain business privileges. On the other hand, some lucrative businesses were allowed to be operated only by the military-owned conglomerate UMEHL. These successes were fueled by the ruling government itself, as during this period the ruling junta did not allow foreign direct investment in key sectors, thus creating more business chances and opportunities for local conglomerates as any foreign and international competition was virtually non-existent. Top groups would enjoy a monopoly over certain markets and they would also enjoy reaping the economic benefits of being the market innovator. With blessing from the top leaders of the military, certain businessmen, or known notoriously as cronies, rose to fame and fortune quickly within two decades. Most top groups enjoyed tax privileges as the tax officers dared not touch the top groups. Therefore, during the SLORC and SPDC era, the business of Myanmar's conglomerates was highly dependent on the government's regulations and licensing. This was especially true for certain commodities such as wood, rice, gems, oil, and gas etc. These are typically regulated businesses and some conglomerates received favorable treatment to access special rights to export them to foreign countries. Htoo Trading Co. of the Htoo Group of Companies was especially prominent for accessing special teak exports under the military junta. According to the export data, in 2011-2012, the country exported 371,000 metric tons of teak and 1,789,400 metric tons of hardwood. Total value and volume of wood and wood-based products was nearly \$685 million and 4,295,788 TNE respectively. Htoo Trading exported 73,060 TNE of wood and wood based products worth about \$34.90 million. Looking at the rice sector data, the Myanmar Economic Corporation has been the number one exporter of rice since 2008, with the exception of 2011 when it was second. In 2008, the MEC exported 111,393 TNE of rice valued at \$34.41 million. In 2012, the volume rose to 175,552 TNE of rice worth about \$60 million. Rice exports have been increasing steadily over the last few years. In 2008, the Htoo Group's Ayer Shwe Wah Co. Ltd. made it into the top ten list of rice exporters with 25,149 TNE of rice exported and valued at \$3.07 million. However, in later years, the company did not

even appear in the listing. The export of Myanmar's gems such as rubies and jade was also monopolized heavily by the military and a few businessmen or cronies during the SPDC rule. According to official data from the Central Statistical Organization, Myanmar produced over 43.18 million kilos of jade, 1.06 million carats of ruby, and 1.45 million carats of sapphire, among other precious stones in fiscal 2011/12. Foreign firms are not allowed to extract jade in Myanmar. But as mining is capital intensive and thus needs assistance from major corporations, 20 or so of the largest operations in Hpakant are owned by Chinese companies or their proxies say industry insiders. Other players include the Union of Myanmar Economic Holdings Ltd. (UMEHL), the investment arm of the country's military, and Myanmar tycoons such as U Zaw Zaw, the Chairman of Max Myanmar, who made fortunes collaborating with the former junta (Reuters, 2013). Under the former military junta, the rules for importing vehicles were strict and vehicle importation was only handled by a handful of entities that had special rights. Nowadays, under President Thein Sein's government, the vehicle import rules and regulations have been relaxed. Because of the previous import restrictions, vehicle prices in Myanmar were tremendously over-priced and inflated. From 2008 until 2010, the Union of Myanmar Economic Holdings Ltd. (UMEHL) was the top car importer in Myanmar importing nearly 1,500 cars during these years.

#### **4.2 Contact with foreign partners**

Among the top conglomerates, Asia World, Shwe Taung and UMEHL were linked with Chinese businesses and others have partners in other countries. Myanmar's top groups of companies and conglomerates have enjoyed tremendous growth and success because of these business relationships with foreign partners during the past two decades. Considering the fact that foreign direct investment was not allowed during the military regime period (1988-2011), the economy was hit hard, with inflation averaging around 30.1% from 2000 to 2007, and all fundamental market institutions were suppressed without any free and fair competition. Now that the new civilian government under President Thein Sein has encouraged economic liberalization policies and allowed foreign direct investment and Myanmar's markets have become more open and dynamic, and the local conglomerates will continue their business success with the support of foreign partners and business institutions. According to Notification 11/2013 for foreign direct investment, joint ventures cannot give the foreign participants more than 80% of the equity. Thus, Myanmar nationals need to hold a minimum of 20% of the investment. The Notification prescribes a wide range of activities that require joint venture status with Myanmar nationals. Moreover, as most sanctions and trade restriction imposed by

western governments have been lifted it is now more flexible and convenient to conduct trade transactions and export/import activities with western countries. Foreign direct investments are not allowed for the trading and retail sectors. Foreign firms looking to invest in Myanmar need local partners and the top business groups become the major partners.

#### **4.3 Conglomerates in Myanmar's economic growth**

Myanmar's economy has been growing steadily since 2005 when the government moved the capital from Yangon to Nay Pyi Taw. Building Nay Pyi Taw from 2005 to 2010 along with other infrastructure projects across the country pushed the growth of the conglomerates enormously. Myanmar's GDP grew an estimated 6.3–6.5 percent in the fiscal year ending March 2013 (FY 2012-13), and the pace is expected to quicken to 6.5–6.75 percent in FY 2013-14—the fastest in Southeast Asia (ADB, 2013). Growth is projected to be driven by a robust increase in domestic consumption and investment, as well as exports. Natural gas production, which accounts for nearly 41 percent of total exports (gas export to Thailand is over US\$ 3 billion a year), will likely be the foremost growth driver. Gas exports to China and Thailand could rise significantly in 2013-14 as two major offshore gas fields become operational. Jade exports became the second largest export item from 2010-2012 with another US\$ 3 billion. In addition, trade should get a boost with the duty- and quota-free access that Myanmar's exports received from the European Union in July 2013. Tourism is also trending sharply upward, with international visitor numbers and revenue increasing 1.5 times in FY 2012-13 and exceeding one million visitors and \$500 million of revenue respectively (Myanmar Ministry of Hotels and Tourism, 2012). All this economic growth is expected to spur government revenues and keep the fiscal deficit close to the 5 percent target despite rising expenditure on health and education. As Myanmar's economy grows, the local top groups will ride on the wave of success and further increase their profits and expand their business empires, however, the same is not necessarily true vice versa.

#### **4.4 Conglomerates and going public**

Among the conglomerates, the FMI Group is the only public company group, and the other groups have a few public companies. In February 2013, the Asian Green Development (AGD) Bank, owned by U Tay Za's Htoo Group of Companies received approval from the Directorate of Investment and Companies Administration to become a public company. AGD has also announced that it plans to turn itself into a public company and sell shares to the public. The Loi Hein Group of Companies with

USD\$ 100 million annual revenue will become a public company in the next three years (The Myanmar Times, 2011). Loi Hein is planning to register on the Myanmar Stock Exchange in 2015, either publicly or as an IPO [initial public offering]. Other groups show no inclination to go public except for some insurance companies.

#### **4.5 Future projects and strategies of the conglomerates**

Historically, some conglomerates gained business growth and achieved success through focusing on just one or two sectors at first and later diversifying into other sectors. Some conglomerates are rather secretive with their future projects, whereas others are more open and have released press statements accordingly. The Htoo Group of Companies has recently acquired a development project near downtown Yangon to construct a number of properties as mentioned previously. The Shwe Taung Group of Companies' future projects and activities are often reported by Myanmar's media. As construction is one of the Shwe Taung Group's core business activities, the company will develop new infrastructure projects in Yangon in the near future. First of all, the Shwe Taung Development Co., Ltd (a subsidiary of the Shwe Taung Group) will collaborate with IGE and the Yangon City Development Council to develop two low-cost housing projects with 17,000 apartment rooms on a 220-acre site in Yangon. The same company will also develop new buildings on the site of the former New Bogyoke Market and construct 23-floor, 25-floor, and 28-floor shopping centres, office complexes, and hotels etc. in downtown Yangon. It will also construct 15-floor, 19-floor, and 22-floor buildings near Junction Square (also on land owned by Shwe Taung). Moreover, Shwe Taung is also involved in the construction of the Traders Square Commercial Complex annex where a new 20-floor building is currently under construction. MIC has also recently granted Shwe Taung Energy Services Co. Ltd. permission to operate environmentally-safe gas storage tanks on a BOT system. Myanmar's cement industry has a huge growth potential, as local supply still cannot meet the local demand. Three of the top groups have plans to construct three cement factories across Myanmar in the Yangon Region. Thailand's SCG Company has already announced that they will build a cement factory in Myanmar, and to get ahead of the competition from foreign companies, the Htoo Group, Kanbawza Group, and Shwe Taung Group will construct three cement factories with a production capacity of 1,000 tons daily. The cement industry and construction materials are two of the industries that conglomerates can enter in the next few years. Another is the insurance sector. The majority of conglomerates such as the Htoo Group, Kanbawza Group, IGE, and Shwe Taung Group have already established insurance companies after the Myanmar

government allowed private insurance companies for the first time since 1962. Moreover, there is also potential for the air travel sector. The FMI Group has plans to establish its own airline to fly domestic routes. Currently, the group does not have any aircraft and thus leases aircraft from Myanmar Airways to fly the Yangon-Mandalay route. FMI has also recently entered into important joint venture agreements, which will enable the conglomerate to help diversify further its business activities and enter high growth industries in Myanmar. The FMI Group has recently taken a 10% stake in a joint venture with Parkson Retail Asia and opened Myanmar's first Parkson Department Store at the FMI Centre in downtown Yangon. FMI together with Yoma Strategic Holdings (both affiliates of the Serge Pun and Associates Group), set up Chindwin Holdings in early 2013 to serve as a subsidiary company for the tourism business in Myanmar. Chindwin Holdings has already acquired Shwe Lay Tagun, which is the popular hot air balloon operator of "Balloons over Bagan". It has also acquired a 21 acre site for a hotel construction project in Bagan. Moreover, FMI and Yoma Strategic established a joint venture agreement in early 2013 to service Mitsubishi brand vehicles in Myanmar known as Myanmar Motors Pte., Ltd. FMI also has upcoming property development projects. One is the Riverside Development Project on a 12 acre site on the bank of the Hlaing River in Yangon's Hlaing Thar Yar township near FMI City. FMI is also undertaking one of the biggest redevelopment projects in Yangon's history, The Landmark Development Project. When finished, it will encompass 10 acres in the middle of downtown Yangon. This project includes the old Burma Railway Company that will be transformed into a 5-star boutique hotel and the current Grand Meeyahta building will be demolished to make way for an office/residential complex. Beverage giants IBTC, facing tough competition from foreign conglomerates, entered the Myanmar market recently, and has plans to diversify into other sectors. Recently, IBTC has entered into a joint venture agreement with The Jardine Cycle & Carriage Company of Singapore to become the authorized dealer for Mercedes Benz and Mitsubishi Fuso in Myanmar. The resulting company is the Cycle & Carriage Automobile Co., Ltd., which has concluded a joint venture with the Mazda Motor Corporation from Japan to open Mazda car showrooms in Myanmar. All the conglomerates keep an eye on Thilawa's SEZ projects and they have already occupied jetty and wharf facilities. They will participate in the Thilawa consortium. The Myanmar Economic Corporation's (MEC) upcoming projects are to build a (1) Refractory Plant, (2) High Tension Bolts and Nuts Factory, (3) Cold Rolled Coil, Hot Rolled Coil Reduction, Galvanizing, Color Coating, Forming Line Plant and a (4) Direct Reduction Iron (DRI) Plant.

#### **4.6 Degree of cronies**

Based on the above information, selected conglomerates were researched to explore their overall performance by evaluating the sources of growth and key success factors, such as their connection with the military government, foreign contacts, involvement in strategic sectors, competence, and the impact from sanctions. Sources of growth and the degree of crony influence can be found in Table 4.1. Htoo, Max, Kanbawza, and IGE have a high degree of crony influence and sanctions have affected these conglomerates and the military supported/owned MEC and UMEHL.

Table 3

### **5. Constraints to Growth**

#### **5.1 Market openness**

Open markets and free and fair competition might not have necessarily influenced the growth of the conglomerates, as during the former junta's rule Myanmar's economy was only partially open and competition was neither free nor fair, since free market institutions were prohibited. Moreover, market openness under the military government was not necessarily crucial to a local conglomerate's success in Myanmar because the connections and relationships with the right individuals were more important. However, the second market openness in 2011 under the new government has created constraints for the conglomerates as most government projects have to be transparent and some projects require international tenders.

#### **5.2 Media monitoring**

Under the former military rule, several laws were passed to suppress the media's freedom and to control further dissemination of information in Myanmar. There were certain boards and committees in charge of censoring during this time, such as the Press Scrutiny and Registration Division in the Ministry of Information, which censored all forms of media, ranging from publications such as newspapers and magazines and other published content like books. Since the reforms took place however, press censorship was eliminated, which led to an increased number of newspapers, magazines, and journals in the market. Previously, there were only three state-owned newspapers during the SPDC rule but now, there are an additional 20 private newspapers. The number of weekly journals has also increased from about 150 previously to 200 titles now.



Furthermore, there are around 90 monthly magazine titles (up from 60 previously). The rise of the printed media, encouraged by the elimination of censorship, allows journalists from the private media to monitor the business activities and projects of the conglomerates, thus allowing Myanmar's public to become more familiar with the top groups. Some printed media even held interviews and talk sessions with the owners/founders of these groups leading to less alienation and animosity towards them by the public. Some of these 'cronies' became literally celebrated figures on some Facebook pages! The use of Facebook and social media has also increased in Myanmar together with the relaxation of internet censorship and the development of the IT infrastructure in the country. The total number of Facebook users in Myanmar is now more than 1 million (Myanmar Computer Professionals Association, 2013).

### **5.3 Regulatory control in the reform process**

The economic landscape of Myanmar has become dynamic and competitive after President Thein Sein's liberalization of economic policies. The reform process encourages good governance, clean governance, corporate governance, and the rule of law. These changing trends act as both an opportunity and threat to local conglomerates. The influence of parliament on the Union government and its ministries limits the opportunities for the conglomerates as well.

### **5.4 Competition by local and foreign players**

Perhaps the most powerful force for market constraint comes from the intense competition between local and foreign players. Some conglomerates such as Loi Hein have already started to battle with international beverage giants such as Coca-Cola and Pepsi through their JV with local partners.

Without doubt, the rest of the local top group companies cannot compete effectively with Loi Hein's products, especially in beverages. Few are even engaged in the same business segments. IBTC, another top group company, is involved in the manufacturing and marketing of alcoholic beverages so it is not a direct competitor for Loi Hein Ltd. What Loi Hein has to worry about is the intense competition it is facing from international soft-drinks brands such as Coca-Cola, Pepsi, Sunkist, Sprite etc., which have recently re-entered Myanmar through joint-ventures with local corporations. In the past, most of these products were imported into Myanmar through border trade (most illegally) but the prices were high, and that often put off local consumers. In June 2013, a year after the vast majority of American sanctions were lifted, Coca-Cola entered the market through a joint-venture with local bottler Pinya Manufacturing Co., pledging to

invest \$200 million in domestic manufacturing plants over the next five years. The group's Star Cola, once the leading cola brand in the country, has now already been displaced in terms of market share by two overseas brands, Coca-Cola and PepsiCo Inc.'s Pepsi (The Wall Street Journal, 2013). Loi Hein tries to maintain its position as "secure" amid the renewed competition in Myanmar's soft-drinks market. Moreover, Loi Hein will have to work with a big partner to support it financially. It is now planning a huge expansion into banking, insurance, property development, and the oil and gas sector. Most top groups see no advantage from the coming ASEAN Economic Community (AEC), due for launch in 2015. Other ASEAN countries, such as Thailand, Malaysia and Vietnam, stand to benefit more, and they will have to compete with neighboring countries in business. Some groups are looking at diversification options in the near future. The Department of Energy Planning has issued the latest list in mid-2013 of over 100 local companies who have registered at the Department to invest in the oil and gas sector. The conglomerates already have a head-start in Myanmar's market since almost all of them have been around for two decades and thus they have already established a market presence, gained market share, achieved the economies of scale, reduced or totally eliminated learning curves, and formed crucial relationships with local business stakeholders. However, in terms of financial capacity, they will face strong competition from international conglomerates that often have stronger financial muscle compared to the local conglomerates. It is getting tougher for the local conglomerates as the big multinationals establish a presence in Myanmar, because they are more powerful and stronger in terms of several capacities (The Wall Street Journal, 2013). Another worry for local firms is that multinational corporations have regional ties and networks in the Southeast Asian countries neighboring on Myanmar, particularly in Thailand, which would allow them to quickly engulf local competition. Here are some examples of foreign conglomerates entering Myanmar during the last couple of years. SK Group, one of the five largest conglomerates in South Korea, has entered the construction industry in Myanmar. Other South Korean firms such as Samsung, LG, Hyundai, and POSCO have already stepped into the Myanmar market.

## **5.5 Sanctions**

Sanctions may act as a constraint to growth of the conglomerates however. Since President Thein Sein took office, sanctions have been removed gradually by the western governments' welcome of the government's political and economic reforms and encouraging further economic growth. Australia was one of the first western oriented countries to lift sanctions targeted against Myanmar in mid-2012. In April 2013, the

European Union agreed to lift all sanctions on Myanmar, except for the arms embargo. The move took place a year after suspending them in response to a dramatic series of reforms put in place since Myanmar's military stepped aside and a quasi-civilian government was installed in 2011. However, the governments of these countries will discontinue the policy of both neither encouraging nor discouraging trade and investment, thus opening up more opportunities. The US has suspended broad restrictions on investment and trade with Burma. It still forbids imports of rubies and jade from Burma, and doing business with military-owned companies. But the restriction with the greatest impact for investors is against dealings with individuals and companies on the Treasury Department's Specially Designated Nationals list, which identifies those linked to sanctioned governments, terrorists, and drug traffickers. Australia's sanctions list named 392 individuals, before it was repealed in June 2012. The EU listed 656 individuals and companies, plus another 1,207 companies in the timber, metals, and gem industries, the money-makers for the military that were banned to European investors. The EU suspended its restrictions a year ago, then lifted them entirely in April, 2013 (The Irrawaddy, 2013). President Barack Obama's administration has lifted some sanctions targeted against Myanmar and welcomed the reforms. In May 2013 the United States lifted another set of sanctions against Myanmar to support reforms in the formerly army-ruled country, while retaining visa and investment bans against individuals accused of human rights abuses. Thus, the owners/founders and their family members of some of the conglomerates are still on the United States' sanctions list, such as U Tay Za of the Htoo Group, and U Tun Myint Naing of Asia World, according to the website of the US Department of the Treasury. All in all, because of certain loopholes combined with the lifting of sanctions against Myanmar the local tycoons will not pose a significant risk to the growth of the conglomerates in the coming future. However, certain trade restrictions remain such as the United States still bans the import of rubies and gems from Myanmar. Moreover, the United States prohibits investment in military entities owned by Myanmar's armed forces or its Ministry of Defense.

## **6. Conclusion and Recommendations**

Local conglomerates have played a significant role in Myanmar's economy for two decades. Although they were not the true engines of growth for the economy, they still had strengths unavailable elsewhere and were the only organizations to accomplish the

tasks assigned, especially in heavily invested infrastructure projects that were nil or low return projects. The previous military government had to support them in return. Thus they are not just political cronies. The conglomerates will continue to play a big and important role in the development and growth of Myanmar's economy within the coming years because as they expand, more jobs will be created and the amount of taxes paid to the government will also increase.

The economic reforms are the fuel for long-term economic success and many people across the country stand to benefit, but those who profited most from the old regime's restrictions and privileges will lose access to windfall profits and guaranteed monopolies in the future. The crony businessmen, the military, and the party elite will still do well but will need to play by new rules, handle domestic and foreign competition, and even pay taxes. With limited options, the cronies are trying to distance themselves from their murky past and rebrand themselves as valuable contributors to the new economy. There are other top group conglomerates, which are not included in this report, and which are also important to note. These include for instance the Shwe Than Lwin Group, Capital Group, Dagon International Group, and the Eden Group etc. Many of these conglomerates have already started looking for, and some have signed agreements and joint ventures with foreign conglomerates and corporations, and so they are set to grow rapidly in the future. The following policies are recommended for all stakeholders, government, conglomerates, and foreign investors, to make best use of the strengths of the conglomerates for business success and economic growth.

- 1) Myanmar's government should encourage local conglomerates to become more involved in industrial sectors rather than lucrative trading and exploration of natural resources and raw unprocessed minerals and gems. It is much better to start with heavy industry and large-scale manufacturing to connect with the regional production networks. The government should create a level playing field for locals who have competence in the first phase, and all investors, both locals and FDI, in the second phase.
- 2) Conglomerates should focus more on the manufacturing and service sectors to become real engines of growth for the country. Conglomerates need to be involved in the regional and international markets and the production networks. They should start value-added manufacturing by utilizing SMEs as supporting industries. They should also plan to go public to be ready for the upcoming stock exchange and capital markets. Conglomerates should be models for CSR (Corporate Social Responsibility).

- 3) As conglomerates are potential local partners, foreign investors should join hands with them for win-win opportunities.
- 4) The remaining sanctions and restrictions against Myanmar by international governments should be lifted totally, including those imposed on the conglomerates, in order to help achieve the ongoing reform process.

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Table 1  
Top income tax payers list in 2012-13

<b>Position</b>	<b>Company Name</b>	<b>Group of Company</b>	<b>Line of Business</b>
1	Kanbawza Bank Ltd	Kanbawza	Banking
2	Myanmar Brewery Co;Ltd	UMEHL	Production
3	Int'l Beverages Trading Co;Ltd	IBTC	Trading
5	Shwe Taung Development Co;Ltd	Shwe Taung	Trading
7	Max (Myanmar) Construction Co;Ltd	Max	Construction
8	Dagon Beverage Co;Ltd	MEC	Production
10	Asia World Co;Ltd	Asia World	Trading
13	Htoo Construction Development Group Co;Ltd	Htoo	Construction
18	Elite Tech IT Services Co;Ltd	Htoo	Services
48	Rothmans of Pall Mall Myanmar Pte; Ltd	UMEHL	Production
51	International Group Of Entrepreneur Co;Ltd	IGE	Trading
69	Htoo Trading Co;Ltd	Htoo	Trading
72	Ayeyarwady Bank Ltd	Max	Banking
109	SPA Project Management Co;Ltd	FMI	Construction
122	FMI Syndication Ltd	FMI	Services
123	Asia World Industries Ltd	Asia World	Production
133	Max (Myanmar) Gems & Jewellery Co;Ltd	Max	Gems
138	Elite Tech Manufacturing Co;Ltd	Htoo	Industrial / Production
290	Max (Myanmar) Hotel Co;Ltd	Max	Hotel
365	Asia Green Development Bank Ltd	Htoo	Banking
424	Elite Group Co;Ltd	Htoo	Trading

Source: Internal Revenue Department

Table 2  
Top commercial taxpayers list in 2012-13

<i>Position</i>	<i>Company Name</i>	<i>Group of Company</i>	<i>Line of Business</i>
1	Myanmar Brewery Ltd	UMEHL	Production
2	Rothmans of Pall Mall Myanmar Pte.,Ltd	UMEHL	Production
3	Dagon Beverage Co;Ltd	MEC	Production
4	International Beverage Co;Ltd	IBTC	Trading
9	Max (Myanmar) Manufacturing Co;Ltd	Max	Manufacturing
13	The First Automotive Co;Ltd	MEC	Production
14	Elite Tech IT Services Co;Ltd	Htoo	Services
27	Shwe Taung Energy Co;Ltd	Shwe Taung	Trading
31	Myanmar Treasure Hotel & Resort Group Co;Ltd	Htoo	Hotel
37	HtooTrading Co;Ltd	Htoo	Trading
38	PRA FMI Pansea Hotel Co;Ltd	FMI	Hotel
41	Air Kanbawza Co;Ltd	Kanbawza	Services
54	Max (Myanmar)Hotel Co;Ltd	Max	Hotel
67	Yoma Yarzar Manufacturing Co;Ltd	FMI	Production
82	Asia World Industries Co;Ltd	Asia World	Production
175	Shwe Taung Development Co;Ltd	Shwe Taung	Trading
270	Elite Tech Manufacturing Co;Ltd	Htoo	Industrial /Production
327	Htoo International Industry Group Co;Ltd	Htoo	Production
408	Max (Myanmar) Gems & Jewellery Co;Ltd	Max	Gems
445	Htoo Construction Development Co;Ltd	Htoo	Construction

Source: Internal Revenue Department

Table 3  
Assessment of sources of growth and degree of cronies

Sr	Name of conglomerates	Connection to military government	Foreign contact (China)	Foreign contact (other countries)	Strategic sectors	Competence (management skill)	Competence (capacity)	No Sanction impact	Degree of cronies
1	Htoo Group	■	×	●	■	●	■	×	■
2	Max Group	■	×	●	■	●	■	×	■
3	Kanbawza Group	■	×	●	●	●	●	●	■
4	Asia World	●	●	●	●	●	●	×	●
5	IGE	●	×	●	●	●	●	●	■
6	Shwe Taung	●	●	●	●	●	●	●	●
7	FMI	●	●	■	●	●	●	■	●
8	IBTC	×	×	●	●	●	●	■	●
9	Loi Hein	×	×	●	●	●	●	■	●
10	MEC	■	●	●	●	●	●	×	■
11	UMEHL	■	●	●	●	●	●	×	■
	Rating								
	Small scale	●							
	Medium scale	●							
	Large scale	■							
	None	×							

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