**Highlight**

**Lao PDR:** Laos-Thailand Rail Link Phase II - container yard is completed: Progress in the cross-border rail link project would help Laos to strengthen land connectivity and accelerate the transformation of Laos from a land-locked to a land-linked country.

**Vietnam:** Car sales hit record high in 2016: Vietnam’s car market is expected to see a surge in imported cars in the coming years, mainly triggered by the reduction in import tariffs from 50% in 2015 to 0% by 2018 under the ASEAN Trade in Goods scheme (ATIGA) and to comply with WTO commitment.

**Myanmar** implements investment reforms: The new investment laws would help to create a more investment-friendly environment in the country.

**Mitsubishi Corp. to set up hospital management venture in Myanmar:** The nation’s rising per capita income and government’s commitment to develop healthcare services paint a brighter outlook for the healthcare sector.

**Economic Update**

- **Laos-Thailand Rail Link Phase II - container yard is completed**

Laos-Thailand Railway Construction Project Phase II (Thanaleng-Vientiane) is separated into two sections.

Section 1 includes a container yard, tracks to the yard, upgrading signal and telecommunication systems, and construction of the Railway Department’s Office and row houses. This section has recently been completed at an estimated cost of THB656 million.

Section 2 includes the Vientiane Main Station, 7.5 km railway main line (track work) linking the container yard at Thanaleng to Vientiane Station, and the level crossing. Construction is scheduled to start by end-2017 and expected to be completed by 2020. Cost of construction is estimated at THB945 million, of which THB900 million will be provided by Thailand.

**Krungsri Research’s view:** Progress at the Laos-Thailand Rail Link Phase II would improve Laos’ land connectivity channel and accelerate the transformation of Laos from a land-locked to a land-linked country.

Currently, Thanalaeng railway station is the only station on Laos’ railway network that runs between Vientiane Capital and Thailand’s Nong Khai province. It transports about 2,500 to 3,000 passengers a month but is insufficient to handle commercial cargo.

However, completion of Section 2 would extend the track from Thanaleng on the outskirts of Hadxaifong district near the Mekong River to Khamsavat village in the inner Xaysettha district of Vientiane Capital. This will be capable of transporting both passengers and goods.

The Laos-Thailand Rail Link would help to boost trade and investment between Laos and Thailand. It would also support economic activities in Nong Khai which will house one of Thailand’s Special Economic Zones (SEZs).

In addition, news media have reported the Laos-Thailand track will be connected to the upcoming Laos-China high speed railway through Vientiane Station. However, there is skepticism how the 1-m gauge Laos-Thailand railway track would connect with the 1.435-m gauge Laos-China railway.
● Vietnam’s vehicle sales hit record high in 2016

Data from the Vietnam Automobile Manufacturers Association (VAMA) show total vehicle sales in Vietnam hit a record high of 271,833 units in 2016, up 30% YoY.

Passenger vehicles accounted for 60% of total sales, followed by commercial vehicles at 35% and special-purpose vehicles (SPV) at 5%.

There was strong growth in all segments. Passenger vehicle sales jumped 36% YoY, commercial vehicles 22% and special-purpose vehicles 34%.

Sales of Complete-knocked-down (CKD) units increased by 32% YoY and Complete-built-up (CBU) units by 5%.

In addition, CBU imported cars have played a bigger role in Vietnam’s car market. According to a local news media, in 2016 Thailand was the largest source of Vietnam’s CBU imports for 34,336 units, followed by India 22,000 units, South Korea 20,204 units, and China 10,989 units.

Krungsri Research’s view: Vietnam is expected to see a surge in imported cars in the coming years, mainly triggered by the reduction in import tariffs to 0% under ASEAN Trade in Goods scheme (ATIGA) by 2018 as well as under WTO commitment. Cheaper imported cars coupled with growing domestic demand would drive Vietnam’s auto sales to remain among the fastest growing market in ASEAN; it is currently the second-fastest growing vehicle market in ASEAN at c.36% p.a. in the last four years.

Under ATIGA, Vietnam has committed to reduce import tariffs on CBUs from 50% in 2015 to 40% in 2016, 30% in 2017, and to zero by 2018. For non-ASEAN countries, since 1st January 2017, Vietnam has committed to reduce import tariffs under WTO from 70% to 58% for 4WD vehicles, from 51% to 47% for sport utility vehicles (SUV), and from 61% to 58% for vehicles with over 3.0-liter engine capacity.

In 2016, when the import tariff for CBU units from Thailand was reduced to 40%, sales volume of imported CBU cars from Thailand leaped from No. 4 spot to snatch the top spot from China vehicles. This suggests that when CBU import tariff drops to zero in 2018, it would benefit car makers in Thailand. However, Thailand’s car exporters be competed by relatively lower price form other car export countries (e.g. India).

However, Vietnam’s domestic car makers would face new challenges and intense competition from imported cars. In addition, Vietnam car exporters are still struggling to meet local content requirement in order to get the preferential import tariffs under several free trade agreements, including AFTA. Current local content is only 7-10%, far from the nation’s target of 60%.

Moreover, local news media recently reported that big car makers in Vietnam have been gradually reducing production activities in Vietnam in favor of importing cars like Toyota Fortuner and Honda Civic to sell in the domestic market. This is reflected in the rising share of FDI flowing into the automobile and motorbike wholesale, retail trade and repair sectors, from 3.5% of Vietnam’s total FDI inflows in 2015 to 7.8% in 2016.
**Mitsubishi Corp. to set up hospital management venture in Myanmar**

Mitsubishi Corp. of Japan will invest in Myanmar’s hospital services sector, aiming to establish medical complexes in at least 10 locations in Myanmar.

The first project would be a general hospital which is expected to open by 2020. Mitsubishi will form a joint venture with local food and real estate conglomerate Capital Diamond Star Group (CDSG) and hospital operator Yee Shin Holding for this project. The entire project will cost about JYP10 billion (about USD90.4 million), with 30% funded by Mitsubishi Corp. Mitsubishi Corp. will invest in medical services, CDSG will develop the site, and Yee Shin will operate the hospital.

The hospital will be built on a redevelopment site about 10km from the center of Yangon. It will primarily employ Burmese nationals who are currently working domestically or abroad. It will also invite doctors from Japan in order to target demand for perceived high-quality medical services.

The hospital facility will have 300 beds, 70% of which will be private rooms mainly to cater to the high-income group. It will offer a wide range of specialties including orthopedic surgery, ophthalmology, gastroenterology, and obstetrics & gynecology, as well as 10 surgery rooms and equipment such as CT scanners. Outpatient care is expected to reach a maximum of 1,000 patients per day.

**Healthcare budget (% of general government expenditure)**

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Source: US commercial Service

**Krungsri Research’s view: Rising per capita income in Myanmar and the government’s commitment to develop healthcare services would support the rapid growth of the nation’s healthcare sector.**

The national healthcare budget is set to increase at a faster pace. Data from the Myanmar Ministry of Health show government spending on healthcare has increased 8.5 times from 2000/01 to 3.38% of general government expenditure in 2014/15. It is targeted to reach 6% by 2020, reflecting the government’s commitment to improve healthcare services in the country.

Growth will not be limited to the public sector. The role of the private sector has also increased since Myanmar opened up its economy. According to a US commercial service report, there are currently 1,068 public hospitals and 193 private hospitals in Myanmar. The source also mentioned that the number of hospitals are increasing along with demand for quality healthcare.

Supported by rising health awareness and per capita income, private sector healthcare spending in Myanmar has been rising gradually at an average rate of 17% per year over 2010-2014, reaching USD1.1 billion in 2014 (data from US commercial service report).

**Myanmar’s healthcare sector is attracting more foreign investors as foreign companies are permitted to open hospitals under joint ventures with local hospitals or companies. Foreign investment in healthcare services is expected to rise over the coming years.**

Nevertheless, the growing healthcare industry in Myanmar would not significantly affect Thailand’s healthcare industry in the near term because it would take time to build up trust in its medical services and facilities. Moreover, Thailand’s healthcare sector is very competitive because of strong government support, as a new S-curve sector. And, it is known to provide high quality services at affordable prices. In addition, Myanmar has a shortage of local medical professionals to serve increasing demand for healthcare services. Latest available data show Myanmar had 31,542 registered medical doctors, 3,219 dentists, and 29,532 nurses in 2013-14.
Policy Update

- **Myanmar implements investment reforms**
  - **Designation of development zones**
    Exercising powers conferred under Section 100(b) of Myanmar Investment Law (MIL), Myanmar Investment Commission (MIC) has identified 3 Zones
    - Zone 1: 13 Less Developed Regions
    - Zone 2: 11 Moderate Developed Regions
    - Zone 3: 2 Developed Regions
  - **Investment capital for State and Regional Investment Committee for endorsement**
    Exercising the powers conferred under Section 24(h) of MIL, the MIC has prescribed investment capital amount to USD5 million or MMK6billion for State and Regional Investment Committees for endorsement.
  - **List of promoted and restricted investment activities**
    In early April 2017, the MIC issued Notification No.13/2017 comprising the list of promoted sectors and Notification No.15/2017 comprising the list of restricted investment activities.
    **List of promoted sectors**
    1. Agriculture and its related services
    2. Plantation and conservation of forest
    3. Livestock production, breeding and production of fishery products
    4. Manufacturing (except manufacturing of cigarette, liqueur, beer, and other harmful products to health)
    5. Establishment of industrial zones
    6. Establishment of new urban areas
    7. City development activities (e.g. water supply, public transport in/outbound of the city)
    8. Construction of road, bridge and railway line
    9. Construction of seaport, river port and dry port
    10. Management, operation and maintenance of airport
    11. Maintenance of aircrafts
    12. Supply and transport services
    13. Power generation, transmission and distribution
    14. Production of renewable energy
    15. Telecommunication businesses
    16. Education services
    17. Health services
    18. Information technology services
    19. Hotel and tourism
    20. Science research development business

  - **List of restricted investment activities**
    There is still no clear picture of a list of restricted investment activities.

  - **Notification No.15/2017**
    - Zone 1
      - Moderate Developed Regions
      - Less Developed Regions
      - Developed Regions
    - Zone 2
      - Developed Regions
      - Less Developed Regions
      - Moderate Developed Regions
    - Zone 3
      - Less Developed Regions
      - Moderate Developed Regions
      - Developed Regions

  - **Notification No.13/2017**
    - Zone 1
      - Developed Regions
      - Moderate Developed Regions
      - Less Developed Regions
    - Zone 2
      - Developed Regions
      - Moderate Developed Regions
      - Less Developed Regions
    - Zone 3
      - Less Developed Regions
      - Moderate Developed Regions
      - Developed Regions

**Krungsri Research’s view:** These key policies had been introduced one after another since end 2016. The new investment laws would help to create a friendlier investment environment in Myanmar. At the very least, investors can now operate in a more transparent market with new incentives, and they could take advantage of shorter bureaucratic approval time by being able to submit applications to clearly designated authorities.

These serial release of several Notifications show Myanmar’s commitment to implement investment reforms in line with the Myanmar Investment Law (MIL).

In addition, these Notifications also clearly support the government’s 12-point Economic Policy*.

i. Decentralizing processing of small investment projects to accelerate approvals.

ii. They would help to boost SME investments, while designating more regions as high-incentive zones could promote economic inclusion.

However, Myanmar still needs to clear the fine print. There is still no clear process for foreigners in restricted investment activities to get approval.

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*Myanmar’s 12-point Economic Policy

1. To increase financial resources by using a transparent, good and strong public financial management system
2. To make state-run businesses more successful, to privatize some state-run businesses that can be changed, and to support small and medium enterprises
3. To nurture human resources that can create a modern and developed economy, and to develop academic and professional subjects
4. To give high priority to develop infrastructure such as electricity, roads and ports, and to set up a “Data ID Card System”, “Digital Government Strategy” and “e-Government System”
5. To create job opportunities for all Myanmar citizens who live in Myanmar and who arrived back from foreign countries to Myanmar, to give high priority to the businesses which can create many jobs
6. To establish an economic environment in which the agricultural sector and industrial sector are balanced and improve equally in order to progress in every field, to create enough food sources and to increase exports
7. In accordance with the market economy, [we need to] draw and set other separate policies to improve the private sector, to allow every citizen to freely operate the businesses they want, and to increase foreign investments, and [we need to] work in order to protect copyrights and to have rule of law
8. To use a financial system that can encourage long-term development of households, farmers and businesses in order to make the financial sector stable
9. To establish towns that are compatible with environmental conservation, to enhance public services, to create more public places, and to protect cultural heritage
10. To establish an effective and fair tax system in order to increase the country’s tax income, and to protect the citizens’ rights and their rights to own property by enacting laws and procedures
11. To adopt techniques and procedures that will support intellectual property rights in order to encourage abilities related to innovation and advanced technology
12. To identify the business situations that are likely to change in the ASEAN region and other regions in order to establish our businesses in accordance with great wisdom
List of restricted investment activities

a) **Allowed to be carried out only by the Union:**
   manufacturing or related services for security and defense, arms, ammunition for national defense; national postage stamps; air traffic services; pilotage services; natural forest and forest area; radioactive metals; administration of electric power system; and inspection of electrical works.

b) **Not allowed to be carried out by foreign investors:** publishing and distribution of periodicals in ethnic languages including Burmese; fresh water fisheries; pet care services; manufacturing of forest products from forest areas; small and medium scale mining businesses; operating shallow oil wells; printing and issuing stickers for visa and stay permits; tour-guide services; and mini-market and convenience stores.

c) **Allowed only under joint ventures with Myanmar citizens or citizen-owned entity:** manufacturing and domestic distribution of plastics, chemicals based on available natural resources, flammable solid/liquid/gaseous fuels and aerosol, oxidants, confectionery, cereal products, purified ice, purified drinking water, soap, spirits, alcohol, alcoholic beverages, non-alcoholic beverages; manufacturing and domestic wholesale of cosmetic products; development, sale, and lease of residential apartments and condominiums; local tour services, transportation agency for patients to overseas hospitals

d) **Allowed with approval from relevant ministries:**
   construction of roads, elevated expressways, manufacturing and marketing of gems and jewelry products, shipping agency services, and production and distribution of radio communication equipment, mobile handsets and telephones.
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