

'LESS GREED'

The 'crony capitalists' who grew rich under the junta are scrambling to keep their grip as Myanmar opens up.

An image makeover for Myanmar Inc



FORTUNATE FEW: Myanmar's top tycoons include (left to right) Tay Za; his son Pye Phyo Tayza; Khin Shwe; and Zaw Zaw.

REUTERS/STRINGER/SOE ZEYA TUN

BY JASON SZEP AND ANDREW R.C. MARSHALL

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He's the flashiest tycoon in one of Asia's poorest cities, with a canary-yellow Lamborghini parked outside his neoclassical mansion. Tay Za is also one of the most vilified associates of Myanmar's former junta. The U.S. Treasury has branded him a "notorious henchman and arms dealer," slapping him with sanctions that froze his assets and blocked his jet-setting family from cities across the globe.

Now, as his country starts to open up after decades of military misrule, Tay Za

'LESS GREED' AN IMAGE MAKEOVER FOR MYANMAR INC

is leading a wave of crony capitalists who are repositioning themselves as the fresh new faces of Myanmar Inc. According to his son, the 44-year-old multimillionaire has become a semi-retired philanthropist.

"Everything is all different for him now," said Pye Phyo Tayza, 25, over a two-hour dinner at the Kandawgyi Palace Hotel, a teak complex bought by his father two years ago. "He is doing a lot of foundation work. He is doing more contributions for society. Less greed."

Reuters interviews with Myanmar's most powerful business families reveal a broad push to cultivate a new image - and retain their position atop the economy of this resource-rich nation of 60 million.

Some are promoting charitable work, forging ties with the dissident Burmese Nobel Peace Prize laureate Aung San Suu Kyi, and huddling daily with executives from multinational companies descending upon one of world's last frontier economies.

Many are retooling sprawling business empires that relied on favors from the state, anticipating an end to sanctions and new competition from foreign brands. Some are hiving off loss-making assets inherited under a system that reserved lucrative contracts — often in jade mining, timber and tourism — to favored businessmen, or awkwardly trying to shed an aura of privilege in Asia's second-poorest country after Nepal.

Quietly, they are bringing sons and daughters into play, spawning a second-generation elite that is consolidating through business and marriage, even as Washington and Brussels debate how to lift sanctions without enriching Than Shwe's business allies.

The maneuvering poses a tricky dilemma for the West. The United States and Europe must embrace Myanmar's political and industrial leaders in order for reforms to take hold and to counter China's influence in this country at the crossroads of Asia. But that endorsement, and the impending lifting of trade sanctions, could backfire if the



MANY INTERESTS: Cronies have interests everywhere. In January, pro-democracy leader Aung San Suu Kyi stepped off a flight on crony-owned Air Bagan. **REUTERS/SOE ZEYA TUN**

regime takes a repressive turn or the elite keep a lock on the nation's resources.

Myanmar's opening began last year, when Senior General Than Shwe handed power to a nominally civilian government, and advanced this month when democracy champion Aung San Suu Kyi won election to parliament. That prompted Washington last week to say it was ready to relax some sanctions, including a ban on U.S. investments in Myanmar, also known as Burma.

But in announcing those steps, Secretary of State Hillary Clinton said sanctions and prohibitions will remain "on individuals and institutions that remain on the wrong side" of reforms.

Myanmar's crony capitalists - a clique of fewer than 20 families - grew rich with help from the dictator who ruled Myanmar from 1992 until his retirement just last year. Than Shwe led a military junta whose abuses include killings, torture, rape and forced labour, the International Human Rights Clinic at Harvard Law School said in a 2009 report.

During her visit to Myanmar in December 2011, the first by a U.S. secretary

of state in over 50 years, Clinton called for economic as well as political reforms so that the benefits of lifting sanctions would "flow to a broad-based group of people and not just to a very few."

That's easier said than done. Even for Clinton: She stayed at the Thingaha, a crony-owned hotel in Myanmar's crony-built capital city of Naypyitaw.

The go-to businessmen of the former military junta are now the must-see contacts of Western executives wishing to invest in this former British colony, nestled between booming India and China with strategic ports and untapped reserves of oil and gas.

"TOP CRONY"

Tay Za is perhaps Myanmar's best-known tycoon. Diplomats say he carried favour with Than Shwe and other generals, giving their children roles in his businesses in exchange for coveted contracts and import licenses in profitable sectors: trading, logistics, property, agro-industries, tourism, oil and retail.

He has boasted sanctions made him richer and the generals stronger. Washing-

ton calls him “the regime’s top crony.” But his eldest son tells Reuters his family has suffered under sanctions.

When the military violently cracked down on Buddhist monks and pro-democracy activists in September 2007, the U.S. blacklisted Tay Za and his family under tighter sanctions, citing his links to the junta’s inner circle.

Around that time, an e-mail purportedly by Tay Za’s other son, Htet, circulated on the Internet. It ridiculed sanctions, poked fun at the unrest, and turned an envious and angry public against the family.

“U.S. bans us. We’re still f***ing cool in Singapore. We’re sitting on the whole Burmese GDP. We’ve got timber, gems and gas to be sold to other countries like Singapore, China, India and Russia,” it read. Pye Phyto Tayza says the e-mail was a fake. The family tracked the ISP address to the United States, he says. His brother, then 14 years old, was studying in Singapore.

“He didn’t write it,” says Pye Phyto Tayza.

U.S. diplomats agreed the email was a phony but expressed little sympathy for Htet. “Tay Za’s son does maintain a Facebook page with pictures of him sitting in his Ferrari with semi-automatic weapons,” says a U.S. diplomatic cable released by Wikileaks.

Pye Phyto Tayza says he suffered from

depression in 2003 when sanctions foiled his chance at attending elite schools in London and Sydney. “They said I am not even entitled to apply for a visa,” he says. “Where are my human rights?”

He appealed to a European Union high court, arguing he should not be punished because of his father. The Court of Justice of the EU agreed on March 13 after four years of costly litigation. A 2008 regulation that froze his funds was annulled. He hopes that will pave the way for a lifting of his travel ban.

Now, as chairman of his father’s Yangon United Football Club, one of 14 teams in a three-year-old national league, he acknowledges pressure to join the family business.

His father suffers health problems, he says, including a damaged kidney and lingering effects of frost-bite after surviving a helicopter crash last year in northern Myanmar. Tay Za and five others spent three days sheltered by a rock and snowdrifts at 12,000 feet before being rescued.

“Those were the worst three days of my life,” says his son. “And they changed him.”

“He is doing a lot with his foundation, investing a lot in that area where he crashed,” he says. “He doesn’t do anything else. He delegates to the managing director and he stays at home, reads books, focuses his time on this.”

A self-made crony?



Zaw Zaw, a tycoon who U.S. diplomats called in a 2009 cable “one of Burma’s up-and-coming cronies,” sees himself as a self-made man.

He was raised in poverty in the Irrawaddy Delta, a rice-growing region, cleaning streets and pagodas as a child. In his final year of university, in 1988, he joined the nascent pro-democracy movement in Yangon and returned to his village after graduation to help “the revolution in our townships,” he says.

A year later, authorities brutally suppressed the movement. Thousands were killed. Suu Kyi was placed under house arrest. Zaw Zaw and many others went abroad. He landed in Singapore, working briefly for Pacific Carriers Ltd, a shipping line, and then celebrated his first earnings with his Burmese friends in Thailand where “I spent all my money”.

The following year, he joined his sister in Tokyo, working evenings at a hotel restaurant in upscale Ginza district and days at a car-repair shop. Spare time went studying Japanese and making contacts. “I barely slept,” he says.

He joined an exporting business, selling cars to New Zealand, Africa and Southeast Asia. It was those contacts he took back to Myanmar in 1995 when he set up Max Myanmar, importing cars, busses and heavy machinery, prospering in a tight relationship with former military junta.

“Whenever I get a job, I want to do the best. If I get work, I want to finish the project on time,” he says. “If you do a job on time, and you are available to do work, they (the former junta) pick you. ‘Ok, you are the guy,’ they say.”



YANGON YACHT: A boat owned by Tay Za’s group docked at a jetty on the river in Yangon. **REUTERS/ SOE ZEYA TUN**

By Jason Szep and Andrew R.C. Marshall

Other tycoons are doing more than finessing their image: They're retooling entire conglomerates.

Few are more powerful than Zaw Zaw, whose holdings range from timber, gems and rubber plantations to construction and luxury resorts. He dominates the lucrative and tightly controlled auto-import industry. Annual revenues of \$500 million make his Max Myanmar Group a Burmese leviathan.

His friendship with former dictator Than Shwe makes him "a regime crony", according to the U.S. Treasury Department, which blacklisted him under targeted sanctions three years ago. A 2007 U.S. diplomatic cable described how "Zaw Zaw actively seeks favour with the senior generals."

Zaw Zaw is shifting strategy. Banking, hotels and tourism are his priority, he says. Construction is a "big headache", suggesting an exit from a crony-dominated industry whose state contracts made him a fortune.

"You cannot manage everything yourself," he says in an interview from his Yangon office. "We have to look at which business is good for the future, which business we can partner with foreign companies."

Dressed in a crisp white shirt and a traditional Burmese sarong, the affable 44-year-old expects sanctions to be lifted soon, first by Europe and then by the United States. As Myanmar overflows with tourists and frontier-minded investors, he wants to "inject more" into his hotel business.

He is constructing a 400-room hotel in Yangon, the dilapidated commercial capital of 5.6 million people, whose 1,500 hotel rooms are chronically overbooked. He says he is in talks with global five-star hotel groups to operate it. "If I manage it," he jokes, "it will be one star."

But his dream, he says, is to build an international brand for his nearly two-year-old bank, Ayeyarwady. He meets almost daily with officials from foreign banks and other multinationals to discuss potential deals and alliances, he says.

Asked whether he and other tycoons are

“I really appreciate it. I want to say ‘thank you’ to the previous government.”

Zaw Zaw

chief of Max Myanmar Group

lackeys of dictators, as often depicted, Zaw Zaw shakes his head. The junta favoured him for the quality of his work, he says. "We have never done any business that is illegal."

He described his friendship with retired dictator Than Shwe as pure business: "I can make friends with anyone." Yet he agrees friends get favors. When he built the Royal Kumudra Hotel in the new capital city of Naypyitaw, he was paid not with money but with 10 permits valued at \$180,000 each to import automobiles.

KUDOS FOR SUU KYI

He was also rewarded when about 300 state-owned assets - from real estate to gas stations and an airline - were doled out two years ago in the largest privatisation in Myanmar's history. Junta allies hit the jackpot. Zaw Zaw won a banking license and a cement factory. "For those two, I really appreciate it. I want to say 'thank you' to the previous government," he says.

He also lauds the work of Suu Kyi. As the head of the Myanmar Football Association, he invited her to a recent game, where the two were photographed. Some Suu Kyi allies fumed that she had sold out. But the image underscores the scale of change in Myanmar, as Suu Kyi prepares to enter parliament after her party's landslide by-election victory on April 1.

Suu Kyi's spokesman, Nyan Win, declined to comment on her relationship with Zaw Zaw or other well-connected tycoons.

While Zaw Zaw reshapes his empire in the hope of forging post-sanctions deals with multinationals, other top cronies seem intertwined with the junta that enriched them.

KBZ Group controls two airlines, the country's largest private bank, and lucrative

jade and gem mining concessions. Its chairman is Aung Ko Win, a former schoolteacher whose connections with General Maung Aye, 74, formerly the junta's second-in-command, first showered him with riches.

They also won him a place on the EU sanctions list, along with his wife, Nan Than Htwe, and Nang Lang Kham, one of three daughters being groomed to take over the business. The family are "very shy, very religious, very good-hearted," says Nyo Myint, a KBZ Group consultant.

Aung Ko Win steers clear of the media, although in January the chairman - wearing a trilby hat, Ray Bans and a diamond-studded gold watch - was spotted aboard an Air KBZ flight by Reuters staff on assignment in Myanmar. An attempt to interview him was cut short by the pilot, who emerged from the cockpit to shoo a reporter away.

But his daughter Nang Lang Kham and consultant Nyo Myint agreed to meet at KBZ Bank's headquarters in Yangon.

Aung Ko Win is closely associated with the former junta. Photos of him inspecting chunks of jade with retired dictator General Than Shwe adorn the bank's walls.

Aung Ko Win struck it rich at ruby and sapphire mines in the early 1990s in a region of Shan State where Gen. Maung Aye was a commander. "My dad was an entrepreneur," says Nang Lang Kham.

But during a 2008 meeting with U.S. diplomats, Aung Ko Win admitted Maung Aye gave him jade and gem mining concessions, and that he remained close to the general.

That intimacy appeared to help his KBZ Bank fend off the rival Co-Operative Bank in a 2010 dispute over the ownership of Myanmar International Airways. Ultimately, KBZ Bank secured 80 percent of the airline. Co-operative endured a run by depositors who feared their bank might not survive a conflict with a powerful crony.

But influence cuts both ways. The following year, amid rumours of Maung Aye's ouster, KBZ itself suffered mass withdrawals by "anxious depositors concerned that

the star of Aung Ko Win was also on the wane,” wrote economist Sean Turnell, a Myanmar banking expert at Macquarie University in Sydney.

KBZ Bank has since become Myanmar’s largest private bank, although the sector remains tainted by allegations of money-laundering and ties to drug traffickers. Myanmar is the world’s second-largest producer of opium after Afghanistan and a leading supplier of methamphetamine.

A Financial Action Task Force of U.S. and Japanese officials concluded after a 2006 visit to Myanmar that KBZ Bank was “weak in promoting a culture of AML (anti-money laundering) compliance,” says a U.S. diplomatic cable.

KBZ Bank denies those allegations. In a statement, it said it “participates enthusiastically in anti-money laundering activities.”

The Task Force also noted that brisk trade in gold, gems and jade “provided ample opportunities for abuse.”

Gem and jade remain KBZ Group’s primary cash cow. Every few months, Myanmar holds gem emporiums at which KBZ racks up sales of between \$40 million to \$50 million, according to a company document seen by Reuters. This figure excludes one-off sales. In 2011, a Chinese buyer snapped up a \$44 million chunk of imperial jade.

U.S. investment restrictions are unlikely to be lifted soon on gems, timber and some other resource-related industries, even if Washington relaxes sanctions, said a U.S. official in Washington, as they are “regressive sectors” in ethnic minority areas known for human-rights abuses.

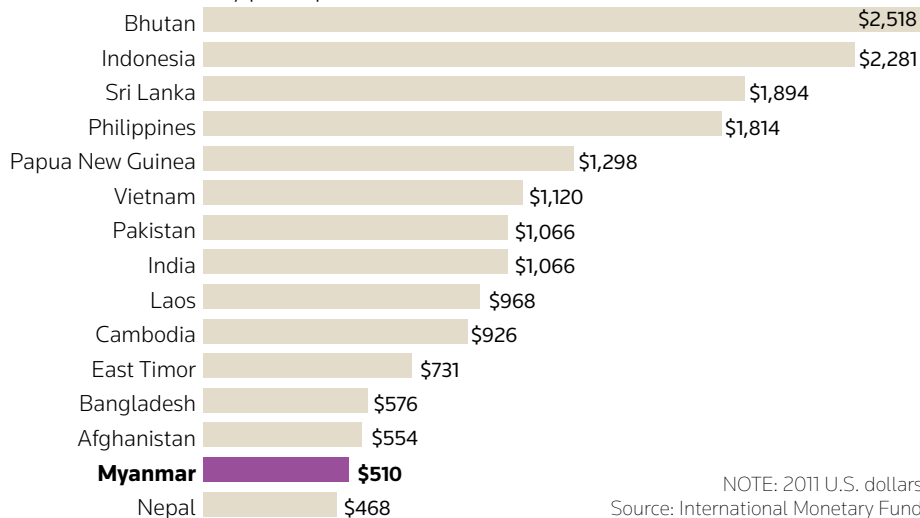
A LOT TO LEARN

One part of Aung Ko Win’s empire is struggling. In 2010, he launched a domestic airline called Air KBZ. One of its three aircraft crashed at Thandwe airport in February. No injuries were reported among the 51 passengers, who included foreigners bound for Ngapali, Myanmar’s best-known beach.

Air KBZ’s chairman is the tycoon’s daugh-

Asia’s second-poorest land

Bottom 15 countries by per capita GDP



NOTE: 2011 U.S. dollars
Source: International Monetary Fund

ter, Nang Lang Kham. “I still have a lot to learn from my father,” she says. “We are trying to modernise our banking business and restructure our organisation as well.”

Not every tycoon is a crony. Michael Moe Myint was identified in a 2009 U.S. embassy cable as “one of Burma’s most successful businessmen, and perhaps the most legitimate.”

His 23-year-old Myint & Associates is Myanmar’s biggest contract oil and gas services provider, with annual revenues this year of about \$12 million. He also runs a \$40 million oil and gas exploration and production company.

A former commercial pilot, Moe Myint, 59, studied and worked briefly in the United States before returning to Myanmar in 1989 to emulate his late father, a geologist who advised Shell.

“You just don’t do it,” he says of cronyism, “though sometimes it is very hard.”

In the late 1970s, he planned flights for General Ne Win, whose 1962 coup began Myanmar’s dark years of army rule. He worked closely with a Ne Win protégé, Khin Nyunt, who would become the much-feared chief of military intelligence.

Years later, when Khin Nyunt offered him lucrative state contracts, Moe Myint says he said no. “That’s not the way I wanted to earn my money.”

Today, he is close to Suu Kyi, hosting a Japanese-themed dinner for her and 250 guests in January. She also dined with his family on Christmas day, urging his son, a petroleum engineer with Chevron in Australia, to return home. “She convinced him to leave Chevron and come back and help the country,” he says.

But he is scornful of the U.S. sanctions against him and his family, which were imposed in 2008 due to what a U.S. diplomatic cable described as production-sharing contracts with the former military government. He says the U.S. measures were hypocritical. While U.S. companies cannot invest in Myanmar, his company employed Americans and had contracts with U.S. companies. “Yet because I am working in oil and gas in Myanmar, I am denied a visa.”

A year later, U.S. diplomats urged Washington to reverse the decision, saying in a March 2009 cable that “he does not provide and/or derive significant support to or from the regime.” The sanctions were



DRIVING AHEAD: Tay Za's sprawling holdings include this floating golf driving range in Yangon. REUTERS/SOE ZEYA TUN

removed only last month.

Sanctions often missed their mark, says Serge Pun, chairman of SPA Group, whose interests include real estate and financial services.

"How could they be effective when you have China on one side and India on one side that didn't bother about the sanctions?" In the 2010-11 (April-March) fiscal year, for instance, China pledged \$14 billion of investment, pushing total foreign direct investment promises to \$20 billion, official data show.

Among those doing business with China is Myanmar's most reclusive crony: Tun Myint Naing, 53, better known as Steven Law. A soft-spoken ethnic Chinese, Law owns a huge construction and trading company, Asia World, that built Yangon's busiest port, an extension to its international airport and one of the best-known hotels, Traders.

It also helped create the capital Naypyitaw, throwing up hotels, ministries and a retirement mansion for strongman Than Shwe.

Asia World was founded by Law's father, Lo Hsing Han, described by the U.S. Treasury in a 2010 document as the "Godfather of Heroin" and "one of the world's key heroin traffickers dating back to the early 1970s." Law, the document adds, "joined

his father's drug empire in the 1990s and has since become one of the wealthiest individuals in Burma." Law has denied involvement in drug trafficking.

Asia World has profited from Law's "excellent personal relationship with senior generals," including Than Shwe, and from sealing business deals between Chinese companies and the military regime, U.S. diplomatic cables say.

Yet when reformist President Thein Sein visited China in May, Law was in the delegation, suggesting that he will remain "very influential" as a Chinese-speaking intermediary, predicts Sumana Rajarethnam, an analyst with the Economist Intelligence Unit. Asia World is involved in some of Myanmar's biggest and most controversial Chinese-led projects, including the Kyaukphyu deep-sea port complex overlooking the Bay of Bengal and the trans-Myanmar pipelines that will carry oil and gas into China.

Law declined to speak to Reuters for this story.

Even if cronyism fades, its likely legacy is a class of entrenched business dynasties. One is led by Khin Shwe, a property tycoon and member of the upper house of parliament who is listed under U.S. and Euro-

pean sanctions.

His son, Zay Thiha, is vice chairman of their property group, Zaykabar. Zay Thiha's sister, Zay Zin Latt, is married to Toe Naing Mann, founder of telecoms group Redlink Co. Toe is the son of lower house speaker Shwe Mann, a former general and a possible future president.

This second generation is less tainted by Myanmar's military past, and the first generation is relying on them in its quest for legitimacy in the new Myanmar.

"Actually we want to rest," says Khin Shwe in an interview, with his son sitting nearby. "But we cannot."

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