

Trade Policy Reform and Implementation in Myanmar: A Case of the Garment Sector

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OUTLINE

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Significant Policy Reform Factors

- In 2011, the Government of Myanmar (GOM) changed its administration system (democratic reform).
- The GOM initiated economic reform for economic development.
- The GOM formed the National Economic and Social Advisory Council.
- NESAC introduced Framework for Economic and Social Reforms (FESR).
- This framework had ten policy priorities including tax reform, liberalization of trade, and investment liberalization of trade and foreign investment.

National Economic and Social Advisory Council

- President U Thein Sein (Chairman)
- Focal ministries: President's Office and Ministry of the Union Government office
- Council members include ministers from all ministries.
- The Advisors include famous Myanmar nationals who have studied in foreign countries for a period of time. Some council members are democracy activists and others are employees from international organizations.
- The participant's percentage of civil servants in this council is pretty low.
- Responsibilities: Draft Policy, Recommendations on the MOU, Trade Agreements, JV, etc.
- Report: The council submits reports to the president through the president's office.

Key Factors to Develop the Garment Sector in Myanmar

- Trade Policy
- New Foreign Investment Law
- Tax Incentives
- Minimum Wages
- Free Trade Agreements
- Restoration of the Generalized System of Preferences (GSP) & Most-Favored-Nation (MFN) tariff rate
- Market Access

Briefly History of Foreign Trade Policy

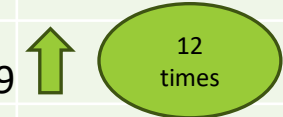
Year	Period	Foreign Trade Policy
1948 (Before)	Before independent period	Mercantilist Policy by Burmese Kings Free Trade Policy by the British Government
1947/48-1961/62	Parliamentary period	Import Substitution Policy
1961/62-1987/88	Socialist period	Inward looking Self-reliant Policy
1987/88-2010/11	State Peace and Development Council (SPDC)	Market-oriented and Outward looking Policy
2010/11-2015/16	Union Solidarity and Development Party (USDP) period	Market-oriented and Outward looking Policy
2015/2016-1/2020	National League for Democracy (NLD) period	Market-oriented and Outward looking Policy
2/2020-current	State Administration Council	Market-oriented and Outward looking Policy

Foreign Direct Investment

- Ministry of Investment and Foreign Economic Relations and Ministry of Commerce
- The Directorate of Investment and Company Administration (DICA) is responsible for drafting, negotiating, and approving bilateral investment promotion and protection agreements and serves as a focal department for all ASEAN investment-related affairs.
 - Moving the head office from Naypyitaw to Yangon (Commercial city).
 - Allocating the authority to the local office (Mandalay, Mawlamyine)
 - Translating the key investment law and its related law (Myanmar version to English, Chinese, Vietnamese, Japanese, etc.,)
 - Collaborating with UMFCCI (Union of Myanmar Federation of Chambers of Commerce), Myanmar Garment Manufacturing Associations, etc.,

FDI in Myanmar by sector by sector

Sector	2011			2020		
	No	US \$ million	%	No	US \$ million	%
Power	5	18873.7	46.69	21	3221.571	12.6097
Oil and gas	104	13815.4	34.18		363.024	1.42093
<u>Manufacturing</u>	64	2794.5	6.91	769	7480.411	29.2794
Industrial estate	3	193.1	0.48	5	390.459	1.52831
Mining	160	1753.9	4.34	-	11.11	0.04349
Livestock and fisheries	25	324.3	0.8	39	463.767	1.81525
other agriculture	7	173.1	0.43	20	191.972	0.75141
Transport and Communication	16	313.2	0.77	29	6135.8	24.0164
Hotel and tourism	45	1064.8	2.61	26	818.913	3.20534
Real estate	19	1056.4	2.61	29	3632.867	14.2196
other services	2	37.7	0.09	115	2712.592	10.6175
Construction	6	23.7	0.06			
Logistics	0	0	0	0	27.18	0.10639
Trading	0	0	0	2	98.7	0.38633
Total	456	40423.8	100	1055	25548.366	100



Tax Incentives

The critical policies changes in the trade sector among all of the trade policies changes are as follows:

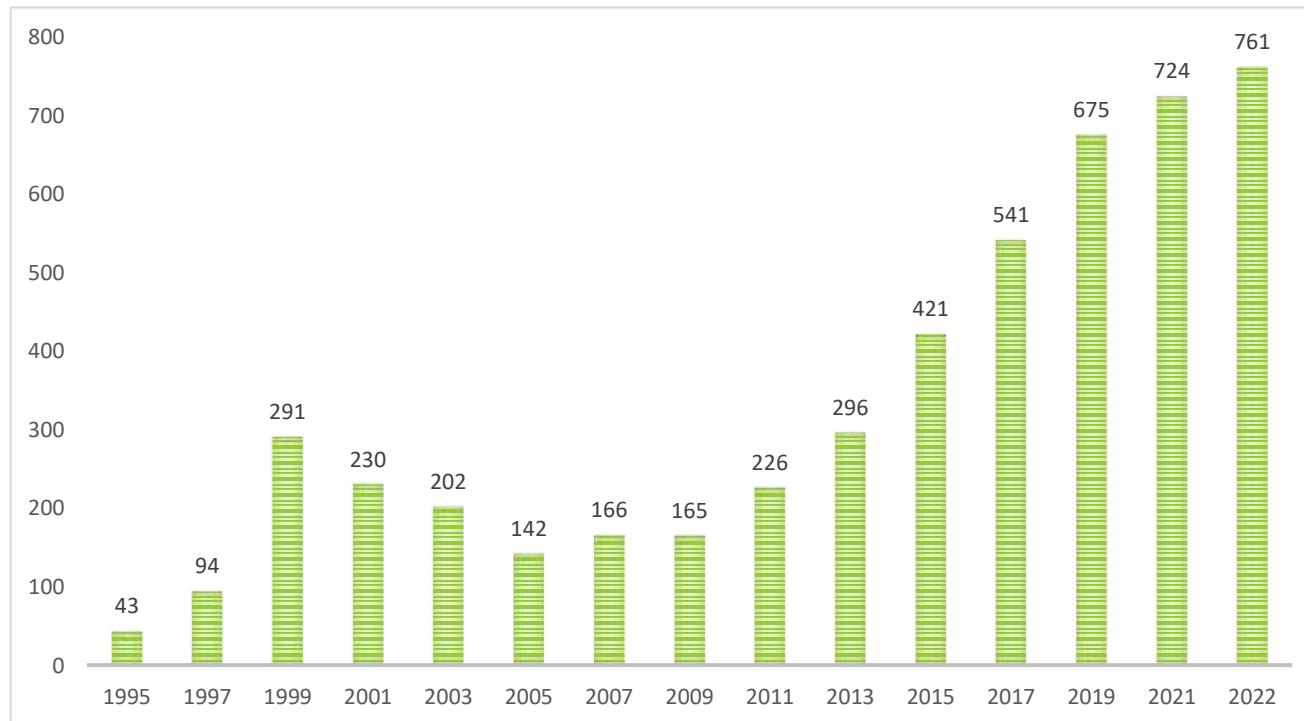
- Revised Commercial Tax Law (2014)
- Revised Income Tax Law (2014, 2016)
- The export tax was reduced from 10% to 7% in September 2011.
- The income tax levied on Cut Make Pack exports was reduced from 10% to 2%.

Minimum Wages Comparison

	Monthly Minimum Wages (US\$)	
1	Myanmar	112
2	Laos	142
3	Cambodia	150
4	Vietnam	155
5	Malaysia	265
6	Indonesia	277
7	Thailand	322
8	Phillipines	328
9	China	362



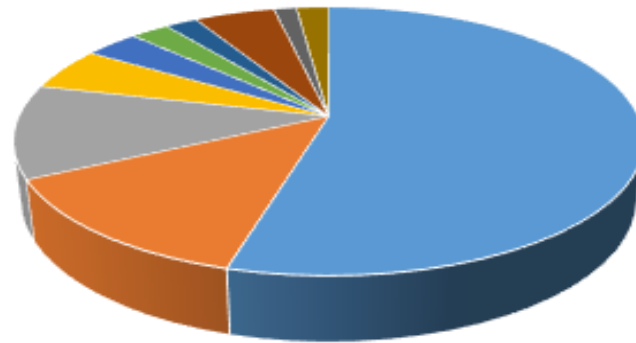
Number of Garment factories



Source: MGMA

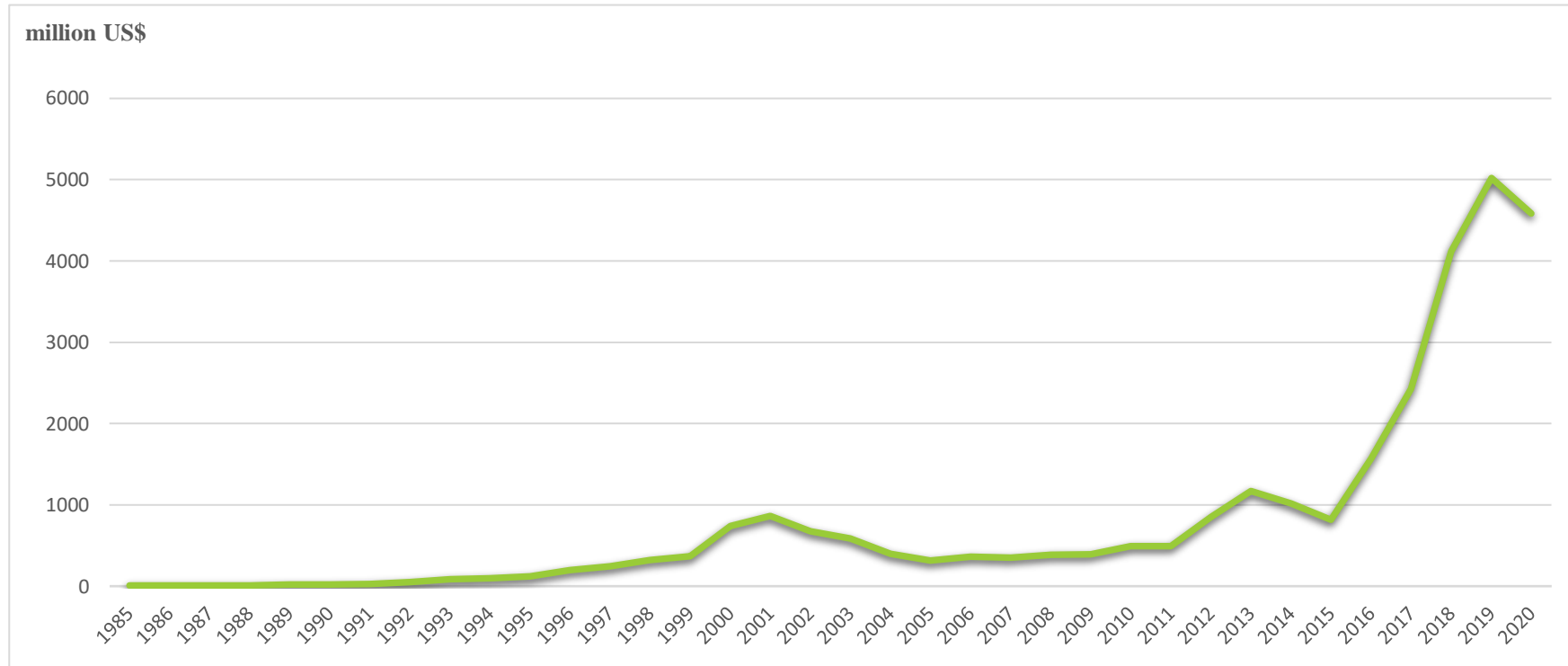
- ❖ GoM did not allow wholly FDI until 1994.
- ❖ In 1995 – 43 firms (100% FDI- only 4 firms)
- ❖ In 2001- 291 firms (growth), Due to the US sanctions- 142 firms (Decline)
- ❖ After 2011, significant growth in this sector. Currently(April 2022), the total number of firms is 761, but inactive firms-255. Therefore, only active firms-506.

Number of Garment Firms by country



- China (including Taiwan and Hong Kong)
- Myanmar
- Korea
- JV
- Japan
- Asian Countries
- Western Countries
- Local Market
- Sub-contract
- other

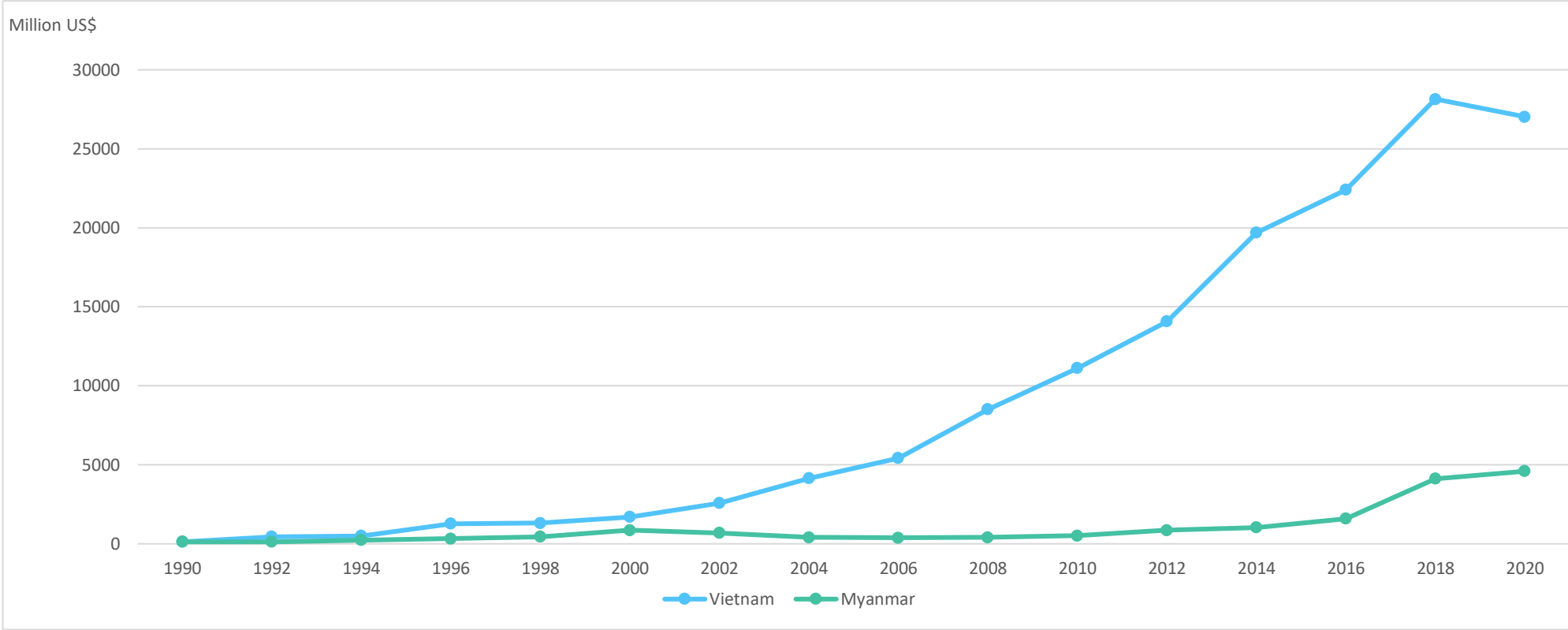
Export Performance in Garment Sector



Source: UN Comtrade

HS61 (knit apparel) and HS62 (woven apparel)

Comparison between Export Performance in Myanmar and Vietnam



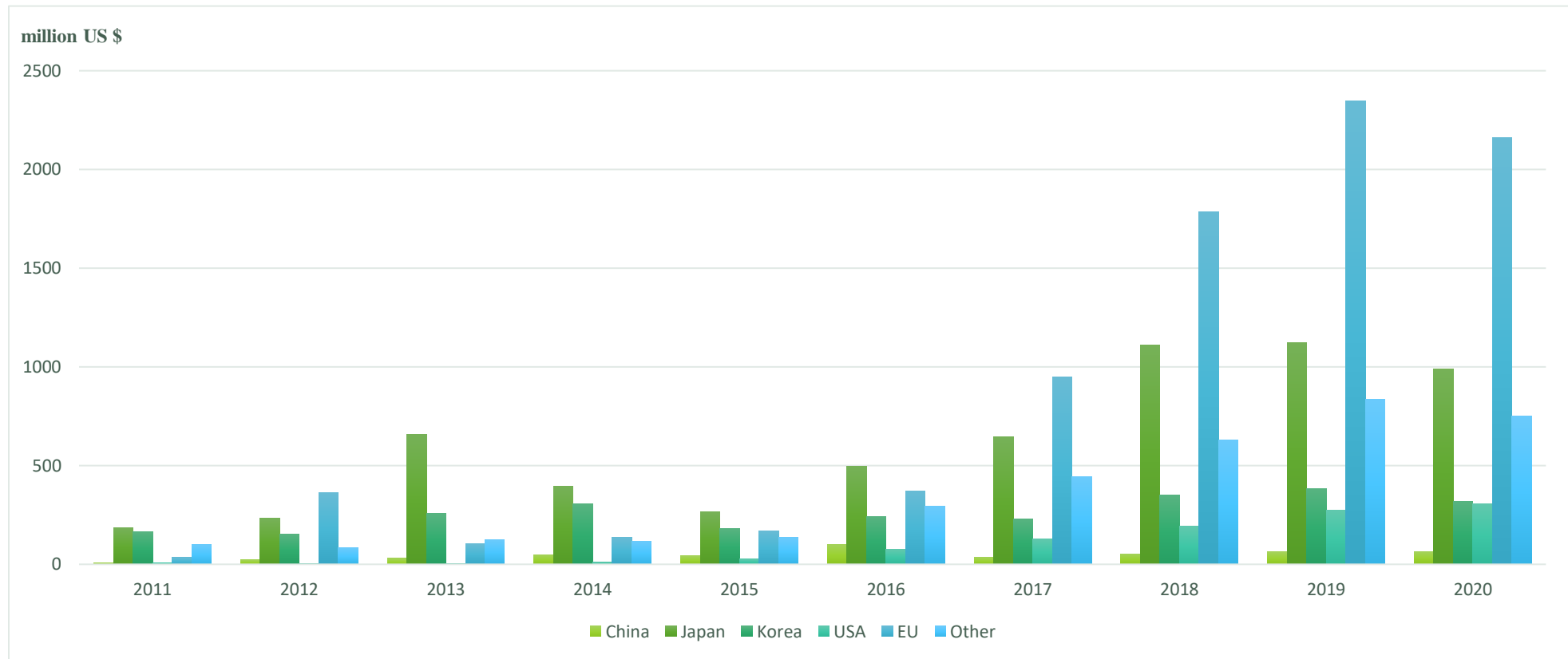
Source: UN Comtrade

Export gap between Myanmar and Vietnam

Year		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EU	Myanmar	94.1	118	155.1	276.1	348.8	307.2	339.9	457.4	237.1	256.6	217.5	210.4	174.4	175.6	179.9	139.5	103.4	135	170.3	371.1	947.9	1784.5	2346.4	2158.7
	Vietnam	542.8	580.3	614.8	671.9	661.5	616	554	757.2	820.5	1232.	1471.1	1758.	1631.4	1774.1	2299.1	2166.9	2246.	2730.1	2823.7	2947.	3210.	3568.7	3745.2	3292.4
	Gap V/M	5.77	4.92	3.96	2.43	1.90	2.01	1.63	1.66	3.46	4.80	6.76	8.36	9.35	10.10	12.78	15.53	21.72	20.22	16.58	7.94	3.39	2.00	1.60	1.53
USA	Myanmar	85.3	127.8	185.7	403.5	408	298.6	232.7	0	0	0	0	0	0	0	4.74	0.94	1.84	11.6	27.33	73.6	128.4	190.7	272.5	306.3
	Vietnam	25.9	28.4	36.1	47.2	47.8	876	2339	2506	2665.	3158.	4293.5	5151.	5007.7	5797.5	6759.5	7426.7	8569.	9770.7	10909.	11402	12227	13634	14761.	13821.
	Gap V/M	0.30	0.22	0.19	0.12	0.12	2.93	10.05	-	-	-	-	-	-	-	-	1426.05	7900.74	4657.	842.30	399.17	154.9	95.22	71.50	54.17
Japan	Myanmar	1.1	2.3	2.1	4.6	7.5	15	32.2	44.8	52.7	71.4	95.5	132.6	149.2	183.4	183.99	231.13	659.0	395.65	263.42	496.4	644.1	1110.1	1123.3	988.73
	Vietnam	483.5	422.7	446.1	579.7	524.6	458.8	484.5	548.1	588.1	615.7	690.1	837.8	1005.6	1170.2	1516.1	1798.47	2141.	2395.5	2567.2	2668.	2863.	3527.9	3683.4	3268.7
	Gap V/M	439.55	183.78	212.43	126.02	69.95	30.59	15.05	12.23	11.16	8.62	7.23	6.32	6.74	6.38	8.24	7.78	3.25	6.05	9.75	5.38	4.45	3.18	3.28	3.31

Source: Author Calculation

Destination Markets for Myanmar Garment Exports (2011-2020)



Source: UN Comtrade

Challenges in Garment Sector

- Unstable Political Situation.
- Labor strikes due to the loss of labor rights and lower salaries have often happened in Myanmar's garment sector.
- Need to strengthen the policy and procedure for the staff social security.
- Weakness of law Institutions. (for example, Bankruptcy law, labor rights, and human rights,...)
- Still need to improve the capacity building for the workers.
- Need to improve its infrastructure, such as transportation, electricity, land, and producing skilled resources.
- Need to promote the SME sector.

Policy Recommendations

- The GoM should establish political stability.
- The government of Myanmar should carry out a priority plan and investigate compliance with not only local labor laws and regulations but also the international standards set up by the International Labour Organization.
- The Myanmar government should carefully comply with the EU's standards under GSP such as human rights, labor rights, and democracy standards.
- The GoM should arrange to improve its infrastructure, such as transportation and electricity.
- The MGMA should collaborate with the government of Myanmar and also international experts from foreign-owned and joint venture companies to improve the capacity building for the workers.
- The government of Myanmar and MGMA should expand the relationships with buyers from the European Union and the United States, Japan, and Korea.

Questions and Discussion