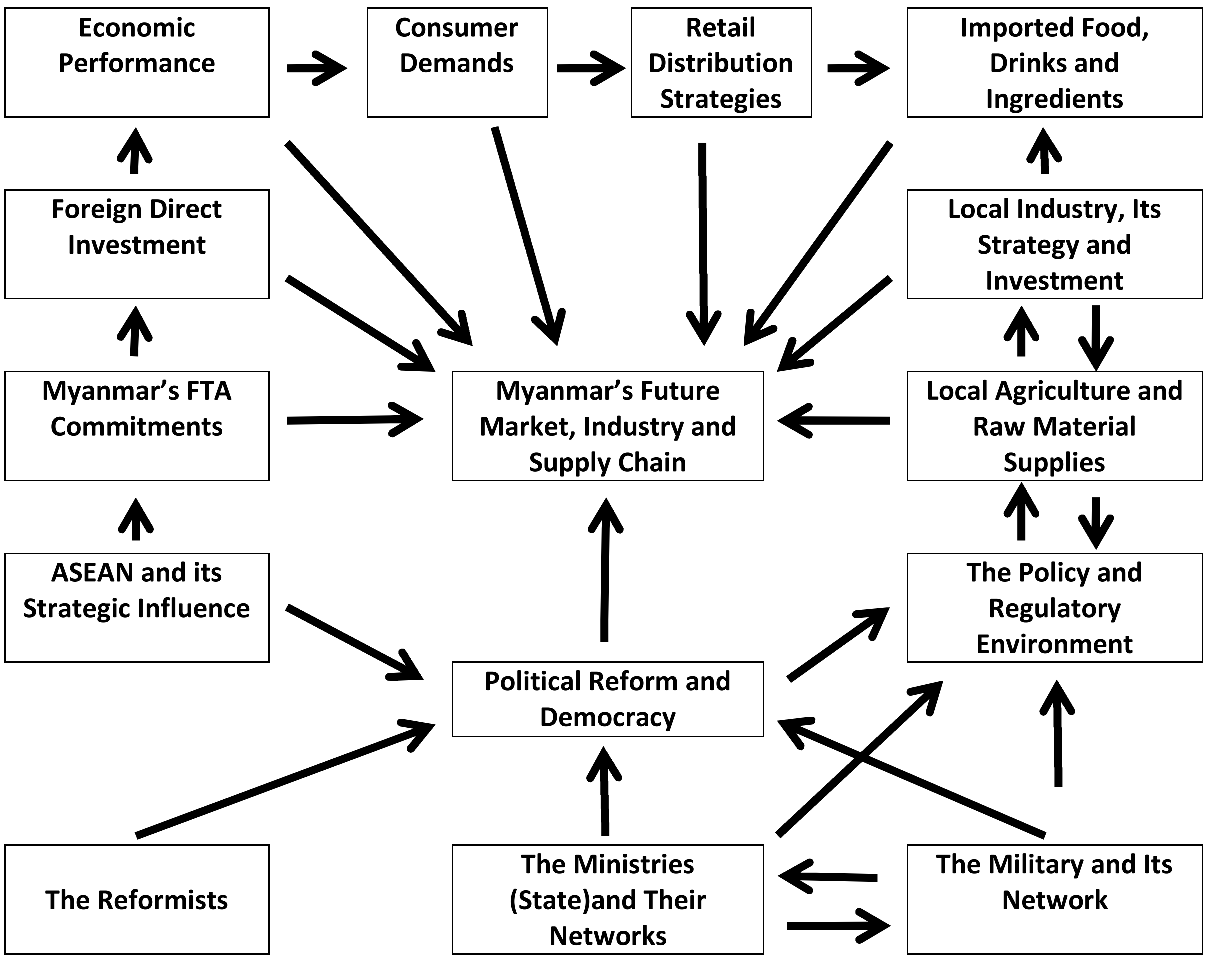
Asia Pacific Food Insight Series – 1993 to 2013

Myanmar Food and Beverages 2018: Strategic Directions and Scenarios for Myanmar's Markets and Industry



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New report published on 8th February 2013

On 8th February 2013, we will be publishing the latest report in our long running Asia Pacific Food Insight Series titled: "Myanmar Food and Beverages 2018: Strategic Directions and Scenarios for Myanmar's Markets and Industry".

Stanton Emms Strategy Consultants (formerly Stanton, Emms & Sia) is a strategy and business development consultancy that specialises in assisting food, drink and agrifood clients with their business and marketing strategy development in the East Asian region. We have been assisting clients with their strategic research and business consultancy requirements in the region since 1991. We have been actively working for clients in Myanmar (Burma) arena since 1994.

Myanmar (Burma) is a food surplus country at the level of basic foodstuffs

Although a poor country (Population: 60 million persons) with a very low GDP per capita of around US$ 425 (nominal basis) and some food security challenges in 2011, Myanmar (Burma) is defined as one of the world's "food surplus" countries. It produces between 55 and 60 million tonnes of agrifoods per annum. Agriculture is very important to Myanmar's economy, because around 70% of its population depends on the sector for their incomes and food supplies.

In terms of basic foodstuffs, Myanmar is only short of edible oils today. This is dealt with through high volume imports of palm oil from its ASEAN (Southeast Asian) trading partners, and a policy of expanding its own palm oil production. It is the world's second largest exporter of dry beans, peas, pulses and lentils and also exports fish and seafood, which are currently surplus to its own demand requirements. It is also exporting some rice under a government policy that is promoting growth in rice production related to exports.

Myanmar has two economies that underpin its consumer market

Myanmar's has two economies, one traditional or government (State) linked, which is underpinned by very low disposable incomes and inefficiencies, the other, linked to manufacturing, which is more dynamic and includes a sizeable and growing export-oriented sector. This sector includes both private and some government linked businesses.

While there is very little information on the true state of employment in Myanmar, economic analysts believe that the country's middle income consumers are mainly linked to the manufacturing industry. The upper income group, i.e. business owners and managers, are also linked to this sector.

Some of these business owners and managers are also government officials, albeit that this may not be public information.

Based on available information from the government and trade, these analysts believe that about 1.2 million persons are employed in industry. Taken together with the trickle-down effect of these persons' incomes to their extended families, it is believed that the middle income group and the fringe of lower income consumers, now number between 5 and 6 million persons today, with the upper income group within this group likely numbering around 500,000 persons.

Based on this, the likely consumer target is less than 10% of the Myanmar population today. When considered in terms of the ASEAN market, this is the weakest target amongst the highly populated markets in the region, such as Indonesia, Vietnam and Malaysia.

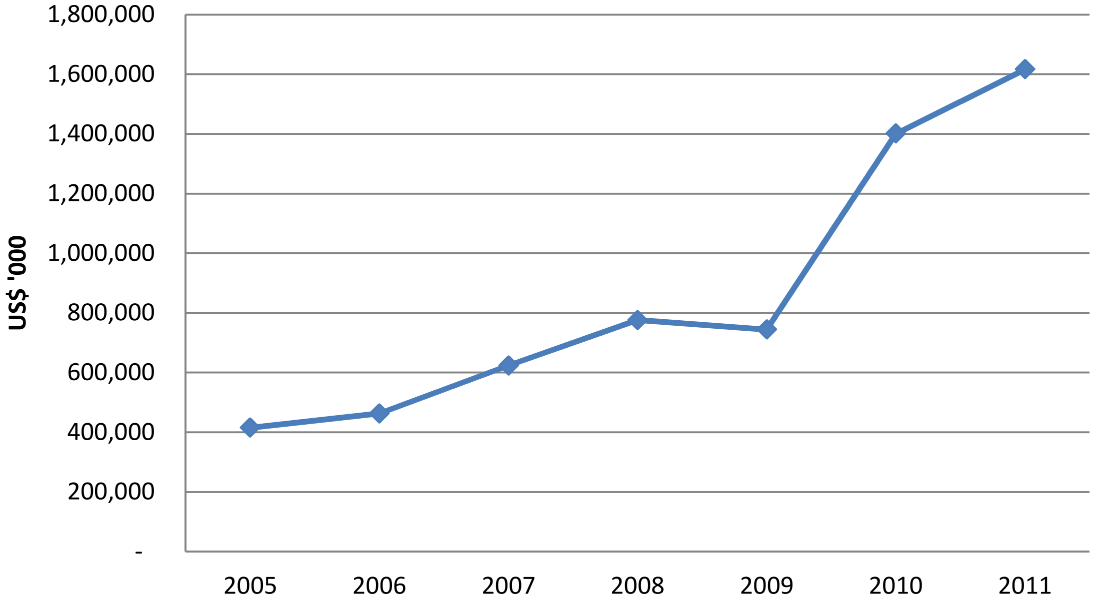
This scenario is supports recent government surveys, which found that inherently low household incomes mean that an average of between 60% and 65% of household spending is on food and drinks, with around one third of such spending being on animal and vegetable proteins. Per capita consumption of rice is very high, when compared to more developed ASEAN nations, e.g. Malaysia, which is also indicative of a low income economy.

The consumer market and demand characteristics are highly complex, and demand for imports has been growing rapidly

The consumer markets and demand traits in Myanmar are highly complex due to a range of different factors. They include the most complex demand base for meat in Asia; a strong traditional food culture; well-educated consumers that have already developed some demands for convenience and quite high levels of health and nutrition concerns; very high levels of price sensitivity all along the supply chain, developed preferences for imported brands; concerns about the quality of local products; and local industries that have developed in absence of competition from foreign investment, except for a few entrants from other Asian countries, e.g. Thailand through "strategic joint ventures".

Myanmar imported food, drink, agrifood commodities and feed material imports valued at US$ 1.6 billion in 2011, up from only US$ 415 million in 2005.

Trends in Myanmar's of Food, Drinks, Agrifood Commodities and Feed Materials – 2005 to 2011



Note: 2011 data is provisional at the time of writing.
Source: Official external trade data (FOB values)

Although still a very small import market in the context of the other ASEAN countries, this growth is significant because it has taken place at a rate of over 40% per annum since 2005, with double digit growth being seen in all categories, except one, which grew at a high average of 9% per annum over the period.

The fastest rates of growth since 2005 were seen in feed materials (117% per annum), sugar and its products (111%), processed fish and meat (100%), cereal-based processed foods (79%), instant beverage powders (70%), and drinks, both non-alcoholic and alcoholic (60%).

Demand for processed food and drinks has been growing rapidly

While Myanmar is strong in the supply of basic food products, the opposite is the case for processed food and drinks. Over 50% of import value in 2011 comprised processed food and drinks, a situation that has developed since 2005 because Myanmar's local food and drink industry has not had the capabilities, or the capacity, to deal with the rapidly growing middle income and lower income fringe demand. Modern trade retailers and some wholesaler-distributors have therefore turned to China, Thailand, Singapore and some other Asian countries to fill the supply gap, which has been expanding in size since 2005.

This has led to the products of multinationals, such as Nestlé, PepsiCo and Coca-Cola, and some prominent Thai and Singaporean companies taking a high profile and share (although maybe not market leadership) in the markets where their products fit and have actively growing demand. Trade sources comment that Nestlé is already likely to be the largest player in the Myanmar processed food and drink market, based on exports of its products from its production bases in the other ASEAN countries.

Myanmar will be the first Asian economy to develop in a free, or freer, trade environment

The situation of imported food and drinks is likely to become even more dynamic in future. Currently, Myanmar's food regulations and related enforcement processes are very unsophisticated, and so do not form much of barrier to the main products that are being imported. While Myanmar uses tariffs in an attempt to control imports, it also has substantial FTA commitments that are either in force today, or about to come into force between 2015 and 2020.

Myanmar is going to be the first and, possibly, the only Asian country that will develop its economy in a free / freer trade environment over the next 10 years. This is very unlike the protected scenario in which Thailand, Malaysia and Indonesia developed during the 1980s and 1990s.

Under the ASEAN Trade in Goods Agreement (ATIGA), close to 100% of all Myanmar's tariff line items are now set at 0% import duty today, and, by 2018, all of the remaining tariff lines, with the possible exception of rice and sugar, will be set a 0%. This will make Myanmar effectively a free market for ASEAN-content products, including all processed food and drinks.

Additionally, under the ASEAN Community accords, the ASEAN Comprehensive Investment Agreement also opens up many sectors to ASEAN businesses (including foreign companies that are substantial in terms of operations and domiciled within ASEAN's borders) that will otherwise likely be closed to investment by non-ASEAN businesses.

Added to the ATIGA scenario, Myanmar has received substantial FTA commitments from Australia, New Zealand, China and India, which, on the positive side, provide its export-oriented manufacturers with an open market and good opportunities for their products today. This will assist in developing Myanmar's economy in future.

Within these FTA agreements, Myanmar's own commitments to these countries will also see its markets opening to Australian, Chinese and Indian products under lower tariffs than its WTO MFN tariffs between 2015 and 2020. Australia, as an example, will see significant benefits in terms of lower tariffs on a range of its key export products by 2017, e.g. fresh/chilled and frozen meats.

While the situation is positive, there are some darker "other side of the coin" aspects to the scenario that need to be considered in risk analysis and due diligence exercises covering Myanmar

Overall, there are a lot of dynamic factors impacting on the opportunities in Myanmar for food and drink businesses, whether local or foreign, over the period to 2013. While this is the case, underpinning the market, industry and supply scenarios today are some very concerning issues related to the actual state of political control, transparency in general, and the genuineness of Myanmar's opening up in 2012.

This reality of this situation has been stressed by Aung San Suu Kyi in her many speeches in 2012 regarding the state of transparency in Myanmar since 2011. The key concern for anyone trading in, or with, Myanmar lies in the fact that there is a deeply entrenched and hidden web of business and other forms of connections between the "former ruling elite" (i.e. the military and their cronies) and businesses both in, and outside, Myanmar that have built up, in some cases, since the 1960s. Two of the biggest questions that exist in Myanmar today are who controls what, and who are you really dealing with?

What questions does this report answer?

While there are significant and lingering doubts over whether real change has come to Myanmar, the events of 2011 and 2012 have very clearly put the country "on the map" as a new market and investment destination for businesses to think about. The other big questions to ask today are what is the real situation in the food market, industry and supply chain today, and, very importantly, what are the strategic directions and scenarios for the future?

The goals of this study are to provide realistic and commercially oriented answers to the following top line questions that have been posed to us by clients about Myanmar and its future:

- *What strategic impact does Myanmar's current policy foundation have on business opportunities in the food market, industry and supply chain today?*

- *What was the state of economic development as a driver of a strengthening consumer market and demand base in Myanmar over the past 5 years?*

- *What is the real state of the consumer markets and demand for processed food and drinks in Myanmar today?*

- *How is Myanmar's policy and regulatory system structured for food, drinks and agrifood commodities in terms of its impact on locally produced products and imports?*

- *What strategic impact does Myanmar's development policies and food market and industry regulatory system have on food industry business opportunities today?*

- *As Myanmar is a member of ASEAN, to what extent is it interacting with the ASEAN Free Trade Area and ASEAN's other FTA with its neighbours in the Asia Pacific region?*

- *To what extent does Myanmar's FTA commitments favour, or disadvantage, exporters from different countries and when does its commitments on free trade in food, drink and agrifood commodities become a reality?*

- *What is the state of Myanmar's agricultural industries today and access to imported food ingredients and their strategic impact on processed food business opportunities today?*

- *How have the markets for imported food, drinks and agrifood commodities developed over the past 5 years and what has driven or restricted the growth in imports over that period?*

- *What is the state of Myanmar's food and drink processing industry and its strategic impact on competition in today's market?*

- *What is the state of Myanmar's food supply chain and distribution channels and their strategic* impact on food industry business opportunities today?

- *What drivers today exist that will impact of the future strategic shape and direction of Myanmar's food and drink industry, market and supply chain?*

- *What barriers exist today to future change in Myanmar's food and drink industry, market and supply chain?*

- *What will be the main drivers and barriers on Myanmar's food and drink industry, market and supply chain over the period to 2018?*

- *What are the likely future scenarios that will develop for Myanmar's food and drink industry, market and supply chain over the period to 2018?*

- *How will Myanmar's markets for food, drinks and agrifood commodities develop in terms of growth, or otherwise, over the period to 2018?*

- *What opportunities and threats risks will exist for existing players in Myanmar's food and drink processing industry and new entrants over the period to 2018?*

- *What are the opportunities and threats will exist for exporters that target Myanmar's markets for imported finished food and drinks and food ingredients and inputs over the period to 2018?*

The purpose of this study

This study has been specifically undertaken to assist clients with their strategic planning, business development and marketing activities in Myanmar over the period to 2018.

It is essentially a scenario planning exercise that analyses and assesses the key factors that will affect the food and drink industry, their markets and supply chain in Myanmar over the next 5 years, inclusive of the indicators of business opportunities and risks for existing businesses, and new entrants to the industry, over this period.

It is formatted in a manner that will facilitate its use in strategic planning by existing players in Myanmar and new entrants, whether they are new investors in Myanmar, or new trading entrants to the Myanmar market, e.g. exporters.

Why you should buy this report

Unlike other reports, our study is not just a catalogue of statistics and facts. As with all of our past Asia Pacific Food Insight Series reports, we analyse the statistics, facts and underlying market and industry drivers to provide you with real insights into Myanmar's food, drink and agri-food market opportunities, both today and tomorrow.

Practical scenarios for the future of Myanmar's food and drink industry, market and supply chain are developed and explained to you in this report. A copy of the report's table of contents is appended to this brochure, which provides an overview of the study's coverage and our analysis of its findings.

What markets are covered by this study?

This study covers the following categories, whether locally produced in, or imported to, Myanmar:

- Consumer ready foods:
    - Beer;
    - Butter;
    - Cheese;
    - Chocolate-malt beverage powders;
    - Coffee;
    - Coffee creamers, non-dairy
    - Cookies and crackers;
    - Extruded snacks;
    - Fresh fruits and vegetables;
    - Fruit juices;
    - Ice cream;
    - Infant foods;
    - Instant beverage mixes;
    - Liquid milk;
    - Noodles and pasta;
    - Sauces and seasonings;
    - Soft drinks;
    - Soups;
    - Spirits;
    - Sugar confectionery;
    - Tea;
    - Wine; and,
    - Yoghurt; and,
- Commodities, ingredients and inputs:
    - Buttermilk;
    - Dairy fats and oils;
    - Edible oils;
    - Feed materials;
    - Fish and seafood;
    - Meat and poultry;
    - Milk powders;
    - Soybeans;
    - Wheat; and,
    - Whey.

Who can use this report?

This study was undertaken for board / top level and other senior management of businesses and other organisations and government officials that wish to obtain an up-to-date and detailed understanding of the future scenarios for Myanmar's food and drink market, industry and supply chain in the period to 2018.

It will also be useful to food, drink and food ingredient company strategists and analysts who require an better strategic insight into likely opportunities and threats for their business in future.

This study was researched by senior consultants who have many years specialising in advising the senior management of food and drink companies about business strategy and market development in Asia, including Myanmar. The project management team included Managing Consultants who have been managing food and drink strategy projects and other projects on a regular basis in Myanmar since 1989.

Who we are and what we have done

Stanton Emms Strategy Consultants (formerly Stanton Emms & Sia) is an international strategy consultancy that specialises in assisting the senior management of food, drink and agrifood businesses to identify opportunities, develop their businesses, and develop markets for their products.

We were formed in 1991, are headquartered in Singapore and have offices and associates located all across the East Asian region, including Myanmar. We have been working with a wide range of clients, including Asian companies, some multinationals and other foreign companies, and international marketing organisations, in Myanmar since 1995.

We also specialise in policy analysis on matters such as development and trade for foreign governments with an interest in obtaining better understanding of policies and regulatory environments that exist in East Asia, including Myanmar.

One of our key roles for clients in the ASEAN, including Myanmar, since we started operations in 1991 has been to assist their senior management with their risk analysis and "marketing due diligence". Due to the complexity of Myanmar, we have also providing them with second opinions on issues that are impacting on, or will impact on, their business in, or with, the country in future.

Our past projects in Myanmar have covered the following:

- investment opportunities in the brewing industry and future opportunities in the beer market, including a pre-investment study to support a senior management team's risk analysis on Myanmar as a venue for a major new investment;

- the production and availability of starch crops and their products, utilisation locally and in the export market, and future trends in supply availability;

- the structure and control of the tobacco industry and market;

- identification of future opportunities in the markets for:

    - edible oils, refined;
    - chilled processed meats;
    - alcoholic drinks, including whisky, rum, gin, vodka and liqueurs;
    - imported beer;
    - soft drinks;
    - instant powdered beverages, namely coffee, tea and chocolate-malt varieties;
    - cookies and crackers;
    - wheat flour;
    - infant formula and foods;
    - extruded snacks; and,
    - instant noodles;

- the meat and poultry industry and its demand for feed ingredients and inputs;

- bulk dairy ingredients, namely milk powders, milk formulas, whey, lactose and casein;

- agricultural development policy and strategy related to the livestock supply chain, i.e. feed through to the end markets for livestock products;

- an investigation into a failed investment into the retail sector, as part of a retailer's strategic review for a new investment;

- trade policy and regulations towards imported food, drinks and agricultural commodities; and,

- the extent of Myanmar's participation in the ASEAN free trade area and the ASEAN + FTAs, e.g. with Australia and New Zealand, China and India.

In addition to this, Myanmar has also featured in some of our ASEAN region focused consulting and research projects for clients.

Table of Contents

Table of Contents

			Page No.
1.	Introduction		1
	1.1	Goals and scope of the study	1
	1.2	A note about the quality of Myanmar's official data	3
	1.3	The State, government and military and related transparency issues in Myanmar today	3
	1.4	Overview of the political situation and related areas of uncertainty today	5
		1.4.1 A complex history underpins today's political situation and the risk scenarios that exist for it	5
		1.4.2 A flawed parliament exists today and will do so for another 3 years or thereabouts	6
		1.4.3 The changes that have taken place since April 2012	7
2.	Myanmar, the country, its resources and people		10
	2.1	Geography and climate	10
	2.2	The key natural resources and their economic significance	11
	2.3	The population makeup	11
		2.3.1 Population size and composition	12
		2.3.2 The religious and belief system profile and its impact on food consumption	12
		2.3.3 Population growth, place of residence and economic status	14
3.	Review of top line government policy in Myanmar and its impacts		15
	3.1	Why top line government policy is important	15
	3.2	Myanmar's 2008 constitution	15
	3.3	Overview of the foundations to government policy	17
	3.4	The four political objectives of the Myanmar State	18
	3.5	The four social objectives of the Myanmar State	18
	3.6	The four economic objectives of the Myanmar State	18
	3.7	Government, State and military involvement	19
		3.7.1 Government involvement in the market-oriented economy	19
		3.7.2 The State-Owned Enterprises and their characteristics today	20
		3.7.3 The military's involvement	21
		3.7.4 Who controls what?	21
	3.8	A snapshot of Myanmar's commercial laws and regulations	22
	3.9	The new foreign investment law	22
	3.10	Myanmar and the ASEAN Economic Community	26

Page No.

3.11 The benefits afforded to Myanmar by its commitments to the ASEAN + FTAs 27
- 3.11.1 Myanmar's other FTA commitments 27
- 3.11.2 The identity of the FTAs that can benefit Myanmar as it develops over the period to 2018 27
- 3.11.3 The benefits provided to Myanmar under the AANZFTA, ACFTA and AIFTA 28

3.12 The government's plans for tourism and tourism infrastructure development 31

4. Myanmar's economic history and development 33

4.1 The reason for this chapter 33
4.2 A snapshot of Myanmar's economic history 33
4.3 Overview of recent economic data 34
4.4 The economic foundation today 37
4.5 The structure of the Myanmar economy 37
4.6 Overview of the past economic sanctions and their impact 40
4.7 External trade in overview 41
- 4.7.1 Myanmar's export trade and its economic significance 41
- 4.7.2 Myanmar's import trade and the reasons for its development 44

5. The state of the consumer market and demand traits today 47

5.1 The local diet and demand traits 47
- 5.1.1 Local food culture and its impacts 47
- 5.1.2 Price and value-for-money 48
- 5.1.3 The state of demand for convenience in the food market 49
- 5.1.4 Attitudes towards product quality and safety 50
- 5.1.5 Advertising and promotional activities 52

5.2 Consumer spending on food and drinks 52
5.3 Overview of the main animal / fish protein sources for human consumption 53
5.4 Comparison with Thailand's food consumption today 54
5.5 The main target markets for imported food and drinks 55

6. The regulatory environment for food, drinks and agrifood commodities 56

6.1 The foundation for development of the economy and the food, drinks and agrifood industries 56
6.2 Macro level agricultural policy 57
6.3 The agricultural policy base and its component policies and laws 57
6.4 The component parties in Myanmar's agricultural regulatory and trade affairs "committee" 58

Page No.

6.5 The main goals and objectives of the Ministry of Agriculture and Irrigation 59
6.5.1 The top line goal and objectives 59
6.5.2 The five strategies for agricultural development 59
6.6 The Ministry of Livestock and Fisheries and its goal and policies 60
6.7 The Union of Myanmar Federation of Chamber of Commerce and Industry (UMFCCI) and its role 60
6.8 The other government / state players in the control infrastructure covering agriculture 61
6.9 Myanmar’s agricultural research and development base 61
6.10 The national health policy and its impact on food and drinks 62
6.10.1 The National Health Plan and Myanmar’s Food and Drug Administration 62
6.10.2 The National Food Law 63
6.10.3 Other laws that have impacts on food, drinks and agrifoods 63
6.10.4 Market access controls for food, drinks and agrifood commodities 64
6.11 GMO policy and situation in Myanmar 65
6.12 Myanmar’s policy towards trade in food, drinks and agrifoods 66
6.12.1 Myanmar’s status in global trade policy 66
6.12.2 WTO membership and its commitments in overview 66
6.12.3 Review of import duties on food, drinks, agrifood commodities and feed materials 67
6.12.4 Myanmar and its free trade area commitments 69
6.12.5 Myanmar and its commitments to establishing the ASEAN Economic Community (AEC) under the ASEAN Trade in Goods Agreement (ATIGA) 70
6.12.5.1 The legal requirements under ATIGA 70
6.12.5.2 The situation with Myanmar’s ATIGA import duties today and in 2015 71
6.12.5.3 Myanmar may be on the verge of breaching ATIGA 72
6.12.6 The ASEAN Comprehensive Investment Agreement and Myanmar 73
6.12.6.1 The goals of the agreement 73
6.12.6.2 The state of the agreement in terms of its implementation 74
6.12.6.3 The coverage of the agreement 74
6.12.6.4 Myanmar’s commitments on agreement coverage 76

Page No.

6.12.6.5 Myanmar may shortly fall into breach of the ACIA 78
6.12.7 A review of the extent of Myanmar's commitments to open its food, drink and agrifood markets under the ASEAN + FTAs 78
6.13 Government food price controls and their impacts 83
6.13.1 The strategic importance of market pricing to the Myanmar government 83
6.13.2 The causes of retail and wholesale price fluctuations in Myanmar 84
6.13.3 An overview of Myanmar's price control measures and possible future developments 84

7. Myanmar's food supply, trade and consumption 87
7.1 Overview of food supply, trade and consumption 87
7.2 Agriculture today 89
7.2.1 Agriculture and its importance to the economy 89
7.2.2 The land area used by agriculture today 89
7.2.3 The state of agriculture today 90
7.2.4 Agricultural production today 91
7.2.5 Myanmar's animal and fisheries disease status 93
7.2.6 Overview of the livestock production industry 94
7.2.6.1 Myanmar is no longer self-sufficient in meat 94
7.2.6.2 The structure of the industry and farms 96
7.2.6.3 The current crisis relating to fresh poultry oversupply in the urban areas 97
7.2.6.4 Livestock populations today and recent developments in herds and flock sizes 98
7.2.6.5 Poultry farming in overview 101
7.2.6.6 The status of cattle and buffalo 101
7.2.6.7 Pig farming in overview 102
7.2.6.8 Goat and sheep farming, a snapshot 102
7.2.6.9 Dairy farming in overview 102
7.2.7 A shapshot of the livestock feed supply situation 104
7.2.8 Fisheries production 105
7.2.9 Top line SWOT on agriculture in Myanmar today 106
7.3 Snapshot of Myanmar's food, drink and agrifood exports 108
7.4 Overview of Myanmar's recent imports of food, drinks and agrifoods 109
7.4.1 Review of the broad trends and the structure of the market for imported products 109
7.4.2 Review of growth trends in the key import market segments 111
7.4.3 Review of key supply countries involved in the market for imported food, drinks and agrifoods 112

Page No.

7.4.3 Edible oils, fats and their products category review 114
7.4.4 Beverages, non-alcoholic and alcoholic, category review 115
7.4.5 Miscellaneous processed foods category review 117
7.4.6 Processed cereal-based products category review 119
7.4.7 Dairy products category review 121
7.4.8 Sugar and its products category review 123
7.4.9 Cereals, unprocessed, category review 124
7.4.10 Feed ingredients, inputs and products category review 125
7.4.11 Meat and poultry category review 126
7.4.12 Processed fruit and vegetables category review 128
7.4.13 Processed fish and meat category review 129
7.4.14 Coffee, tea and spices category review 130
7.4.15 Milling industry products category review 131
7.4.16 Vegetables, fresh and dried category review 133
7.4.17 Cocoa and its products category review 134
7.4.18 Fresh and dried fruits category review 135
7.4.19 Fish and seafood imports 137
7.4.20 Soybeans and other seeds imports 138

8. Myanmar’s food, drink and agrifood commodity processing industry 139
8.1 Government policy stance on the industry 139
8.2 State and military involvement in the industry 139
8.3 Overview of size and structure of the industry today 141
8.4 Overview of the activities of the food and drink processing industry today 142
8.5 The rice milling sector 146
8.6 The sugar processing sector 146
8.7 The edible oil seed crushing sector 147
8.8 The animal feed mixing and manufacturing sector 148
8.9 The fish and seafood processing sector 149
8.10 The consumer ready (retail packed) food manufacturing sector 149
8.11 Drinks manufacturing 152
8.11.1 Overview of industry structure 152
8.11.2 The soft drinks industry 152
8.11.3 The beer industry 153
8.12 The milk and dairy processing sector 158
8.13 The meat and poultry processing sector 159
8.14 The pulse grading, processing and packing sector 160

Page No.

9. Food and drink distribution in Myanmar 162
    - 9.1 The conditions for distribution of food, drinks and agrifood commodities today 162
    - 9.2 Distribution of local agrifood commodities 164
    - 9.3 The distribution channel for imported food, drinks and agrifoods 165
    - 9.4 Modern trade retailers in Myanmar 168
        - 9.4.1 The structure of this sector 168
        - 9.4.2 The key players today 168
        - 9.4.3 Foreign invested retailers 169

10. The forces for, and barriers to, change in the future of Myanmar’s food market, industry and supply chain 171
    - 10.1 Overview of the sources of force for, and barriers to, change in Myanmar today 171
    - 10.2 The foundation to the forces and barriers 171
    - 10.3 ASEAN and its strategic influence 176
    - 10.4 Drivers and barriers in foreign investment and trade scenarios 178
    - 10.5 The drivers and barriers in future economic development scenarios and their impacts on the state of the market and business strategy 180

11. Summary of indicators of opportunities and threats arising for food, drink and agrifood businesses in Myanmar in the period to 2018 182

12. Myanmar’s future and its market opportunities 186
    - 12.1 The major infrastructure projects as a key economic growth stimulus over the period to 2018 186
    - 12.2 Future economic growth scenarios 189
    - 12.3 Consumer market development over the period to 2018 191
    - 12.4 The multinational outlook about Myanmar today 195
    - 12.5 Myanmar, the ASEAN Economic Community, and where to from today 196
    - 12.6 The likely impact of Myanmar’s other FTA commitments 197
    - 12.7 Future scenarios for food, drink and agrifood suppliers and exporters in the period to 2018 198
        - 12.7.1 Opportunities for food, drink and agrifood businesses that operate within Myanmar 198
            - 12,7.1.1 Future development scenarios for existing food and drink manufacturers 198
            - 12.7.1.2 Forecasts for growth in consumption of locally produced food and drinks to 2018 200

Page No.

12.7.2 Opportunities for food, drink and agrifood exporters targeting Myanmar 201
12.7.2.1 The nature of the key challenges for exporters targeting Myanmar today 201
12.7.2.2 Forecasts for growth in imports of agrifood bulk commodities to 2018 202
12.7.2.3 Forecasts for growth in imports of fresh and frozen agrifood products to 2018 203
12.7.2.4 Forecasts for growth in imports of processed foods to 2018 206
12.7.2.5 Forecasts for growth in imports of drinks to 2018 216
12.7.2.6 Forecasts for growth in imports of food ingredients to 2018 217
12.7.2.7 Forecasts for growth in imports of feed ingredients, inputs and products to 2018 218
12.8 Final comment on the danger of dealing with government-linked companies in Myanmar and the importance of the ASEAN Charter and ASEAN Economic Community treaties 219

Appendix Overview of the ASEAN Arbitration Case Ruling on Yaung Chi Oo Trading Pte Ltd versus Government of the Union of Myanmar