EUROCHAM
MYANMAR

GARMENT GUIDE 2020

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EUROCHAM MYANMAR

EUROPEAN CHAMBER OF COMMERCE IN MYANMAR

EuroCham Myanmar serves as the voice of European business in Myanmar. Its main mission is to increase the presence of European companies in the country and to facilitate market access particularly for European SMEs – by advocating for member interests with the government and organisations in Myanmar, the ASEAN region and the EU.

With a strong, growing network of partners, EuroCham offers on-the-ground assistance for European businesses interested in commercial endeavours in Myanmar, whether in the form of advocacy, business services, research or networking.

This report serves as a guide for European small-to-medium sized enterprises interested in investing in Myanmar; it starts with a sector overview followed by entry-level information and relevant contact details.

Please contact us for further information and support.

Yangon, November 2019

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ACRONYMS

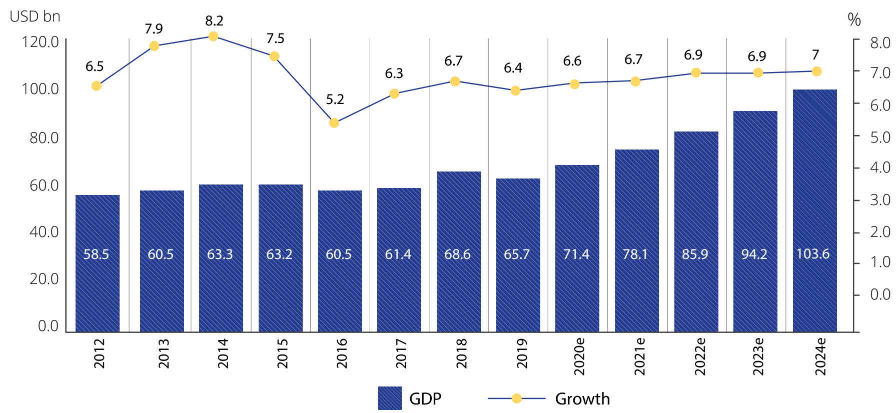
ASEAN	Association of Southeast Asian Nations
CAGR	Compounded Annual Growth Rate
CMP	Cut-Make-Pack
CSO	Central Statistical Organisation
EU	European Union
FDI	Foreign Direct Investment
FOB	Free-on-Board
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
ILO	International Labour Organisation
IMF	International Monetary Fund
JV	Joint Venture
MGMA	Myanmar Garment Manufacturers Association
MIL	Myanmar Investment Law
NES	National Export Strategy
RMG	Ready-Made Garment
SEZ	Special Economic Zone
SMART	SMEs for Environmental Accountability, Responsibility and Transparency
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry

1 COUNTRY OVERVIEW MYANMAR

1.1 MACROECONOMIC OVERVIEW

Myanmar is the second largest country in Southeast Asia in terms of land area at 676,578 square kilometres, and the fifth largest country in the region in terms of population with a size of 53 million as of 2019, estimated to grow to 54.7 million[i] by 2024. The neighbouring countries of China, India, Bangladesh, Thailand and Laos, account for approximately 40% of the global population and approximately 20% of the global gross domestic product (GDP). Strategically located between China and India, with vast natural resources and a large coastline, Myanmar is expected to have the highest GDP growth rate at 6.8% until 2024 among the ASEAN countries and holds significant potential as a regional player, which remained largely untapped during almost five decades of economic isolation under a debilitating military rule.

Figure 1: Myanmar's Nominal GDP (in USD billion) and GDP Growth Rates 2012–2024e



Source: IMF-World Economic Outlook Database, 2019

A series of economic and political reforms were started by the quasi-civilian government since March 2011, attracting foreign investment into the market. There was a slight decrease in growth rate in 2015, which has since recovered and is expected to stabilise in the next five years.

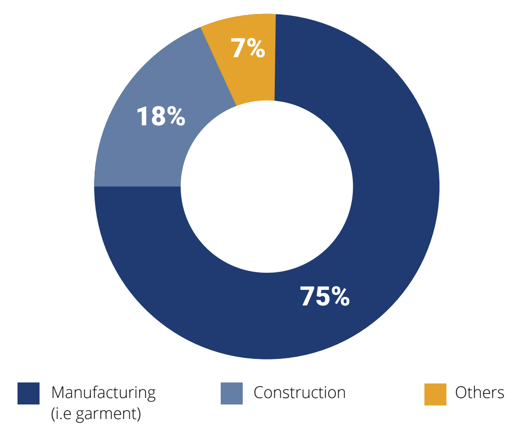
Table 1: Macroeconomic Benchmarking – ASEAN

	Population 2018 (mn)	Current GDP 2018 (USD bn)	GDP / Capita 2018 (USD)	GDP Growth (2018-2024)
Indonesia	261.9	1,022.4	3,870.6	5.2%
Philippines	106.6	330.8	3,103.6	6.6%
Vietnam	94.6	241.2	2,551.1	6.6%
Thailand	67.8	487.2	7,187.2	3.6%
Myanmar	**52.8**	**68.6**	**1,297.7**	**6.8%**
Malaysia	32.4	354.3	10,941.8	4.8%
Cambodia	16.2	24.5	1,508.8	6.6%
Laos	6.8	18.4	2,720.3	6.7%
Singapore	5.6	361.1	64,041.4	2.6%

Source: IMF-World Economic Outlook Database, 2019

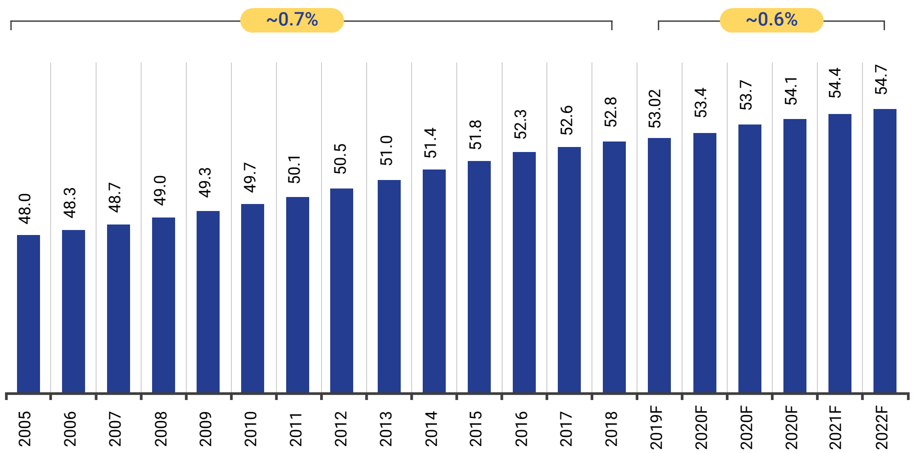
With the further relaxation of regulations for foreign investment in Myanmar, a renewed sense of business optimism led to an influx of foreign firms and strong manufacturing led economic growth, primarily driven by foreign direct investment (FDI). Myanmar, being one of the last accessible frontier markets in the world, is experiencing an accelerated pace of development, similar to economic transformations experienced by its Asian peers such as Thailand and Vietnam.

Figure 2: Industry Growth Contribution by Sector



Source: Asian Development Bank, 2019

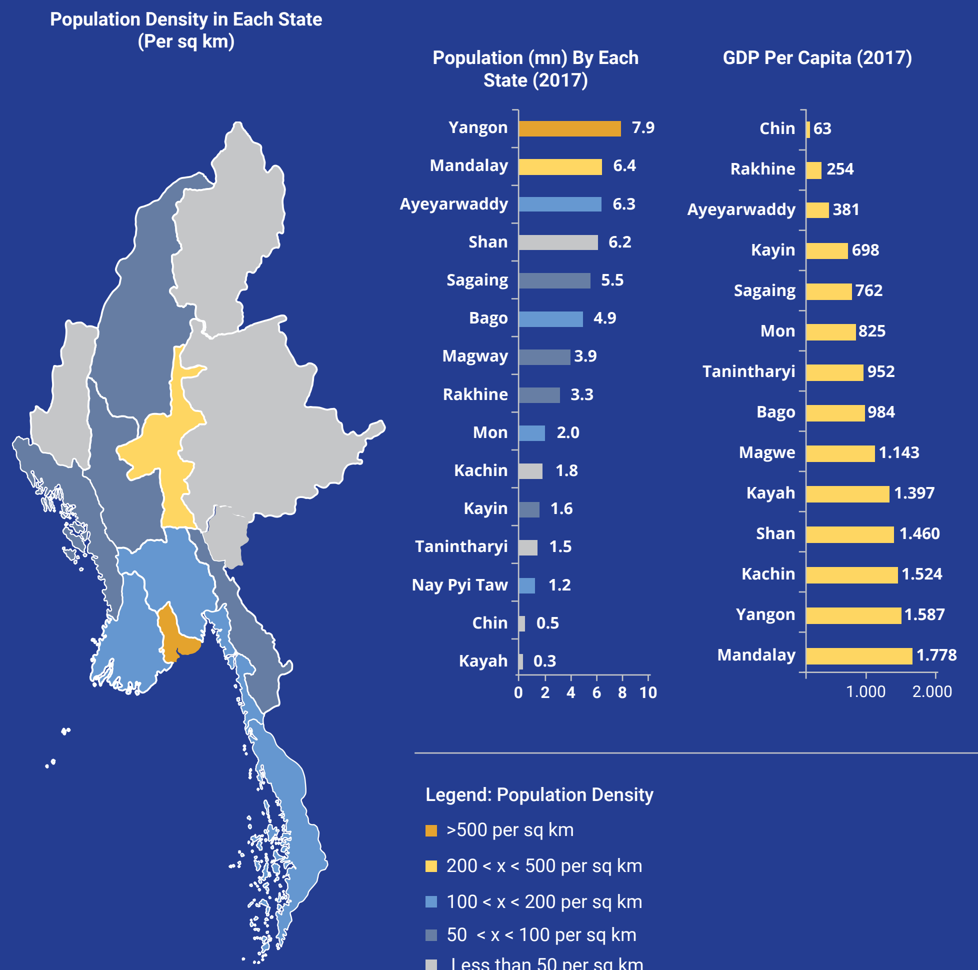
Figure 3: Myanmar's Total Population 2005–2024 (in million)



Source: IMF-World Economic Outlook Database, 2019

Myanmar's population as of 2019 is estimated to be 53 million with age groups below 24 years old accounting for ~45% of the population. As the commercial centre of Myanmar, Yangon accounts for the highest population density in the country and approximately 15% of Myanmar's population at 7.9 million people with approximately 700 people per square kilometer (sq km)[ii].

Figure 4: GDP and Demographic Trend by States and Regions

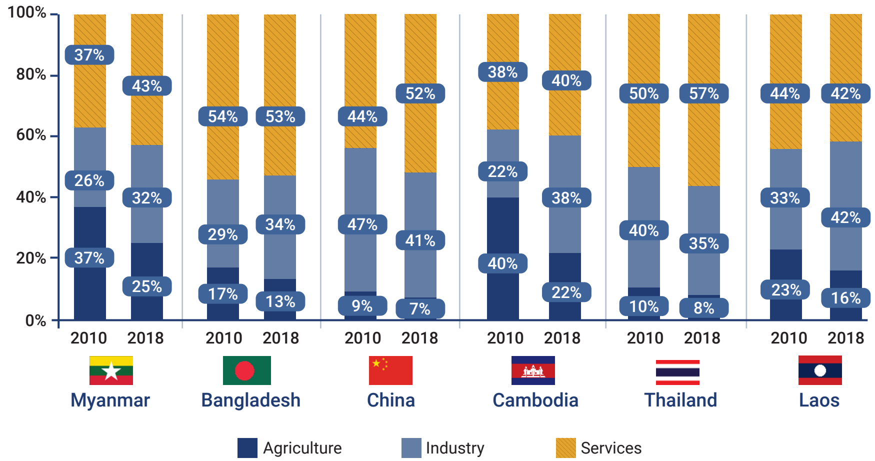


Source: Central Statistical Organisation, Myanmar Development Institute, 2019

1.2 MYANMAR INDUSTRY AND TRADE DYNAMICS

Closed off for decades from the global economy, Myanmar has heavily relied on the agriculture sector which continues to employ more than 60% of the population. Industrial sector contribution in Myanmar has increased from 26% in 2010 to 32% in 2018, but remains below Vietnam and Thailand, indicating further potential for industrialisation.

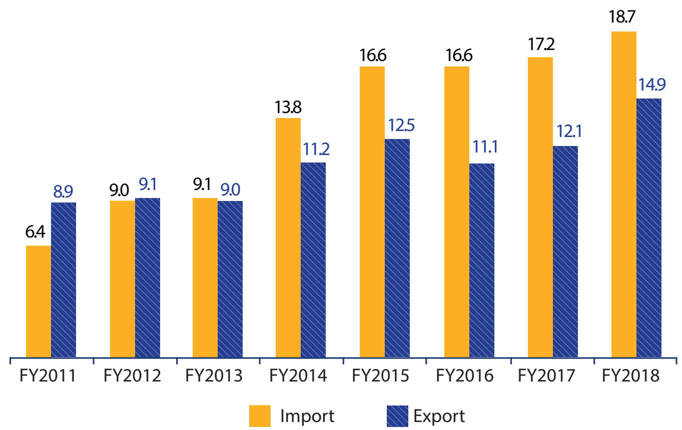
Figure 5: GDP Composition by Sector



Source: World Bank, 2019

While Myanmar posted a historically positive trade balance until FY2012, accelerated economic development led to a widening trade deficit as capital goods and technology were imported to support the move towards industrialisation. Hence, while imports witnessed a compounded annual growth rate (CAGR) of 21%, exports rose at a CAGR of 5% between FY2011 and FY2016 primarily due to volatility in the supply of agricultural products and declining commodity prices for its key exports.

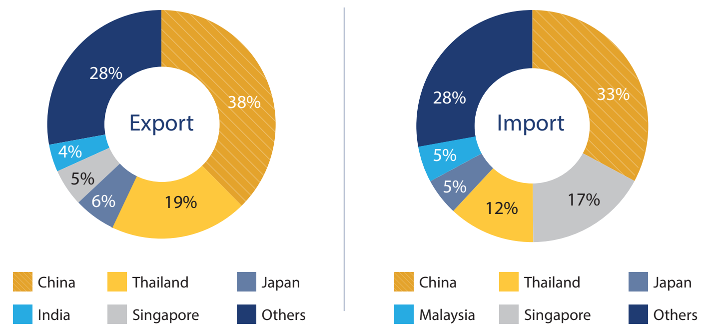
Figure 6: Historical Balance of Trade (Import and Export, in USD billion)



Source: Central Statistical Organisation Myanmar, 2019

The National Export Strategy 2015–2019 (NES) aims to bridge the trade deficit by identifying priority sectors for exports. It is aimed to increase trade, also of new products and into new markets, as well as to lift production and value-addition in the identified sectors. The priority sectors include rice, pulses, beans, oilseed crops, fishery, textile, garment, wood-based products as well as rubber. Regarding the service sector, tourism has been identified as a key priority sector. The NES provides a roadmap for the country to effectively assign financial, technical, and institutional resources to specific trade development priorities, with the aim of increasing export competitiveness and diversification.

Figure 7: Export and Import Destinations



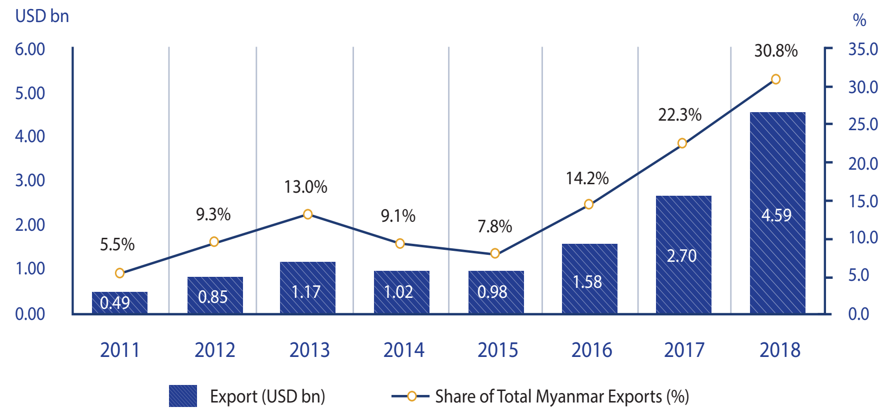
Source: Central Statistical Organisation Myanmar, 2019

2 MYANMAR GARMENT SECTOR ASSESSMENT

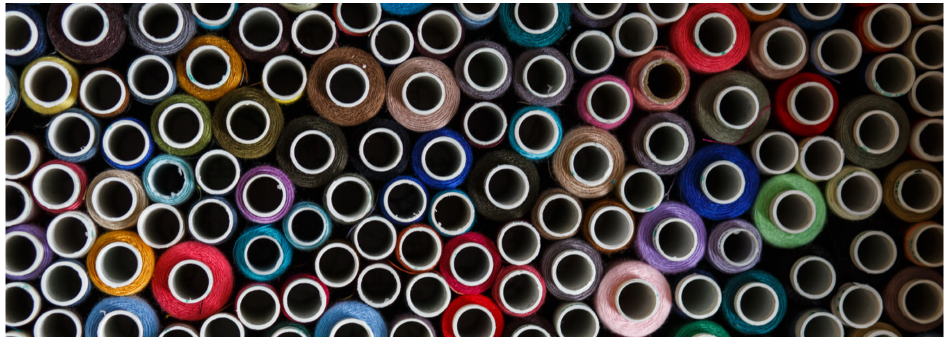
2.1 HISTORICAL AND CURRENT MARKET SITUATION

With the opening up of the Myanmar economy, the growth of Myanmar's garment sector has taken place at a time when wages are comparatively lower than in other regional production hubs, employers can access a young labour force, the Generalised System of Preferences (GSP) grants duty-free exports to Europe, 100% FDI into Myanmar is allowed, and beneficial trade agreements are accessible. The export value of garments (HS Codes 61 and 62) increased from USD 900 million in 2012 to USD 4.6 billion in 2018.

Figure 8: Myanmar Garment Exports and Share of Total Myanmar Exports

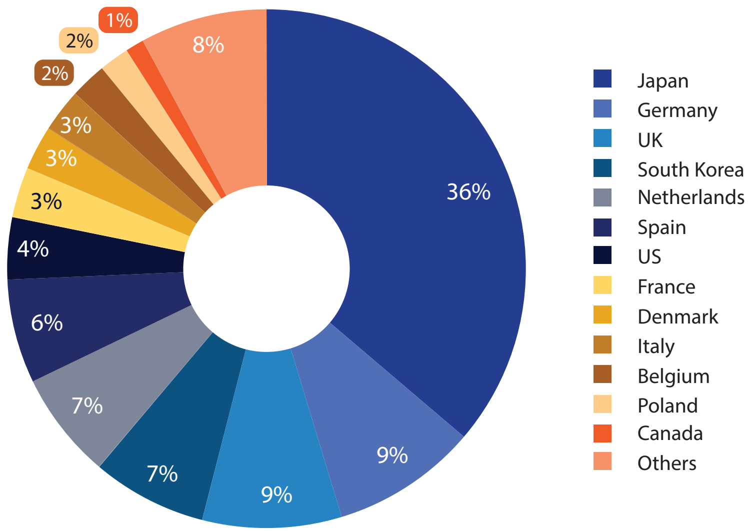


Source: Myanmar Garment Manufacturers Association, 2019



Total import of textile and clothing including fibers accounts for more than half of the garment exports, which indicates that Myanmar is highly dependent on imports of raw materials. Among Myanmar's garment exporters, large factories are either wholly foreign-owned or operating through joint venture (JV) agreements between local and foreign companies, most of which are based in Mainland China, Hong Kong, Japan, South Korea, and Taiwan. While bulk of the exports were directed to China, South Korea or Japan and other Asian countries in the past, in 2018, European countries accounted for over 45% of total garment exports from Myanmar.

Figure 9: Myanmar's Share of Garment Exports by Country - 2018



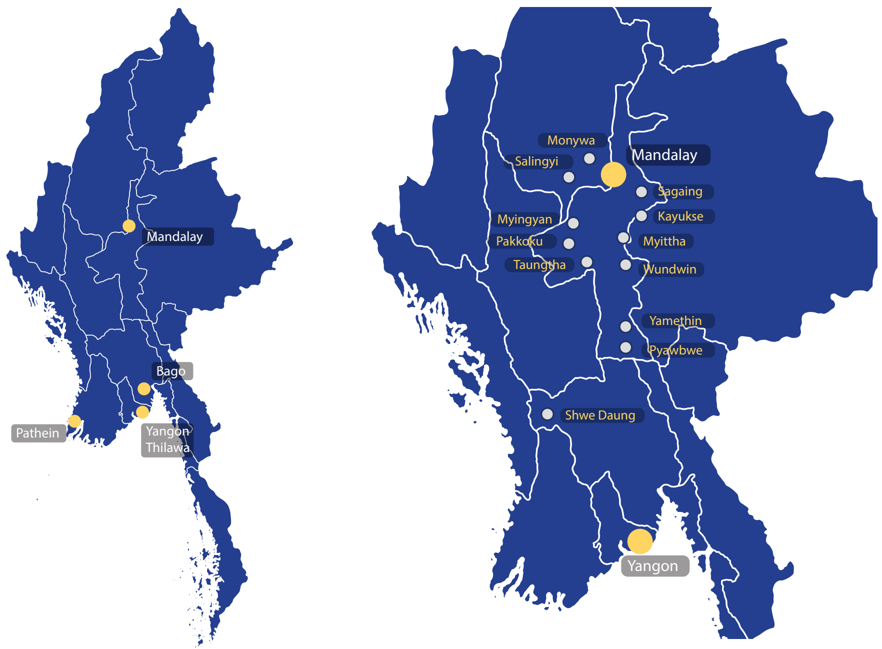
Source: ITC Trademap; Myanmar Garment Manufacturers Association, 2019

2.2 GEOGRAPHICAL INDUSTRY CONCENTRATION

Most of the garment factories operate in the Yangon region. According to the Myanmar Garment Manufacturers Association (MGMA), half of the existing garment factories are located in Yangon, primarily in the Hlaing Thayar industrial zone or located across the townships on the outskirts of Yangon with some additional newly established production sites in the Thilawa Special Economic Zone, located approximately 25 km southeast of Yangon. The geographic concentration is driven by the convenient access to port infrastructure and the presence of many industrial clusters in and around Yangon.

The other key locations, by order of importance, are predominantly Bago, Pathein, Hpa-An and Mandalay, though the latter is mostly focused on the production of textiles for the domestic market. Albeit still under development, the Kyaukpyu Special Economic Zone in Rakhine State on the western coast is also anticipated to host additional garment factories. The Myanmar Government owns 13 textile industries, regrouped in a state-owned enterprise under the Ministry of Industry in the No. 3 Heavy Industrial Enterprise (HIE-3) with other factories for paper and chemicals. The map below shows their locations.

Figure 10: Location of Garment Factories and State-Owned Textile Factories



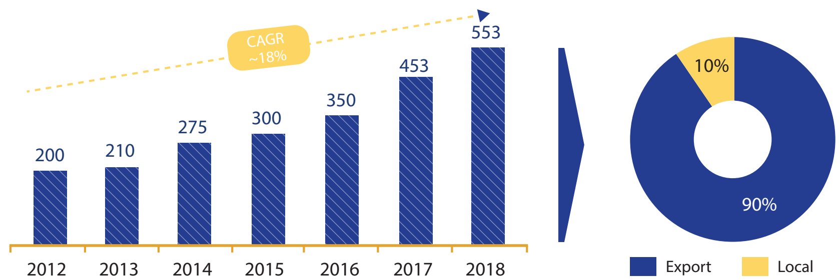
Source: Myanmar Ministry of Commerce, 2018

2.3 OVERVIEW OF GARMENT FACTORIES IN MYANMAR

The garment manufacturing industry in Myanmar is dominated by export-oriented factories, all operating under the Cut-Make-Pack (CMP) system with the bulk of raw materials being imported. As per the latest survey conducted by the Myanmar Garment Manufacturers Association in August 2019, there are 533 garment factories registered in Myanmar, ~90% of which primarily focus on the export market. Driven by Myanmar's rising attractiveness as a low-cost garment manufacturing location, the number of factories has increased significantly over the last few years posting an 18% CAGR from 2012 to 2018. With increasing demand from export destinations as well as a large domestic population, manufacturers in Myanmar have the option to cater to both local and export markets.

With a population of 53 million the local market is also large enough for ready-made garment factories to tap into. However, due to a lower disposable income, especially for clothing, the local demand is primarily met by tailors operating small shops in residential areas or in their vicinity. Lower-quality unbranded ready-made garment (RMG) are imported by other small and medium enterprises, sometimes illegally. This has led to a high level of price competition as well as low quality awareness and preference when it comes to the local demand. As a result, the majority of manufacturers primarily focus on the export market rather than investing in developing local brands or substituting imported lower-quality unbranded products. However, these export-oriented factories often accept local orders during the low seasons of January and February as well as September and October when there is relatively lower export demand due to the gap between summer and winter seasonal

Figure 11: Number of Garment Factories in Myanmar and Market Focus



Source: Myanmar Garments Manufacturers Association, 2019

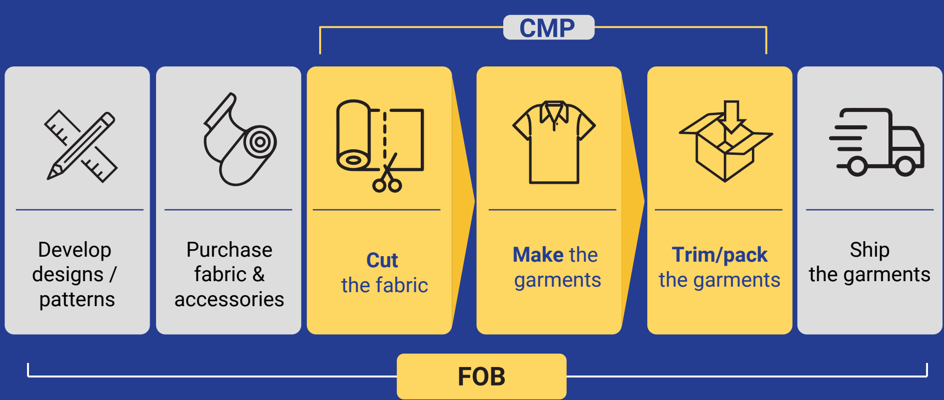
2.4 CUT-MAKE-PACK VS. FREE-ON-BOARD

Nearly all of the orders with manufacturers in Myanmar are carried out on a Cut-Make-Pack (CMP) contract, which offers limited profit margins for the manufacturers as they do not provide value-added services of designing, supplying all raw materials, storing them in their own warehouses, or shipping the finished products. This further exacerbates the situation and fails to encourage integration across the value chain. Marginal profits from a CMP contract limit the manufacturers' ability to invest for expansion, procurement of advanced machinery or upgrade skills. As a result, manufacturers are heavily restricted in their financial capability to move towards a Free-On-Board (FOB), Own-Design-Manufacturing (ODM) or Own-Business-Manufacturing (OBM) type of contracts with more control over the value chain and higher profitability.

At the same time, moving from CMP to FOB requires extensive updates to existing production facilities. FOB suppliers would need to independently manage their material supply and source materials from China, India or Thailand. They would further have to employ a merchandising or sales team in order to translate buyers' product requirements into manufacturing processes, demanding increased local sample development and skills.

The majority of garment factories in Myanmar are either foreign-owned or branch offices of factories in China, Taiwan, Japan and South Korea due to the favourable wages, production costs, and tax exemptions. A small proportion of these foreign-owned manufacturers are gradually moving to FOB as margins under CMP continue to decline with rising competition from new factories.

Figure 12: CMP and FOB Contracts Overview



Source: Myanmar Garment Manufacturers Association; SMART Myanmar, 2018

2.5 TYPE AND NUMBERS OF GARMENT FACTORIES IN MYANMAR

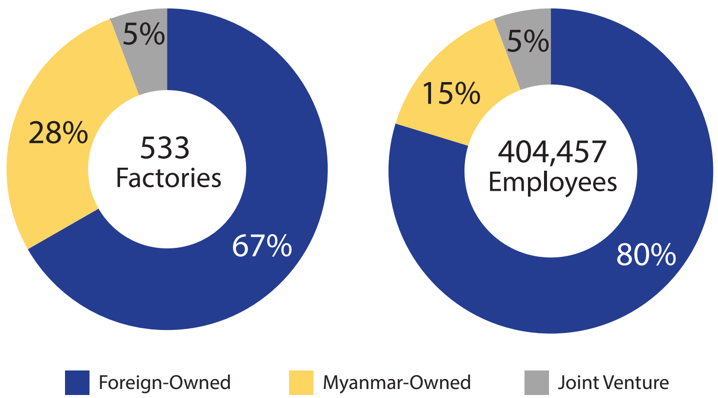
Out of the total 533 garment manufacturers in Myanmar, 355 are estimated to be foreign-owned. Of these 355 factories, approximately 10% have started transitioning towards FOB. In terms of output value, the FOB contribution remains less than 5%, indicating a significant gap in terms of knowledge and technology transfer, with a majority of these FOB companies expanding to include raw material sourcing and banking support for the key buyers to remain competitive. In a bid to open up the garment manufacturing sector and raise industry standards, 100% foreign investment has been allowed in the sector since 2013. This has led to increased foreign interest.

Figure 13: Overview of Foreign, Local and Joint Venture Garment Factories in Myanmar

Source: Myanmar Garment Manufacturers Association; SMART Myanmar, 2019

As of 2018, foreign-owned companies accounted for 67% of all RMG manufacturers in Myanmar, and 80% of all workers employed by the garment factories. The industry weighted average number of employees is 766 as of August 2017. The average employee size of foreign-owned companies is 918 while the average size of local companies is 405 employees. This indicates a much larger scale of operations of foreign-owned companies in Myanmar compared to local manufacturers. The foreign-owned companies have been especially successful in ramping up their operations and output, leveraging on the experience and expertise of their respective parent companies. Hence, they are better equipped to improve productivity by adopting global industry standards and enhancing their technical capabilities in Myanmar.

Figure 14: Number of Factories and Employees by Investment Type

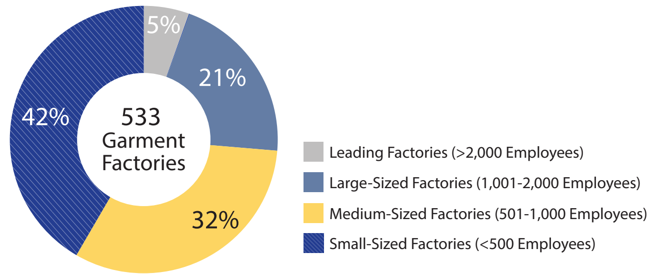


Source: Myanmar Garment Manufacturers Association, 2019

Of the 533 manufacturers in Myanmar, only 28 employ more than 2,000 people as of August 2019. While the number of factories has increased rapidly, small-sized factories with fewer than 500 employees account for almost 42% of the total facilities in Myanmar, reflecting the highly fragmented nature of the industry. However, as Myanmar becomes increasingly prominent as a ready-made garments manufacturing destination, with rising price competition and lower margins on CMP contracts, factories are anticipated to increase capacity and scale up. This will allow firms to process larger order quantities from international buyers while raising capital for value chain integration and technical advancements for adopting a sustainable long-term growth strategy.

Currently, the Myanmar garment industry has received investments from 21 countries around the globe ranging from North America to Australia. Leading manufacturers, however, are primarily incorporated in Asia, particularly in China, Japan, and South Korea, as well as in Canada and the US. Asian countries dominate investment as the first entrants driven by relatively easier access to the country and logistical cost advantages. With higher financial capabilities and support from their regional head offices, most foreign-owned factories operate large venues, increasingly outsourcing labour-intensive work through CMP contracts to Myanmar.

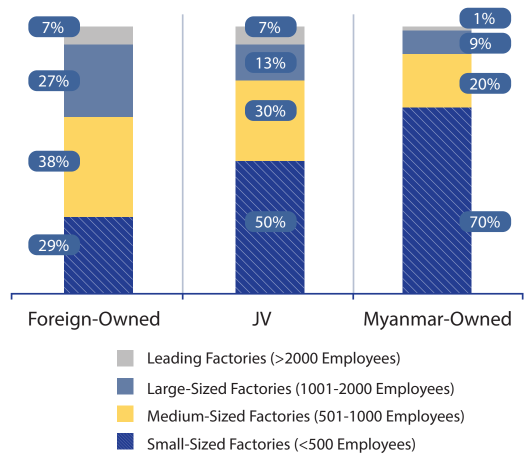
Figure 15: Types of Garment Factories based on Number of Employees



Source: Myanmar Garment Manufacturers Association, 2019

Additionally, Western buyers often rely on existing relations with their Asian manufacturers to explore new manufacturing hubs and hedge direct operational risks. US-based clothing firm GAP, for example, was the first major US apparel retailer to establish a presence in Myanmar in June 2014 through its two existing factories in South Korea which started manufacturing jackets and vests in Yangon for its "Old Navy" and "Banana Republic" lines. With the EU reinstating GSP benefits for Myanmar, exports to the EU have been increasing at 34% per annum between 2012 and 2016, with more EU investments being approved. These will help enhance garment quality, health and safety, labour and compliance standards in Myanmar in the long-run.

Figure 16: Number of Factories by Size and Investment Type



Source: Myanmar Garment Manufacturers Association, 2019

Out of the 355 foreign-owned factories, 34% employ more than 1,000 people, reinforcing the larger scale of operations both in terms of labour and output. Small-sized factories account for 29% of total foreign-owned factories compared to 70% of locally-owned companies. Hence FDI is seen as a key driver to provide employment opportunities.

3 MYANMAR FOREIGN INVESTMENT REGULATORY LANDSCAPE

3.1 GENERAL LEGAL / INVESTMENT STRUCTURE REGULATIONS

3.1.1 MYANMAR INVESTMENT LAW

The Myanmar Investment Law (MIL) was enacted on 18 October 2016 which consolidated and replaced the Foreign Investment Law 2012 and the Citizen Investment Law 2013. The purpose of the new law is to simplify and clarify investment application processes and offer tax breaks, incentives, as well as rights protection for businesses[iii].

The Investment Law is underpinned by the Myanmar Investment Rules 2017 (Investment Rules), and a variety of notifications including Notification 13/2017 dated 1 April 2017 and Notification 15/2017 dated 10 April 2017.

Table 2: Myanmar Investment Law – Key Regulatory Amendments

Key Change	Description
Ease of Foreign Investment	Foreign investors are permitted to own 100% of businesses which are not on restricted or prohibited lists.
Investment Screening	An investor may submit an investment screening application to the Myanmar Investment Commission (MIC) for non-binding guidance on whether a proposed investment: • Requires an MIC Permit application. • Requires Pyidaungsu Hluttaw (Union Parliament) approval prior to Permit issuance. • Is prohibited or restricted under the MIL and related notifications. • Is in a promoted Sector under the MIL and related notifications.
Devolvement of Authority for Endorsement Application	Applications with investments of less than USD 5 million in non-strategic and non-restricted sectors will be handled at the state/regional level, with close involvement of the state/regional DICA officials.
Removal of Blanket Incentives	Businesses may be granted tax exemptions if investments are in promoted sectors – the duration of tax exemption is contingent upon the areas in which business set up operations. • Less developed regions (Zone 1) grant 7 years of tax exemption; • Moderately developed regions (Zone 2) grant 5 years of tax exemption; • Adequately developed regions (Zone 3) grant 3 years of tax exemption.
Long-term Land Lease	Foreign investors that invest under the Myanmar Investment Law scheme can lease land from the Government for 50 years and then extend it for another 20 years with two 10-year extensions. Lease of land must be situated at industrial zones or permissible area for business.
Compensation for Expropriation	Expropriation of investments is allowed under the following conditions: a) Necessary for the public interest; b) Carried out in a non-discriminatory manner; c) Carried out in accordance with due process of law; d) On payment of prompt, fair and adequate compensation.
Grievance Mechanism	MIC will establish and manage a grievance mechanism to inquire and resolve issues before escalation to legal disputes and to prevent the occurrence of disputes.

Source: Myanmar Investment Law, 2016

3.1.2 MYANMAR INVESTMENT COMMISSION

The Myanmar Investment Commission (MIC) was formed under The Myanmar Investment Law. It is a government-appointed body which streamlines and approves investment proposals and comprises high-level figures, senior officials and experts from government ministries and non-governmental bodies. The MIC also issues investment-related notifications and orders. Investors must submit a proposal to the MIC only if the investments are[iv]:

- Activities essential to the national strategy.
- Large capital-intensive investment projects.
- Likely to cause a large impact on the environment and local community.
- Use state-owned land and buildings.
- Designated by the government as necessary to submit the proposal to the committee.

3.1.3 MYANMAR COMPANIES LAW

The Myanmar Companies Law, enacted in December 2017 replaces the older version enacted in 1914. Key points of the Companies Law include[v]:

- Foreign investors will be able to own up to 35% of a Myanmar company before it is considered a foreign company. This enables investors to invest in local companies that previously were not able to accept foreign investment, and indirectly permits foreign investment in companies listed on the Yangon Stock Exchange.
- The replacement of the inflexible Articles of Association and Memorandum of Association with a corporate constitution.
- A company must have at least one resident director, but that director does not need to be a Myanmar citizen and allow a board of directors to determine the form of consideration for an issuance of shares.
- Purchasing shares in a "Myanmar Company" without obtaining advanced permission from the DICA.
- Companies must register on Myanmar's Companies Online.

3.2 GARMENT-RELATED RULES AND REGULATIONS

3.2.1 LABOUR LAWS AND STANDARDS

Myanmar became a member of the International Labour Organisation (ILO) in 18 May 1948, and has recently signed a Memorandum of Understanding (MoU) with the ILO in September 2018 for implementing the Myanmar Decent Work Country Programme 2018-2022. The three key priorities under this MoU include:

1) Employment and decent work and sustainable entrepreneurship opportunities are available and accessible to all, including for vulnerable populations affected by conflict and disaster;
2) Application of Fundamental Principles and Rights at work is strengthened through improved labour market governance;
3) Social protection coverage is progressively extended, especially for vulnerable workers and populations[vi].

The government of Myanmar has established multiple labour-related laws covering working hours, welfare and benefits, salaries and other factors over the years to protect rights and benefits of employees. Existing labor laws and standards in Myanmar include the Factory Act Law 1951 (with 2016 amendments), Minimum Wages Law 2013, Employment and Skills Development Law 2013, Payment of Wages Act 2016 and the Social Security Law 2016. Additionally, the 2012 Settlement of Labour Disputes Law grants employees the legal right to take action through a process of negotiation, conciliation and arbitration with the Workplace Coordinating Committee. If unresolved, the dispute is escalated to the Township Conciliation Body and thereafter to the state/division Arbitration Body. Child labour, i.e. under the age of 14, is strictly prohibited in the garment industry. If workers are unable to provide a national identification card, then employers are required to obtain a legally binding "Certificate of Fitness and Age" from a doctor.

Table 3: Overview of Employment Regulations

Type	Description
Working Hours	Maximum 8 hours/day or 44 hours/week, maximum 6 days/week; Minimum 30 minutes interval after each 5 working hours; Combined working hours and interval time shall be <10 hours/day; One day holiday each week (Sunday or substitution).
Overtime	Maximum 16 hours/week or 12 hours/week for continuous work, calculated as double the basic wage.
Minimum Wage	MMK 4,800 per 8 hour day day (~USD 3.13/day) or ~USD 94 per month minimum wage for skilled employees of companies with >15 employees; 50% of minimum wage to be paid to completely unskilled newly hired worker for maximum 3 months, 75% of the minimum wage to be paid during the second 3 months of employment/probationary period.
Holidays & Paid Leaves	21 days public holidays, 6 days casual leave for maximum 3 days at a time, 10 days earned leave can be accumulated for 3 years.
Medical Benefits	30 days of medical leave with full pay, 14 weeks maternity leave, right to take medical treatment for up to 26 weeks at permitted hospital/clinic.
Social Security	2% employer-employee contribution, injury fund (1% from Employer) for maximum salary of MMK 300,000/month to qualify.
Others	Emphasis on skills and development of employees in addition to health and safety measures.

Source: Myanmar Garment Manufacturers Association, 2019

3.2.2 WORK PLACE SAFETY, HEALTH & ENVIRONMENTAL STANDARDS LAW

The Occupational Safety and Health Law enacted in March 2019 and the Factory Act 1951 ensure the welfare in the garment factories. Individual violation of the specific measures under these acts may lead to up to two years of imprisonment. However, implementation has gained importance in recent years due to compliance audits required by international buyers, especially when Myanmar gained access under the EU's GSP scheme.

Type	Description
Workplace Safety and Health Law	• Factories are required to provide a safe and hygienic working environment with proper ventilation, light and heat, access to toilets and clean drinking water for all workers. • Floors, stairs and paths must be well-built with hand rails and necessary covers must be placed. • They are also required to make arrangements for any power cuts, with generators and auxiliary units to be kept undercover. • Females and young workers are not allowed to handle weaving/spinning machines or lift heavy loads. • In every factory, escape routes and fire alarms must be well maintained.
Welfare	• Factories are required to provide washing and cleaning facilities for workers • Factories must provide sufficient seats for workers if a chance is given for sitting. • Factories must always stock sufficient First Aid boxes. • If the number of workers exceeds 250, doctors or nurses in clinics are to be made available. • If the number of workers exceeds 100, factories are required to provide recreation centers and canteens for food. • For >100 female workers, factories are required to provide a nursery center for children under 6 years of age.

4 INVESTMENT OPPORTUNITIES IN MYANMAR

4.1 RECENT INVESTMENTS

The Chinese National Federation of Industries from Taiwan has signed two Memorandums of Understanding (MoU) with the Union of Myanmar Federation of Commerce and Industry (UMFCCI) in mid-2018. The MoUs which are being implemented in 2019 aim to facilitate technology transfer and training programmes for workers, supervisors and technical staff at factories across the country. As of 2019, there are approximately 40 Taiwanese textile and clothing manufacturers in Myanmar, most of which are large-scale such as the Tah Hsin Industrial and Wedtex[vii]. Taiwanese manufacturers who previously favoured Vietnam and Cambodia as investment destinations, have been increasingly investing in Myanmar driven by labour shortages and rising costs in Vietnam and Cambodia. With the US lifting economic sanctions against Myanmar, the Taiwan Textile Research Institute also anticipates an increase in orders for Myanmar from American brands.

Additionally, the Ayeyarwady Development Public Co. Ltd. signed an agreement in January 2019 with Hong Kong-based China Textile City Network Co. Ltd. to establish approximately 50 garment factories by the end of 2020 in Pathein Industrial City. The factories plan to export to South Korea, Japan and Europe. While garment manufacturing remains concentrated in Yangon, Pathein offers significantly lower land prices. Furthermore, a proposed port and jetty is scheduled to be completed by 2020 which would allow factory operators to ship directly to Singapore. Until then, garments need to be transported by road from Pathein to Yangon. ADPC had acquired 80% of the project area, (2,700 acres), and is implementing the first phase of the park on 1,200 acres[viii].

4.2 KEY INTERNATIONAL BRANDS IN MYANMAR

Before Myanmar became subject to the EU and US sanctions in 2003, brands such as Zara, H&M, Primark, C&A, Walmart and Arrow were already sourcing from the country. During the sanctions, Myanmar shifted its focus to manufacturing for Japanese and South Korean brands. Post-sanctions, major European brands, started to establish garment supply chains from 2013 onwards. Global players sourcing in Myanmar include Adidas, Arrow, Deuter, Esprit, GAP, Marks & Spencer, New Look, Primark, and Top Shop. Out of the 533 factories in Myanmar, over a quarter are accredited and published suppliers of these European brands, while the rest focus on other brands such as Top Shop, Deuter and Arrow.

The number of orders placed for international brands in Myanmar is increasing at a rapid pace. Market-players have been engaging in the country with different operating models. Some rely on existing strong supply networks built in neighbouring Thailand or Vietnam and simply assemble in Myanmar, while others manage their procurement directly through an established office in the country.

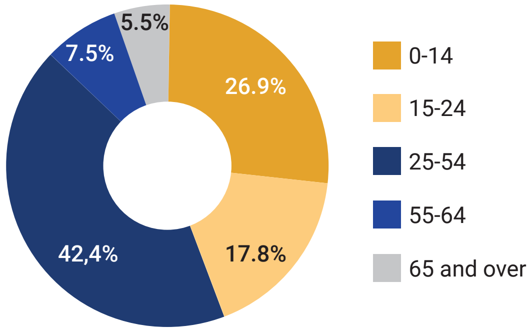
4.3 INVESTMENT OPPORTUNITIES

With the garment sector being prioritised as a focus industry for investments and export promotion under the Myanmar National Export Strategy (NES) 2015–2019 as well as NES 2020–2025, there are significant untapped opportunities for investors. Myanmar benefits from factors such as low labour cost, presence of a large young population, proximity to China and Thailand, as well favorable trade access. Additionally, with the US-China trade war, rising costs in Vietnam and safety concerns in Bangladesh, Myanmar is emerging as an attractive alternative manufacturing destination for garments manufacturing.

Labour Cost and Labour Force

Approximately 45% of Myanmar's population (or 23.6 million citizens) are aged below 25 years, presenting a significantly young population who will continue to enhance the growing labour force in the coming years. Additionally, investors are keen to relocate or establish their garments manufacturing facilities to Myanmar due to a lower minimum wage compared to China and especially the key regional hubs in ASEAN. Wages are a key cost factor for a low-cost manufacturing sector such as garments. As of May 2018, the minimum wage in Myanmar was increased to MMK 4,800 per day (~USD 3.13/day) or ~USD 94 per month. This continues to remain significantly smaller compared to China (USD 300 per month), Vietnam (USD 126-180 per month) and Thailand (USD 276–295 per month)[ix].

Figure 17: Population Share by Age Groups



Source: Central Statistical Organisation (CSO), 2018

Geographical Location

Myanmar's long coastline and proximity to India, China and Thailand lends direct access to strategic markets for investors looking to invest in ASEAN and hedge their manufacturing exposure to countries such as China. Thai Cut-Make-Pack manufacturers are increasingly establishing factories in Kayin State in Myanmar near the Myanmar–Thai border to leverage on the low labour costs as well as trade benefits that Myanmar offers[x]. In August 2019, Myanmar and Thailand announced that licenses will be issued to logistics firms for transportation of goods by land through the Yangon (Thilawa)–Myawaddy–Mae Sot–Bangkok (Laem Chabang) route to improve connectivity between Thailand and Myanmar[xi]. An East–West Economic Corridor linking Myanar, Thailand, Loas, Cambodia and Vietnam is also planned and backed by the Japanese International Cooperation Agency (JICA) to promote investment and trade between the five countries via countrywide transportation networks[xii]. Additionally, the Kyuakphyu Special Economic Zone (SEZ) in Rakhine State, led by investment from China estimated at USD 2.7 billion[xiii] also includes a plan for a 1,000 hectare industrial park and deep-sea port with factories for textiles and garments, amongst others. The deep-sea port at the Kyaukphyu SEZ is estimated to cost USD 7.3 billion and is part of China's Belt and Road Initiative. The port, which will allow China to bypass the Strait of Malacca, is anticipated to have an annual capacity of 7.8 million tons of bulk cargo and 4.9 million Twenty-Foot Equivalent Unit containers[xiv].

Trade Agreements

Myanmar enjoys tariff-free and quota-free access for exports to the EU as part of the Everything but Arms trade preference scheme under the Generalised Scheme of Preferences, extended to the world's least developed countries. Myanmar's GSP membership was reinstated in 2013, with exports to the EU increasing rapidly since - and also leading to - a consequent rise in industry standards.

Canada followed suit in 2015, restoring the tariff-free status for Myanmar under the country's General Preferential Tariff and Least Developed Country Tariff schemes, which was previously removed in 1997[xv]. In November 2016, the US also restored trade benefits and added Myanmar to its GSP scheme. However, the US GSP programme excludes most textile and apparel product exports to the US. Instead, Myanmar was granted the Most-Favoured Nation (MFN) status leading to lower tariffs[xvi]. Myanmar's membership in the ASEAN also enables Myanmar to have access to the organisation's trade agreements with China, Japan and South Korea, amongst others.

5 CHALLENGES AND OUTLOOK

5.1 CHALLENGES

Labour Standards and Rights

With garment manufacturing typically requiring low-skilled labour, implementation of labour laws and standards remain weak in key manufacturing hubs primarily due to the associated costs. However, better working conditions for workers is proven to enhance productivity, reduce staff turnover and have a significant impact on bottom lines. In Myanmar, implementation remains a key challenge, especially with local factories as well as factories with investments from countries such as China, who tend to place a lower emphasis on compliance compared to their European counterparts. For example, while working hours are to be limited to 44 hours/week legally, employees usually work for an average of 51.6 hours per week, similar to Vietnam and Cambodia. Moreover, while workers are entitled to a 30 day medical leave in a year, most workers in a survey reported restrictions on the leaves they could claim. Awareness for workers' rights remains low, with Myanmar having the lowest trade union density compared to China or Vietnam as per the ILO Industrial Relations Scoping Study, 2017[xvii]. Additionally, informal sector employment remains rampant leading to a lack of transparency and accountability.

In terms of dispute settlement, most strikes do not follow the 2012 Settlement of Labour Disputes Law due to the complicated and long nature of the resolution process. In March 2017, employees demanding better working conditions and benefits destroyed the production line of Hangzhou Hundred-Tex Garment, a Chinese-owned factory in Myanmar. The dispute initially started in January 2017 with workers demanding a better performance review and healthcare coverage which led to the contract termination of a local labour union chair. The workers have also not been paid overtime for 15 months. However, with support from the local township arbitration conciliation body, workers at the factory were back-paid, but for only six months overtime, the maximum they could claim under the law[xviii].

This widening gap between the regulatory frameworks in place and the actual implementation on the ground reflects the importance of educating both employers and employees on their rights as well as the consequences and processes in place. In Myanmar, this is currently being driven by the international brands themselves who place emphasis on regular audits and compliance checks as well as provide training to the employees. Additionally, in September 2018, a Memorandum of Understanding was signed between the Ministry of Labour, Immigration and Population, entrepreneurs, labour organisations and the International Labour Organisation, which entails a three year partnership to improve the living conditions of workers in Myanmar. The agreement, "Myanmar's First Decent Work Priorities Plan," includes promoting jobs, protecting worker rights, and enhancing discussions that could lead to better welfare for workers [xix].

Organisations such as IndustriALL and SMART Myanmar also play a crucial role in upgrading labour standards and monitoring awareness as well as implementation by working with both international buyers as well as the local manufacturers and employees. In Myanmar, IndustriALL aims to strengthen affiliate actions to enhance wage outcomes, improve understanding of how unions can use the different wage-fixing mechanisms and better structure collective bargaining processes. SMART or SMEs for Environmental Accountability, Responsibility and Transparency Project was founded by the EU in 2013 to offer tailored improvement programs to manufacturers covering corporate social responsibility, quality control, productivity as well as health and safety and working conditions.

Lack of Skilled Workers and Management

With lack of sufficient skilled labour force in Myanmar's garments manufacturing sector, the higher-value-added knitted or crocheted garments accounted for only ~21% of Myanmar's garments exports as of 2018[xx]. Woven garments continue to dominate exports indicating the heavy reliance on low-value-added products. In contrast, there has been a rise in specialised factories in China which focus on manufacturing lower volumes of high quality and more technical garments constructed with special fabric and techniques, commanding higher margins. Buyers will be likely to remain price sensitive given low productivity levels and Cut-Make-Pack dominated manufacturing. Chinese manufacturers are hence increasingly outsourcing low-value-add manufacturing to Myanmar, and due to the lack of skilled management, often recruit foreign managers in these factories, which leads to language and cultural barriers. In August 2018, Chinese-owned Fu Yuen garment factory dismissed 30 workers for violating factory rules and actions without any warning, leading to a strike by approximately 300 factory union members. The members made nine demands, one of which included that foreigners not be allowed to supervise workers[xxi]. To address rising disputes over cultural differences, in September 2019, the Directorate of Investment and Company Administration (DICA) and the Myanmar Centre for Responsible Business launched a guide on "Respecting Myanmar Culture in the Workplace". The guide aims to facilitate understanding of the local culture for foreign investors in the workplace[xxii].

Human Rights Situation and Impact on GSP

A high level emergency EU Mission visited Myanmar in October 2018 to review the impact on human rights due to the crisis in the northern Rakhine state in Myanmar. Over 700,000 Muslims have fled northern Rakhine to Bangladesh since late 2017, following a crackdown by the military in response to attacks by the Arakan Rohingya Salvation Army, and remain in border refugee camps[xxiii]. GSP regulations stipulate that preferential treatment may be withdrawn if Myanmar is found to have "serious and systematic violation of principles" laid down in the international conventions on human and labour rights, including those on preventing/punishing the crime of genocide and elimination of racial discrimination. A second visit was conducted in Febuary 2019 as part of the EU's "enhanced monitoring" stage, to examine the need for launching a formal withdrawal process of the trade privileges, which will include a six-month review period for Myanmar to demonstrate progress[xxiv]. The EU will analyse the findings from the mission and continue to engage with the key stakeholders in Myanmar to address key concerns highlighted by the bloc.

Others

Other key challenges include lack of sustainable domestic raw material supply which increases Myanmar's reliance on CMP as well as underdeveloped infrastructure and logistics networks which often leads to higher costs. For example, frequent power cuts are common during the summer months, requiring factory operators to invest in diesel generators. In terms of logistics, the main reason garment factories are concentrated around Yangon is their proximity to the Yangon port which accounts for approximately 90% of all sea trade with Myanmar. The two new Dawei and Kyuakphyu deep-sea ports that have been planned but are yet to be constructed, indicating continued reliance on the Yangon and Thilawa ports in the near term.

5.2 OUTLOOK

With the garments export value reaching USD 4.6 billion in 2018, Myanmar is on track to meet its target of USD 10 billion in garment exports by 2020, with employment increasing to 1.5 milion people as per the Myanmar Garment Entrepreneurs Association[xxv]. This will however, be heavily dependant on EU's ongoing monitoring and review to determine continuation of Myanmar's trade preferences under the GSP programme. Additionally, on a macroeconomic level, the upcoming elections scheduled to be held in November 2020 will lead to some level of uncertainty for investors, as experienced during the last election cycle which led to a slight decline in GDP growth as well. Both President U Win Myint and State Counselor Daw Aung San Suu Kyi have officially announced their intention to participate in the 2020 general elections.

In the meantime, the Myanmar garments sector stakeholders continue to focus on driving the transition towards a more value added FOB system with higher industry standards and a focus on long-term sustainable growth. The Myanmar Garment Manufacturers Association in consultation with buyers and international investors as well as the International Labour Organisation, Business Innovation Facility and Coats Plc have developed a strategic industry plan and roadmap titled Myanmar Garments Industry Strategic Plan (2014–2024). The key objectives under the strategic plan are as follows[xxvi] :

- **Improve competitive advantage of Myanmar's garment industry:** Raise productivity by at least 25%, increase access to technology, establish clear guidelines and develop supply chain knowledge.
- **Ensure full social compliance and social dialogue is practiced at all levels of the industry:** Ensure industry is free of child-labour, establish ethical guidelines for the industry and raise social and environmental awareness.
- **Build an apparel training sector that supports the industry as it develops:** To establish an institution dedicated to design and keep the industry updated with international work practices standards through seminars and trainings.
- **To build image, position and brand of the Myanmar garment industry:** Brand label " Made in Myanmar" to promote the social and sustainable compliance aspect of the industry.
- **To inform policy change which improves enabling environment for positive sustainable growth of the textile and garment sector:** Work with the government to adopt policy measures that support the move from CMP to FOB.
- **Increase the service potential of trade associations:** Work with trade associations of the textiles, packaging, paper and plastics industry to build a supply base for the garment sector.

With garments accounting for a significant share of total exports (~30% share as of 2018), the sector is a key priority for further development for the Government. Additionally, with the US-China trade war, Myanmar has rapidly emerged as an attractive alternative manufacturing destination for Chinese firms looking to move or sub-contract to countries that can export to the US. Hence more Chinese garments manufacturers are relocating to Myanmar with an estimated 80% of the new investments in the Cut-Make-Pack segment in the last year coming from China as per the Myanmar Garment Manufacturers Association. On the other hand, the number of orders placed for international brands in Myanmar are increasing at a rapid pace as well. While many international brands are keen to expand their supplier base in Myanmar, brands such as H&M have been leading expansion efforts by setting up their own procurement office in Myanmar to directly engage and work with their large supplier network. This is expected to lead to higher quality control and compliance standards with the brands adopting an educative approach to supplier engagement, resulting in overall increase in industry standards. While currently lower wages, trade preference and geographical location are the key levers for attracting international buyers to Myanmar, improving labour force skillset and productivity as well as infrastructure development will be crucial to enhancing the competitiveness of Myanmar as a garments manufacturing hub in the long run.

5.3 DUE DILIGENCE AND RESPONSIBLE BUSINESS CONDUCT NECESSITIES

In light of the foregoing challenges, investors and brands sourcing from Myanmar should conduct human rights due diligence, and take a holistic approach to responsible business conduct. In general, garment-producing businesses are well-advised to apply the same stringent control mechanisms that are used in comparable markets in the region such as Bangladesh and Cambodia, but ensure additional diligence on country-specific issues such as land ownership and acquisition for the factory, and possible involvement of military-owned companies.

The 2017 Due Diligence Guidance on the Garment Sector drafted by the Organization for Economic Cooperation and Development (OECD) provides a detailed framework for responsible garment manufacturing. This includes proper risk assessment as regards to the country, the local industry, and the product segment. Main risks in the Myanmar garment sector arise from:

- Subcontracting to local or third-country contractors without proper assessment and monitoring of legal compliance;
- Lack of upstream transparency, especially when it comes to FOB services;
- Failure to fully establish the facts around financing and land leases which may have historically involved land grab;
- Lack of monitoring of production procedures, in particular regarding labour laws, wages and work time.

Investors in the local garment sector are advised to adapt their pre-conceived due diligence and RBC frameworks to the market realities in Myanmar. This includes:

- Screening contractors and their business partners against Know Your Suppliers criteria;
- Establishing internal controls so as to avoid unauthorised subcontracting to meet deadlines or production targets;
- Reasonably responding to proven violations of labour laws and international labour standards;
- Communicating adherence to laws and regulations in order to strengthen the peer networks and pre-empt reputational hazard;
- Reviewing official grievance and compensation mechanisms against company values and international standards and exceeding them where appropriate;
- Promoting transparency in all economic activity.

Like most other sectors in the country, the foreign garment business community relies heavily on information and best-practice sharing platforms with associations and chambers of commerce. As such, garment manufacturers have participated in dialogue with the Union Government on legal reforms and encouraged the promotion of responsible business in Myanmar.

6 INDUSTRY CONTACTS

6.1 GOVERNMENT OFFICES

MINISTRY OF PLANNING, FINANCE AND INDUSTRY

Encompasses the government-owned factories in textiles.

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Ministry of Planning, Finance and Industry
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NO. 3 HEAVY INDUSTRIES ENTERPRISE

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The Customs Department is an arm of the Ministry of Planning, Finance and Industry.

Mailing Address
Department of Customs
Ministry of Planning, Finance and Industry
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(+95) 67 430 171
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MINISTRY OF INVESTMENTS AND FOREIGN ECONOMIC RELATIONS

The Directorate of Investment and Company Administration (DICA) and the Myanmar Investment Commission (MIC) are the focal bodies for incorporation of foreign businesses. Both fall under the authority of the Ministry of Investments and Foreign Economic Relations.

DIRECTORATE OF INVESTMENT AND COMPANY ADMINISTRATION (DICA);

MYANMAR INVESTMENT COMMISSION (MIC)

Mailing Address
Ministry of Investments and Foreign Economic Relations
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Nay Pyi Taw

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MINISTRY OF COMMERCE

Exporting and importing products can only be done with an export/import license issued by the Ministry of Commerce. Trading licenses for most of the products are issued in Yangon

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6.2 OTHER RELEVANT ASSOCIATIONS

MYANMAR GARMENT MANUFACTURERS ASSOCIATION

Companies wishing to benefit from trade tax exemptions must join the MGMA, unless they are in a SEZ. As such, the Association represent more than 90% of the factories.

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SMART MYANMAR

EU-funded project aiming at creating sustainable and competitive garment industry.

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SONE SIE (FORMERLY PYOE PIN)

UK-funded programme aiming at promoting transparency and responsible business conduct including the garment sector.

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