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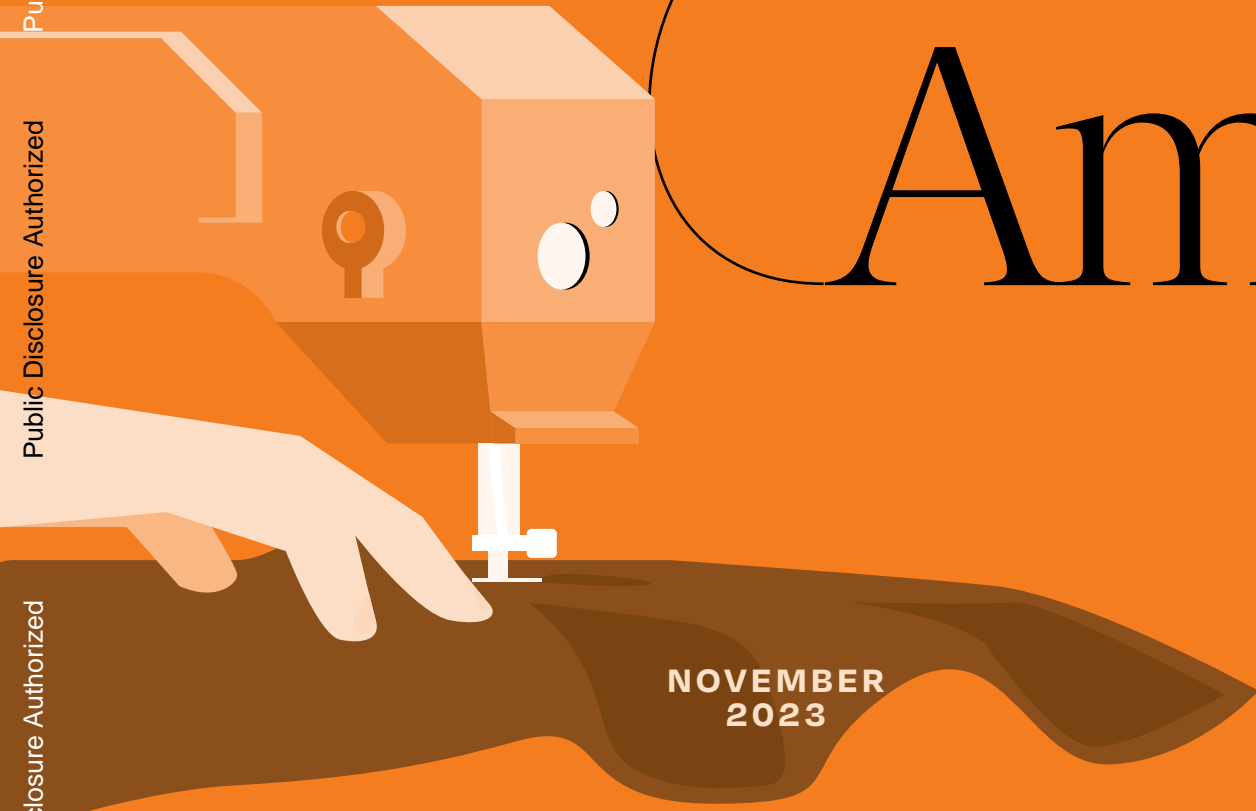


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MYANMAR'S
GARMENT
INDUSTRY
IN 2023

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NOVEMBER
2023

Resilience

Amid

Constraints

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1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

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Executive summary



1

Garment exports from Myanmar have grown rapidly over the past decade, aided by preferential market access in key markets and relatively cheap labor.

Garment exports have expanded to be around six times as large as in 2010. Exports have benefitted from trade preferences from the EU, which accounts for over half of Myanmar's total garment exports, as well as from the US. The coup and COVID-19 shocks had substantial impacts on the garment industry, with exports declining in 2020 and 2021. Nevertheless, garment exports recovered in 2022 to above 2019 levels, and on average, firms operated for around 95 percent of the available operating hours in 2022.

2

The garment industry is an important source of employment in Myanmar, particularly for young migrant women from rural areas of the country.

The industry employed about 500,000 workers as of January 2022, accounting for around 2.3 percent of total employment and 23 percent of manufacturing sector jobs. Women play a comparatively large role in garment firms as workers, managers, and owners. The survey of 100 garment firms conducted by the World Bank from March to May 2023 indicates that about 85 percent of garment workers (and 56 percent of garment firm managers) in Myanmar are women.



3 However, employment remains below 2019 levels.

As at end-2022, employment in the industry is estimated to remain well below pre-COVID estimates of 700,000 workers. The firms surveyed estimated that their 2022 sales were about 20 percent below what they might have been in the absence of the dual shocks of covid and coup, which partly explains why employment remains relatively low.

4 Despite recent salary increases, survey results suggest that real wages remain below 2019 levels, consistent with World Bank household survey results which found that real wages declined by 15 percent between 2017 and 2022, about 3.2 percent on average per year.

In 2022, 34 percent of firms increased salaries, resulting in an average 5 percent salary increase across the industry compared with 2021. Reports indicate that some firms, particularly those exporting to EU markets, further increased workers' salaries by 10 to 20 percent in 2023. These increases have not kept pace with rapidly rising inflation, which stood at 35 percent year-on-year in December 2022.

5 Firms were optimistic about their ability to compete internationally despite their small share of the global garments trade, with most citing Myanmar's relatively cheap labor and abundant pool of workers.

Eighty-four percent of surveyed firms viewed themselves as competitive in major markets. Of these firms, 62 percent cited abundant labor as the primary reason, while 56 percent cited cheap labor costs. The surveyed firms in Myanmar see Cambodia as their biggest competitor, possibly because Bangladesh and Vietnam are viewed as more advanced garment manufacturers, while Myanmar and Cambodia have more similar export compositions and modalities.

6 The survey results also show that the operating model of most Myanmar garment firms is labor-intensive, characterized by low value-added activity, and reliant on foreign inputs, with limited prospects to move up the value chain.

Myanmar's garment industry is primarily export-oriented, with the value-added in Myanmar representing only a small proportion of the total ex-



port value. Most garment firms in Myanmar operate under a cut-make-pack (CMP) model, where manufacturers receive raw materials and are paid to produce finished garment products. Eighty-eight percent of surveyed firms obtained inputs from foreign sources, primarily through sea shipments due to limited availability of raw materials in local markets. A substantial shift in Myanmar's garment industry away from the CMP model to higher value-added models is unlikely. Given the challenges in the operating environment, only 18 percent of firms reported that they plan to upgrade their operating models in the next three years.

7 Persistent power outages, ongoing political instability, and difficulties in accessing cash (both kyat and foreign currency) were the main challenges reported by surveyed firms.

Firms reported that 62 percent of their total energy consumption was from privately owned off-grid generators. The surveyed firms estimated the total losses attributable to power outages to be equivalent to 31 percent of their total annual sales in 2022.

8 The outlook for the garment industry remains constrained and subject to significant risks.

Operational challenges, including unreliable power supply, difficulties in obtaining import licenses for some inputs, foreign currency shortages, conflict and logistics constraints, foreign currency surrender requirements, and high inflation, seem likely to persist in the near term. In addition, inefficiencies in port clearance processes have adversely affected providers of machinery and industry-related inputs to garment manufacturers. These challenges increase the cost of doing business and will tend to reduce the international competitiveness of Myanmar's garment industry – as well as its attractiveness as a destination for foreign investment – to the extent that they persist over time. Moreover, reliance on the EU as a destination for almost half of its garment exports leaves Myanmar vulnerable to reductions in orders from that market and dependent on the continuation of trade preferences.



The Garment Survey at a Glance

THE SURVEY COVERS 100 garment firms in Yangon, Bago, and Patheingyi—combined with focus group discussions (FGDs) with a cross-section of garment manufacturers, logistics providers, and input suppliers. The sample represents roughly 20 percent of garment firms in Myanmar.

Main Findings

01**CHARACTERISTICS****83%**

of firms have only one factory.

96%

of firms operate the "Cut, Make and Pack" model, while 5 percent operate the "Free on Board" model.

77%

of the equity in the average firm is foreign owned.

42%

of firms have a female owner, with women holding 22% of the total equity in garment firms.



02

LABOR

85%

of garment workers are females.

80%

of production and nonproduction works are carried out by females.

56%

of all managerial positions are held by females.

16%

of firms hired seasonal or temporary employees for production.

3.1%

of permanent workers were reduced in 2022 compared to 2019 among the firms operating in 2022 and 2019.

63%

of firms experienced challenges hiring production employees.

34%

of firms increased salaries, resulting in an average 5 percent salary increase across the industry.

03 OUTPUT

7.6%

was the decline in output between 2019 and 2022 among those firms operating in both years, driven by small and medium-sized firms.¹

04

COMPETITION

84%

of firms viewed themselves as competitive in major markets.

62%

of firms that viewed themselves as competitive cited access to abundant labor as the primary reason for their competitiveness, while 56 percent cited cheap labor costs.

31%

of firms viewed Cambodia as their biggest competitor.

¹ 12 percent was an average sale increase in 2022 compared to 2021. However, this calculation covers only half of the sample.



05

FINANCE

89%

of firms used internal funds for financing fixed assets.

87%

of firms used internal funds for financing day-to-day operations.

2%

of firms reported obtaining loans from friends and family for day-to-day operations.

27%

of firms are confident with the banking system, given the current situation.

06

POWER OUTAGE

68%

of firms reported access to electricity as their most pressing operational challenge.

62%

of total energy consumption was from privately owned off-grid generators.

31%

of total annual sales were estimated to be lost due to power outages.



Introduction

Between March and May 2023, the World Bank conducted a nationally representative survey of Myanmar's garment firms to examine business performance and competitiveness, labor market issues, operational and financing models, and the impact of recent shocks, among others. The survey included 100 firms, or about 20 percent of all garment firms in Myanmar.² Eighty-six percent of firms covered in the survey were from Yangon, while garment firms in Bago and Patheingyi represented about 9 percent and 5 percent of the total sample, respectively, consistent with the geographical spread of firms. The survey was complemented by focus group discussions (FGDs) with a cross-section of firms as well as other assessments of developments and constraints within the garment industry. The FGDs covered garment manufacturers, logistics providers, and input suppliers to allow a deeper understanding of the industry stakeholders' views and perceptions.

The garment industry is vital in providing jobs and income for Myanmar's people. As of January 2022, the industry employed approximately 500,000 workers, accounting for around 2.3 percent of total employment in Myanmar and 23 percent of manufacturing sector jobs.³ A recent study commissioned by the Myanmar Garment Manufacturer Association (MGMA) estimated that garment worker incomes support approximately two million people, primarily based in rural areas.⁴

Women play a comparatively large role in garment firms as workers, managers, and owners (Figure 1). The survey results suggest that about 85 percent of garment sector workers in Myanmar are women. The industry employs around 11 percent of the total female workforce and plays an essential role in job creation for young rural migrant women in particular.⁵ A study in 2017 commissioned by the C&A Foundation indicated that a large proportion of Yangon-based garment workers are migrants from the Ayeyarwady region, Bago

² The unit of analysis for the quantitative survey is the firm (some firms run multiple factories). The sample frame for the total number of garment firms is based on the directory of the Myanmar Garment Manufacturers Association (MGMA). As of December 2022, there were 540 garment firms in the directory.

³ MGMA, 2022. Report of Assessment Survey on Myanmar Garment Industry 2021 – Workers' Perspectives.

⁴ Ibid

⁵ ILO, 2020. The Supply Chain Ripple Effect: How COVID-19 is Affecting Garment Workers and Factories in Asia and the Pacific.

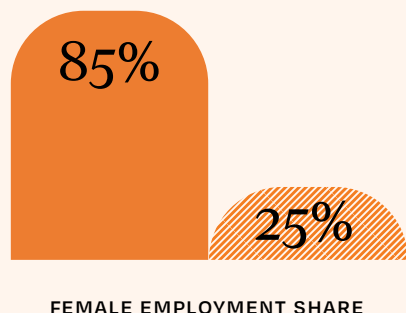


FIGURE 1

ROLE OF WOMEN IN MYANMAR'S GARMENT INDUSTRY

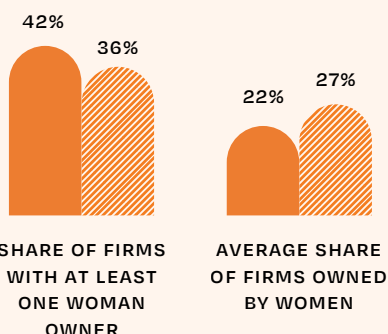
A EMPLOYMENT

● GARMENT INDUSTRY
 ▨ NATIONAL AVERAGE

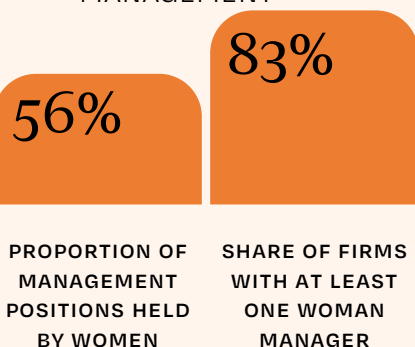


B OWNERSHIP

● GARMENT INDUSTRY
 ▨ NATIONAL AVERAGE



C MANAGEMENT



Source: World Bank Garment Industry Survey 2023 and World Bank Firm Survey (Round 14)

region, and Rakhine state.⁶ Besides providing employment opportunities to women, the industry also plays an important role for women in managerial and ownership roles. Eighty-three percent of surveyed garment firms have female managers, while women hold 56 percent of all managerial roles in the garment industry. Women partially or wholly own forty-two percent of garment firms, higher than the estimated average of 36 percent across all industries. However, the share of firm equity held by women tends to be relatively small.⁷

The coup and COVID-19 shocks had substantial impacts on the garment industry (Figure 2). As a result of the COVID-19 first wave alone, the industry is estimated to have suffered at least 150,000 job losses in early 2020.⁸ By the end of 2020, it was reported that more than 100 out of approximately 700 garment factories were forced to shut down either temporarily or permanently, leading to job losses and significant disruptions in operations.⁹ In response to the decline in global demand and prolonged lockdowns associated with the first two COVID-19 waves, surveyed garment firms shut down their businesses for an average of 2.6 weeks in 2020, reduced operating hours by 2.8 hours per week, and cut their full-time employees by 3.4 percent. The negative impacts of COVID-19 were intensified in the immediate aftermath of the February 2021 coup, which saw disruptions in logistics and supply chains, cancellation of orders by European buyers, and a deteriorating security situation. Reports suggested that up to 350,000 workers lost their jobs in the 18 months between early 2020 and mid-2021 – most of them in the first half of 2021.¹⁰ By early 2022, most estimates indicate that there had been some improvement in garment industry employment but estimates of around 500,000 workers as of January 2022 remained well below pre-pandemic levels of about 700,000 workers.

⁶ Andaman Research & Advisory, and Enlightened Myanmar Research Foundation, 2017. The Young Women from Rural Villages: A Baseline Survey of Yangon's Garment Sector Workforce.

⁷ World Bank Firm Survey (Round 14)

⁸ MGMA, 2022. Report of Assessment Survey on Myanmar Garment Industry 2021 – Workers' Perspectives.

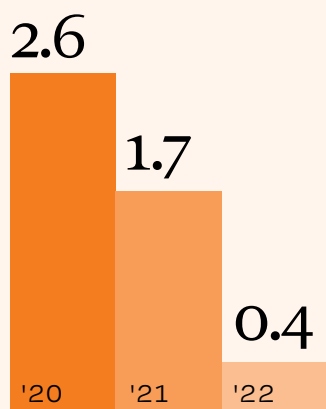
⁹ Frontier Myanmar, 2021. Garment Workers Face a Fresh Threat: A Boycott.

¹⁰ Ibid

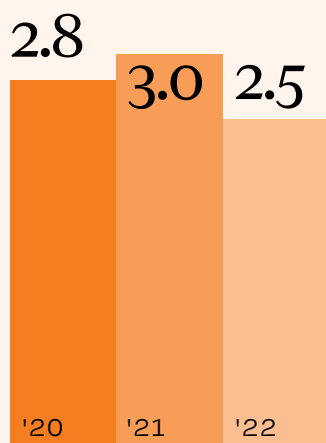
FIGURE 2

IMPACTS OF THE DUAL SHOCKS OF COVID-19 AND COUP

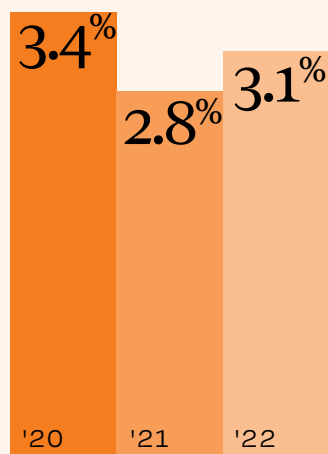
A WEEKS CLOSED



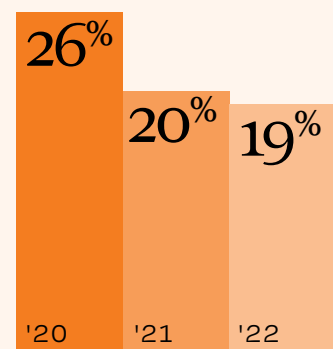
B REDUCTION IN OPERATING HOURS PER WEEK



C REDUCTION IN THE NUMBER OF PERMANENT EMPLOYEES



D REDUCTION IN SALES



Note: Reductions in operating hours, permanent employees, and sales are relative to a no-shock counterfactual

Some factories were closed for up to 11 weeks, as indicated by the survey results, with weeks closed excluding the period of national lockdowns

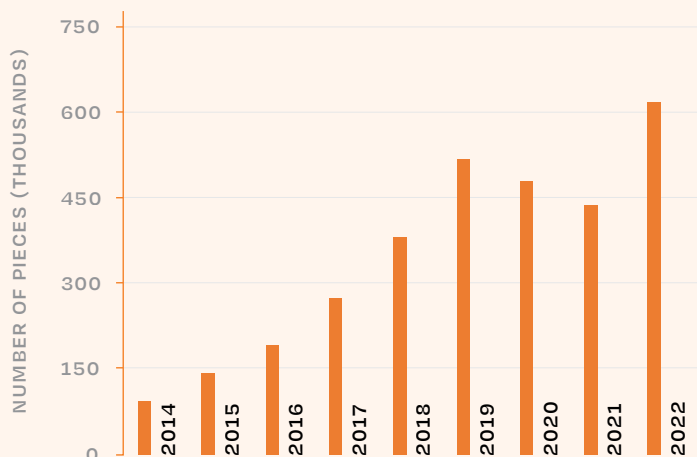
Source: World Bank Garment Industry Survey 2023

Despite more recent signs of recovery, challenges persist. The value of Myanmar's garment exports (in US dollar terms) recovered strongly in 2022, surpassing pre-pandemic levels, despite a 4 percent decline in the value of Myanmar's total goods exports in the same year. The recovery of garment export values was partly attributable to increased global demand and higher clothing and apparel prices. Official data indicate that Myanmar's garment export volumes increased by 19 percent between January and July 2022 compared to the same period in 2019 (Figure 3). The survey results indicated that among firms operating in both 2019 and 2022, roughly one-third increased their output in 2022 compared to 2019, while half of the firms decreased their output. The remaining firms maintained their output at the same level. On average, across all firms, this resulted in an output decline of 7.6% in 2022 compared to 2019, with smaller and medium-sized firms primarily contributing to this decrease (Figure 4). This suggests that the growth of garment exports in 2022 was largely attributable to the entrance of new firms into the Myanmar market in 2022 and the resumption of some factories that were not operational in 2021. At the same time, other factories that closed during the pandemic and coup period have been unable to resume operations.



FIGURE 3

GARMENT EXPORTS VOLUME

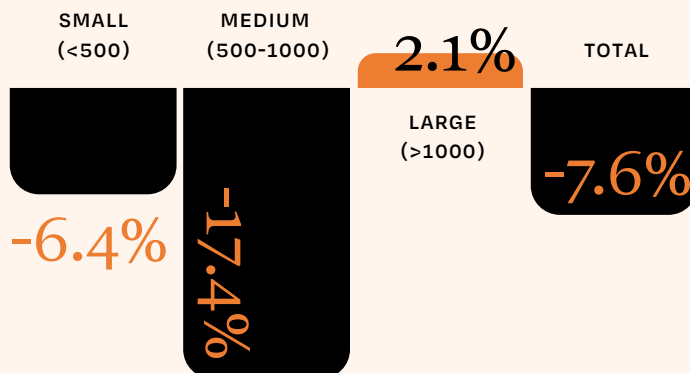


Source: The Central Statistical Organization

Note: Data reflects only the period between January and July for each year, not the whole year, given that the data for 2022 is available up to July 2022.

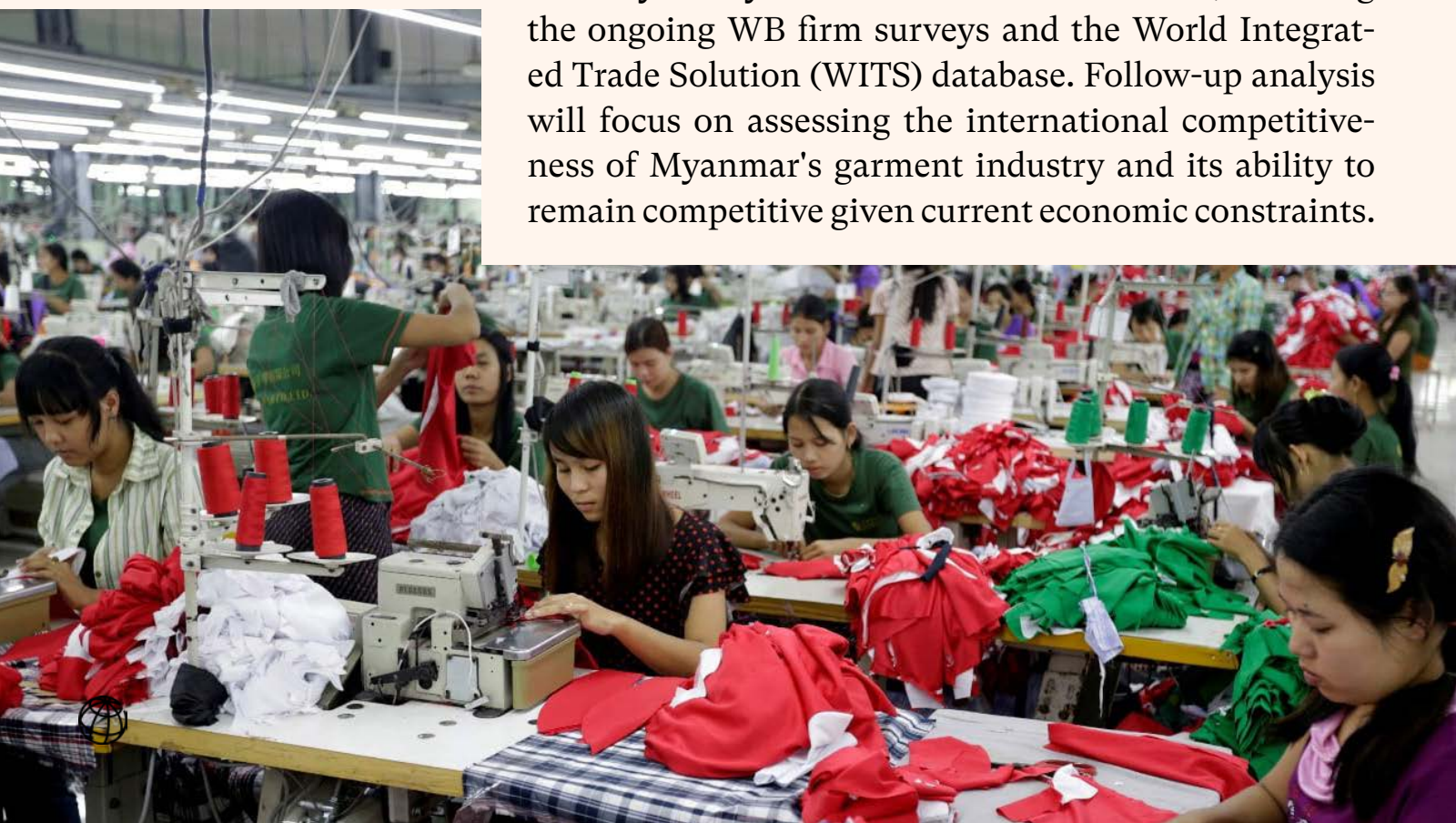
FIGURE 4

AVERAGE OUTPUT CHANGE IN 2022 COMPARED TO 2019



Source: World Bank Garment Industry Survey 2023

In this brief, we describe the predominant operating model of Myanmar's garment firms, analyze the factors underpinning the industry's rapid growth over the past decade, and assess the challenges that have emerged in recent years. We conclude with the industry's outlook, considering current constraints and emerging risks. The analysis draws on the 2023 garment industry survey results and other data sources, including the ongoing WB firm surveys and the World Integrated Trade Solution (WITS) database. Follow-up analysis will focus on assessing the international competitiveness of Myanmar's garment industry and its ability to remain competitive given current economic constraints.



The operating model of most Myanmar garment firms is characterized by low value-added and reliance on foreign inputs



Myanmar's garment industry is primarily export-oriented, with value-added in Myanmar only a small proportion of the total export value. Most garment firms in Myanmar operate under a cut-make-pack (CMP) model, the least complex manufacturing model, in which manufacturers receive raw materials and are paid to produce finished garment products (Figure 5 and Figure 6).¹¹ Garment firms receive CMP charges (service fees) in return for the production of finished garments. Of the US\$ 5.5 billion worth of garment exports in 2022, about one-third is estimated to accrue to Myanmar garment firms as service charges (and used to cover their worker wages, operating costs, and profits), while the remaining two-thirds are accounted for largely by the cost of raw materials (provided by the buyer).¹² Hence, garment export values do not reflect value-added in Myanmar or actual foreign currency earnings by Myanmar firms. With the bulk of finished garments exported overseas, only 4 percent of firms reported selling in the local market, and the domestic market accounted for only 1 percent of total industry sales (Figure 7).

11 Under the CMP arrangement, garment firms are responsible only for the manufacturing process (cutting, sewing, and packaging) based on the buyer's specifications and receive only labor fees. Discussions with garment manufacturers suggest that the CMP fees exhibit a range of variations based on the type of garment, spanning from under 1 US dollar per item to as high as 15 US dollars; for instance, the fee for a t-shirt amounted to 0.3 US dollar, while the charge for a suit could be up to 15 US dollars, and the fee for a jacket could fluctuate between 1 US dollar and 7 US dollars, contingent upon the specific type, such as long jackets.

12 Estimates based on export and manufacturing receipt data from service trade from the Central Bank of Myanmar.



FIGURE 5

THE CMP PROCESS IN THE MYANMAR GARMENT INDUSTRY

PROCESS



Order Placement

Buyers place orders



Material Sourcing

Buyers provide primary materials
Garment firms source minor materials



Production

Garment firms manufacture products based on buyer specifications



Product Delivery

Trucking service providers transport to the Yangon seaport
Shipping liners handle final destination transport

RESPONSIBILITY

Buyers & Garment manufacturers

Garment manufacturers

Buyers

Source: Interviews with the garment manufacturers



FIGURE 6

OPERATING MODEL – BY SHARE OF SMALL, MEDIUM, AND LARGE FIRMS

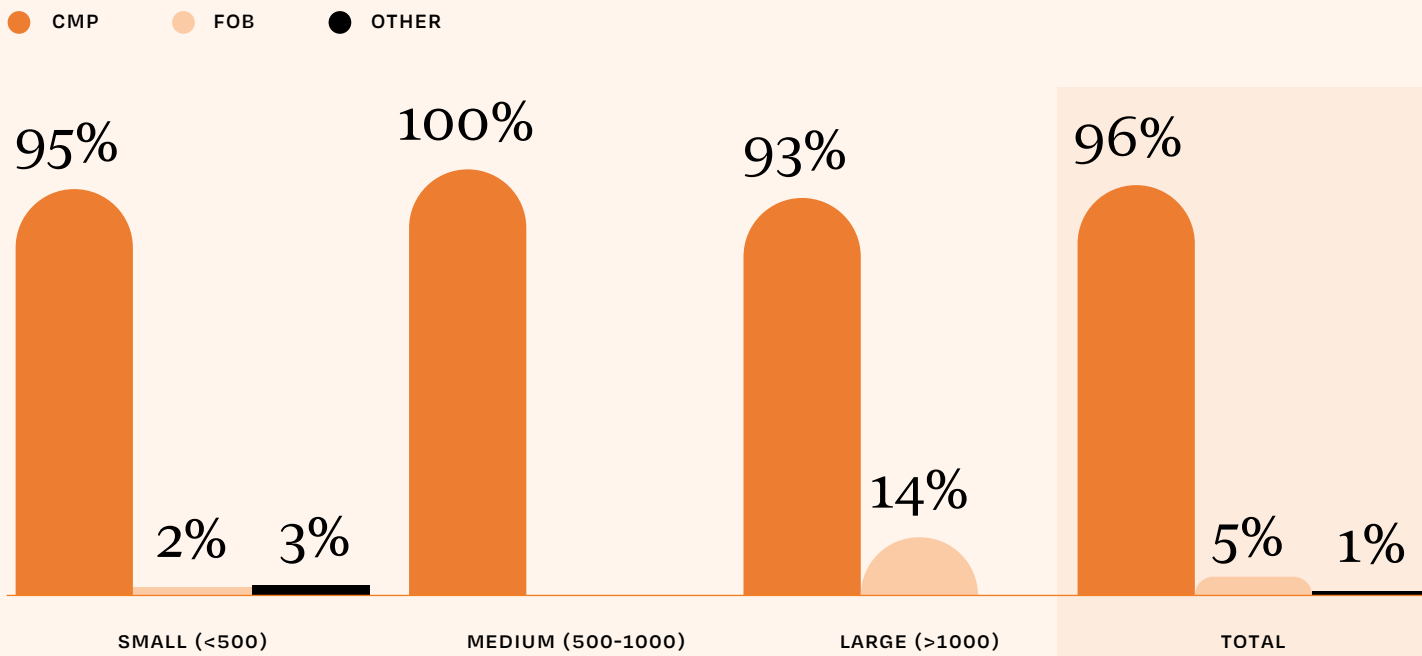
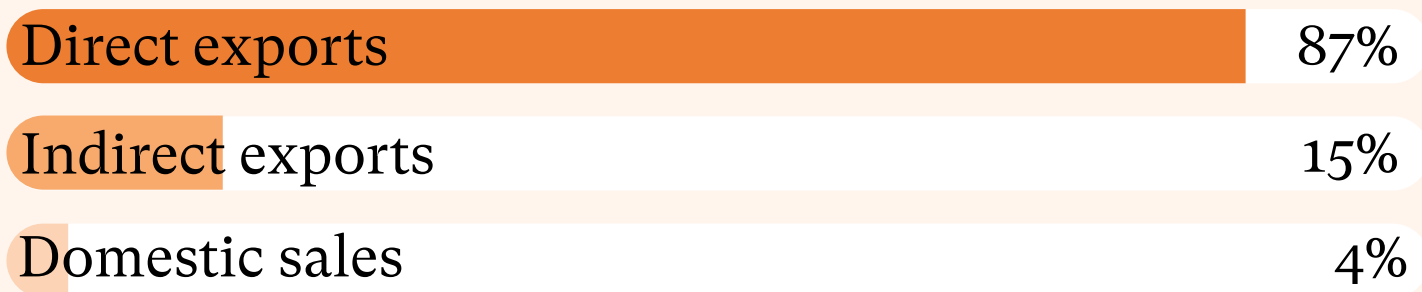


FIGURE 7

COMPOSITION OF SALES – BY SHARE OF GARMENT FIRMS AND BY SHARE OF TOTAL SALES VALUE

By share of firms



By share of sales value

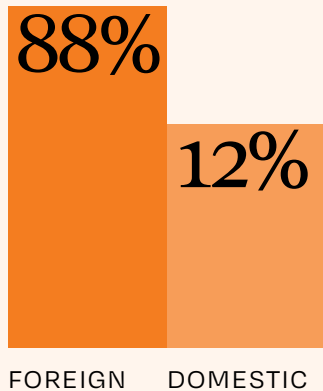


As part of the CMP model, Myanmar's garment industry relies heavily on foreign inputs (Figure 8). Eighty-eight percent of surveyed firms obtained inputs from foreign sources, primarily through sea shipments. Limited availability of domestic inputs was evident, with only 2 percent of firms reporting fabric availability locally. Other ancillary inputs such as sewing threads, padding materials, and hangers also exhibited restricted availability. This scarcity of local inputs could impact the industry's potential for higher value-added operations. Notably, buyers provided most inputs (if not all), primarily attributed to the CMP model. Only 11 percent of firms reported self-sourcing all inputs.

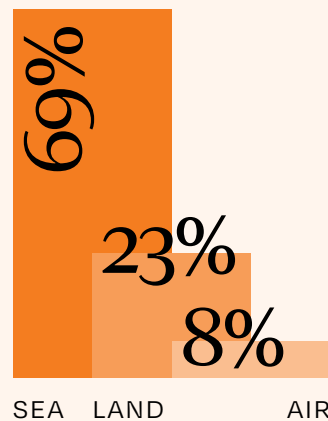
FIGURE 8

RAW MATERIALS

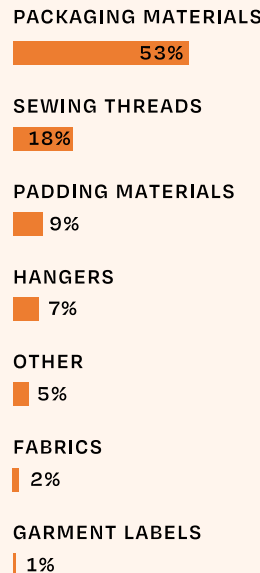
A ORIGINS OF INPUTS



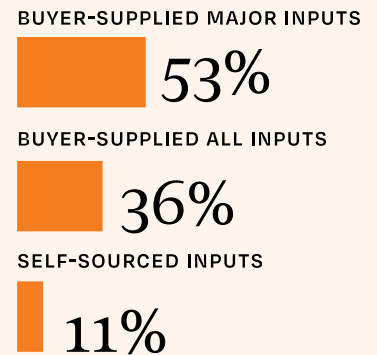
B MEANS OF TRANSPORT FOR FOREIGN ORIGIN INPUTS



C SHARE OF FIRMS SOURCING SELECT INPUTS DOMESTICALLY



D METHOD OF OBTAINING INPUTS, BY SHARE OF FIRMS



Source: World Bank Garment Industry Survey 2023



Garment exports from Myanmar have grown rapidly over the past decade, aided by trade preferences and relatively cheap labor.

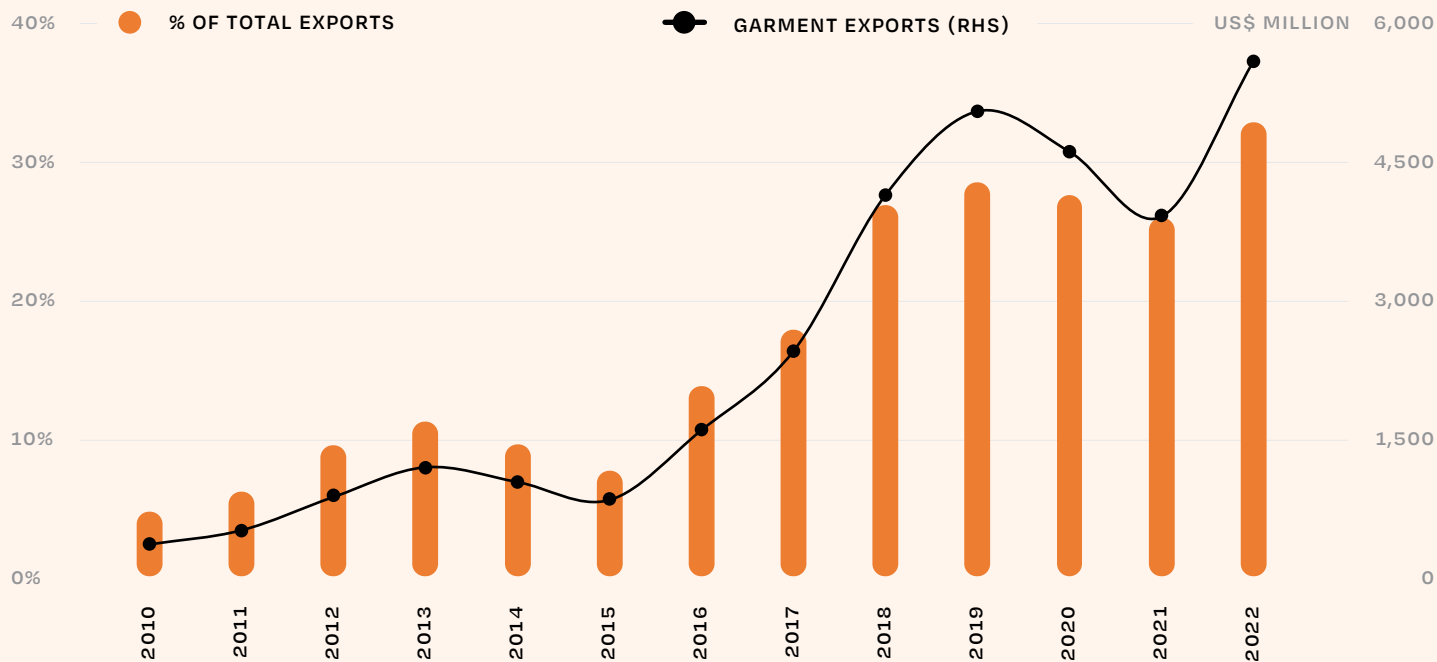
Garment exports have expanded to be around six times as large as in 2010. Myanmar started exporting garments in 1994, but rapid growth began during the 2010s after the lifting of international sanctions, paving the way for duty-free access to the European Union (EU) market under the Generalized System of Preferences (GSP) and the Everything but Arms (EBA) scheme. The US also included Myanmar in its GSP in 2016, allowing garment exports from the country to benefit from low tariff access to another large market and encouraging additional foreign investment in the sector. The value of garments exports has grown from US\$0.9 billion in 2010 to US\$5.5 billion in 2022. In 2022, garment exports accounted for a third of Myanmar's total exports (Figure 9), though as noted above, the associated foreign currency receipts (largely from CMP service fees) were about a third of the value of garment exports or around 3 percent of GDP.

The European Union (EU) is the primary destination for Myanmar garment exports. The European Union (EU) has been the leading destination for Myanmar's garment exports since the mid-2010s (Figure 10), with Myanmar becoming a beneficiary of the EBA scheme under the EU's GSP in 2013. Thirty-eight percent of Myanmar's garment firms reported relying on the EU as their primary market, with almost half of large firms identifying it as their primary market. In 2022, the EU accounted for 52 percent of Myanmar's garment exports, followed by Japan (18 percent), the United Kingdom (10 percent), the United States (6 percent), and Korea (4 percent).



FIGURE 9

MYANMAR GARMENT EXPORT TRENDS



Source: WB staff calculations using data from World Integrated Trade Solution (WITS)

Myanmar's major garment exports are outerwear (such as anoraks, jackets, and other cold weather clothing), which account for 38 percent of total garment exports (Figure 11). Outerwear generally generates higher CMP charges compared to smaller garment pieces.¹³ Other major garment exports include tops (such as shirts and blouses) and bottoms (such as pants and shorts), which each account for about 20 percent.

Myanmar's market share in its key export markets remains small. Analysis of garment imports in Myanmar's five major destinations shows that Myanmar's market share was about six percentage points lower than Cambodia's on average in 2022 and well below Vietnam and Bangladesh (Figure 12). Garment firms in Myanmar see Cambodia as their biggest competitor, possibly because Bangladesh and Vietnam are viewed as more advanced garment manufacturers, while Myanmar and Cambodia have more similar export compositions and modalities (Figure 13). As a relatively minor player in global markets, Myanmar has weak bargaining power concerning pricing, making it a price taker when it comes to CMP fees.

¹³ Discussions with the garment manufacturers reveal a range of variations for CMP charges based on the type of garment, spanning from under 1 US dollar per item to as high as 15 US dollars; for instance, the fee for a t-shirt amounted to 0.3 US dollars, while the charge for a suit could be up to 15 US dollars, and the fee for a jacket could fluctuate between 1 US dollar and 7 US dollars, depending on material and the specific design.



FIGURE 10 MYANMAR'S GARMENT EXPORT DESTINATIONS (% OF TOTAL EXPORTS)

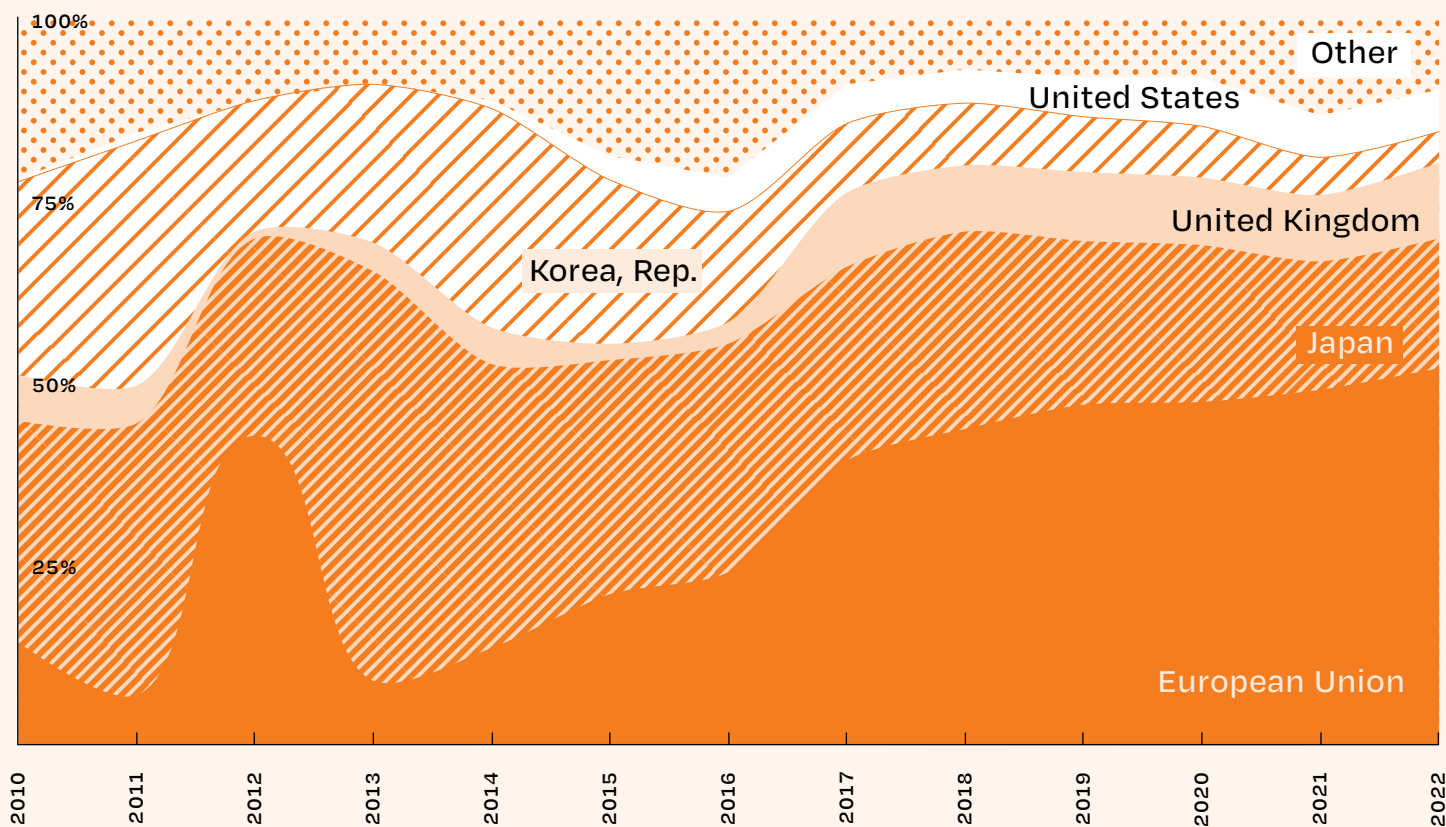
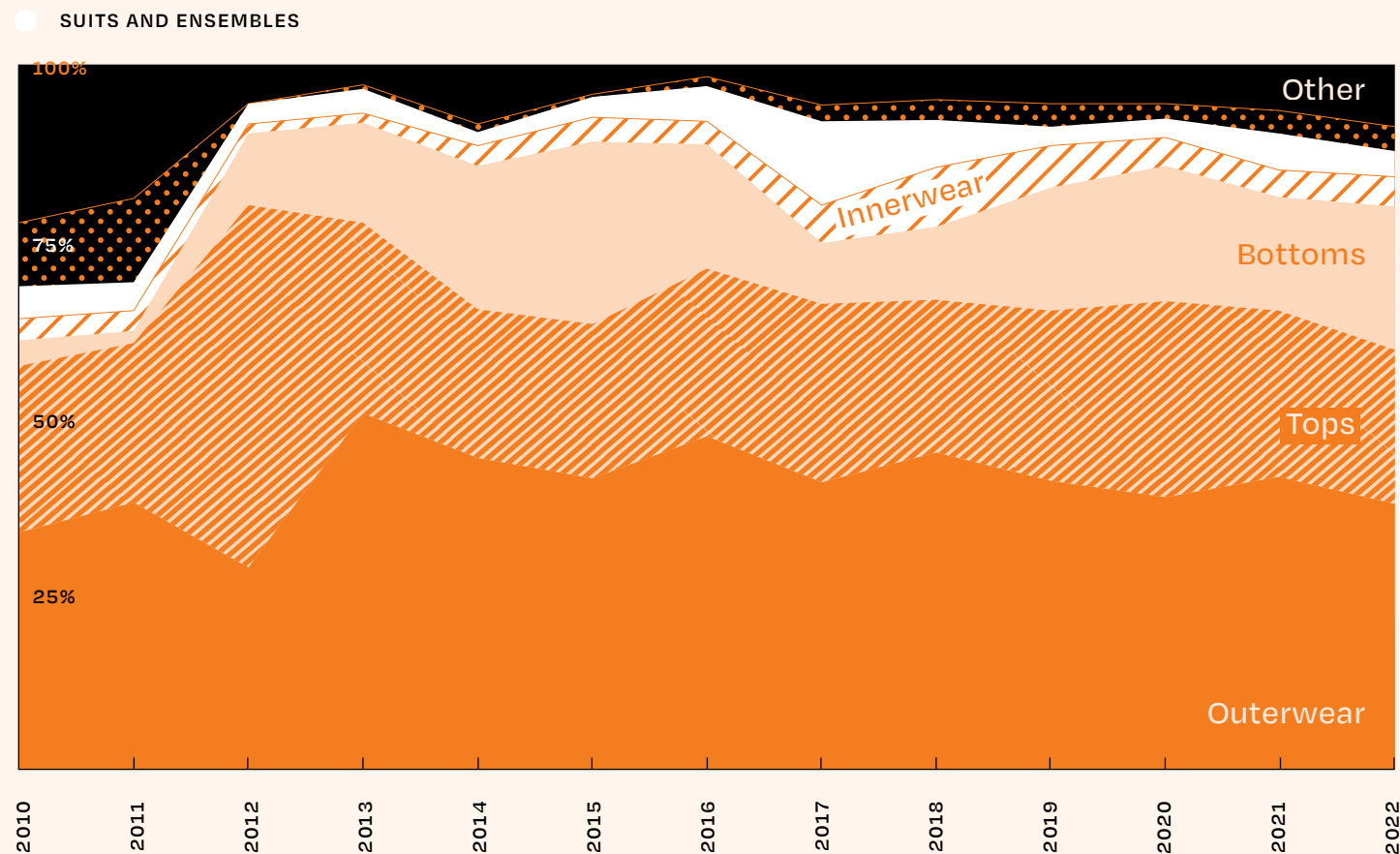


FIGURE 11 MYANMAR'S GARMENT EXPORTS - BY PRODUCT



Source: WB staff calculations using data from World Integrated Trade Solution (WITS)

Note: Garment products at the Harmonized System (HS) 6-digit level are grouped by primary function

FIGURE 12 MYANMAR'S MARKET SHARE IN ITS MAJOR EXPORT DESTINATIONS IN 2022

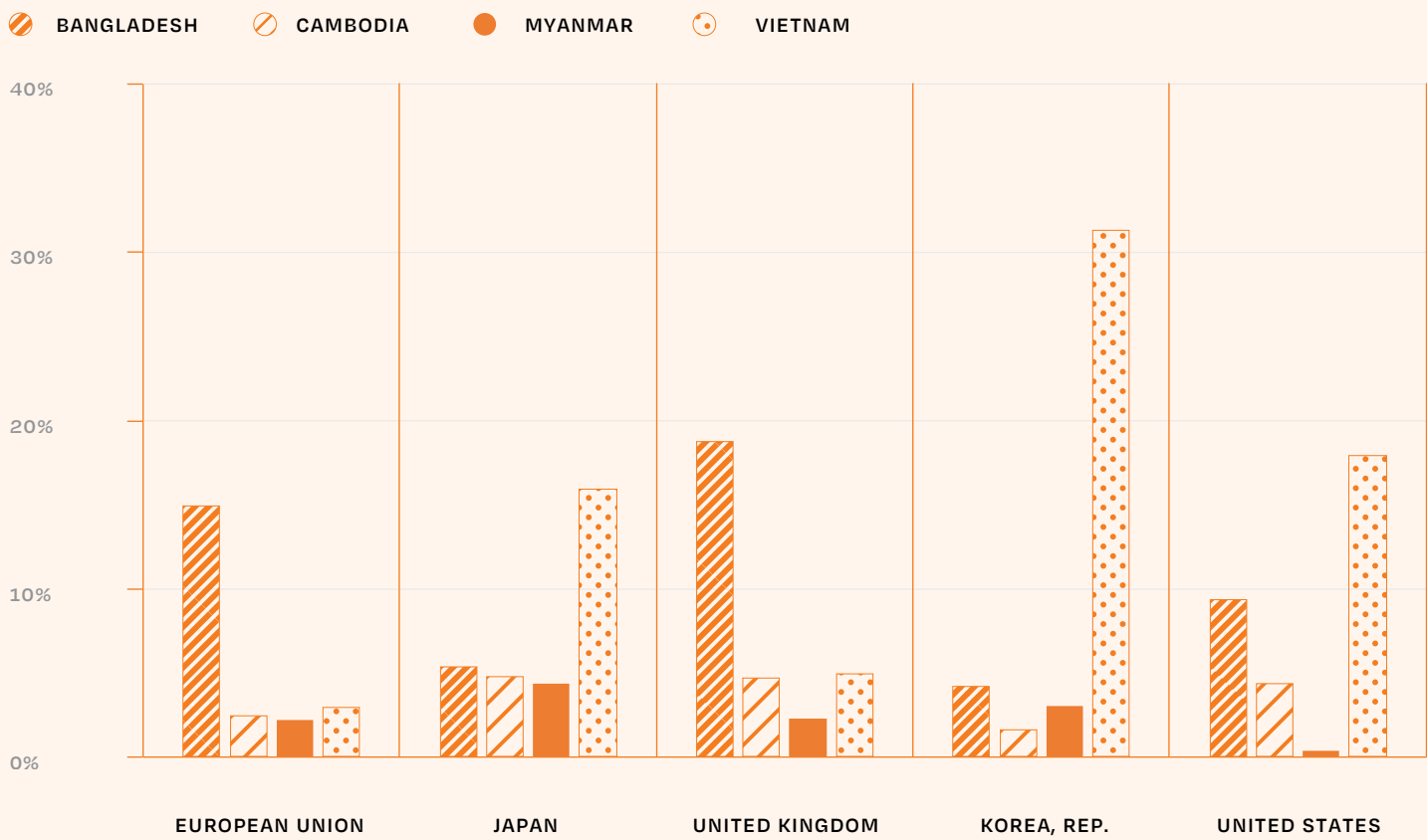
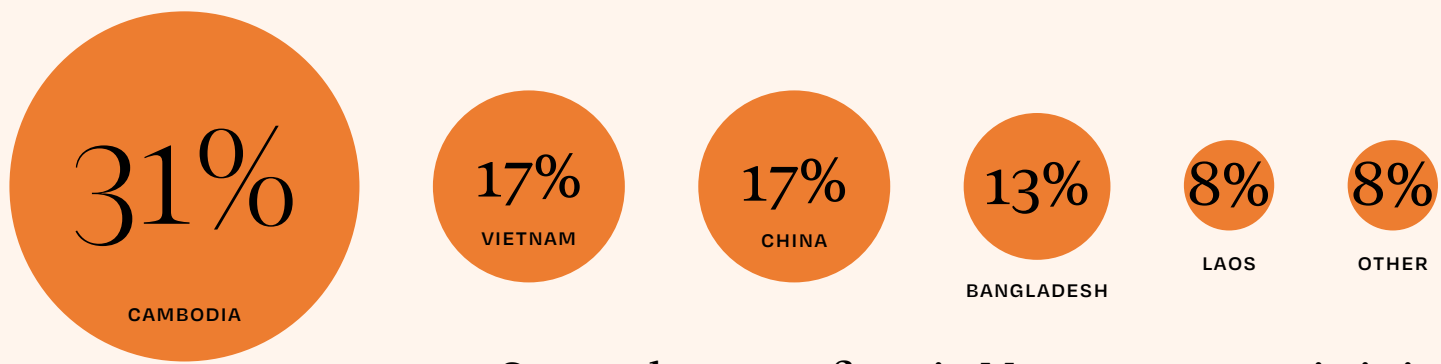


FIGURE 13 MAJOR COMPETITORS AS REPORTED BY MYANMAR GARMENT FIRMS (BY SHARE OF FIRMS)



Source: World Bank Garment Industry Survey 2023 and World Trade Integrated Solution (WITS)

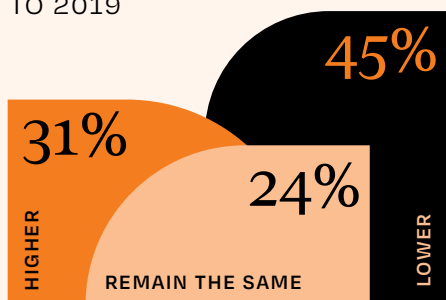
Surveyed garment firms in Myanmar were optimistic about their ability to compete internationally despite their small share of the global garments trade. Less than one-third of surveyed firms indicated that the current competition in the global market was higher than in 2019, while 45 percent indicated that it was lower (Figure 14). Moreover, 84 percent of surveyed firms viewed themselves as competitive in major markets. Of these firms, 62 percent cited abundant labor as the primary reason, while 56 percent cited cheap labor costs (Figure 15). While nominal wages have remained stable or increased since 2021, real wages have fallen, and some



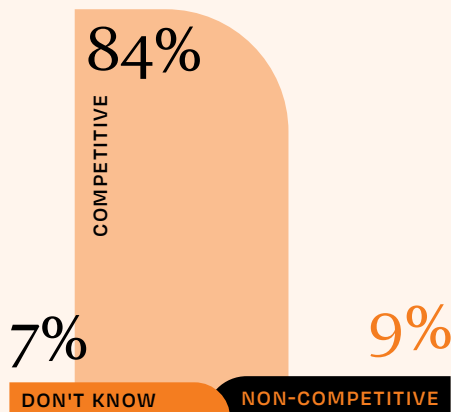
FIGURE 14

PERCEPTIONS ON COMPETITION - BY THE SHARE OF FIRMS

A THE CURRENT LEVEL OF COMPETITION COMPARED TO 2019



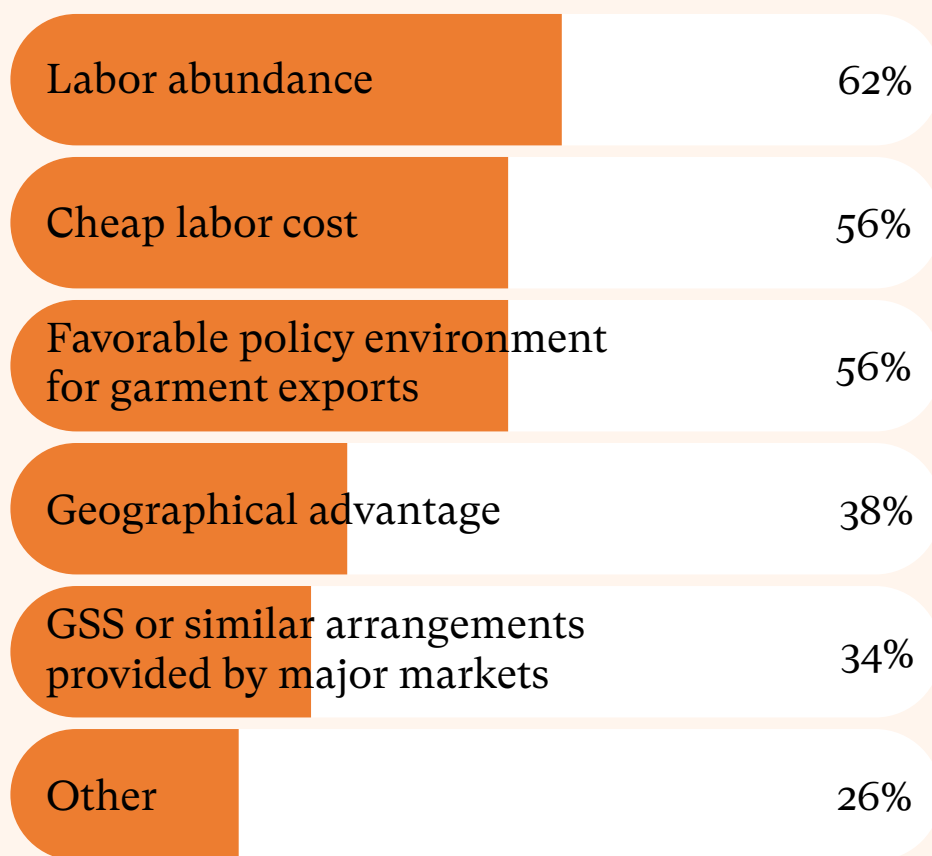
B COMPETITIVENESS IN THE MAJOR MARKETS



benefits have been cut (Box 1). Despite the introduction of restrictive trade and exchange rate policies over the past few years – such as import and export licenses, foreign currency surrender requirements, and the maintenance of an overvalued official exchange rate, 56 percent of garment firms who viewed themselves as competitive in the global market cited a favorable policy environment for garment exports as a reason for their competitiveness. Garment firms enjoy favorable treatment in several areas, benefiting from relatively advantageous policies including a low-tax regime (neither export taxes nor license fees are imposed on garment exports; CMP imports are exempt from customs duties; and CMP services are exempt from commercial tax).¹⁴

FIGURE 15

REASONS FOR BEING COMPETITIVE - BY THE SHARE OF FIRMS



Source: World Bank Garment Industry Survey 2023

14 EuroCham Myanmar, 2023. Myanmar Garment Sector Factsheet Version 2.0, November 2023.



BOX 1**RECENT CHANGES IN GARMENT WORKERS' REMUNERATION**

In 2022, the salaries of garment sector workers increased, but these increases were insufficient to cover the rise in the cost of living. Survey results indicated that only 9 percent of firms reduced employees' salaries in 2022 compared to 2021, while 34 percent of firms increased salaries, resulting in an average 5 percent salary increase across the industry (Figure 16 and Figure 17). Such increases were insufficient to keep pace with rapidly rising inflation, which stood at 35 percent year-on-year in December 2022.¹⁵ However, focus group discussions indicated some garment manufacturers had to cut benefits such as allowances or bonuses during periods of reduced orders to lower firm costs.

Wages appear to have risen faster in 2023, but real wages remain very low, and some workers are pursuing better-remunerated jobs outside Myanmar. Reports indicate that some firms, particularly those exporting to EU markets, had further increased workers' salaries by 10 to 20 percent in 2023, while in October 2023, the authorities announced that employers should pay an additional daily allowance of K1000 on top of the minimum daily wage of K4800. But in real inflation-adjusted terms, K5800 (about US\$1.80 at current market exchange rates) in 2023 is around 25 percent below the K4800 minimum wage received by garment workers in 2019. One of the implications has been that outward migration has become more commonplace as workers search for higher wages overseas. Garment manufacturers cited better opportunities, including higher salaries abroad, as the main pull factor for outward migration.

¹⁵ CSO Q3
Economic Bulletin



FIGURE 16 THE SHARE OF FIRMS REPORTING SALARY CHANGE IN 2022 COMPARED TO 2021

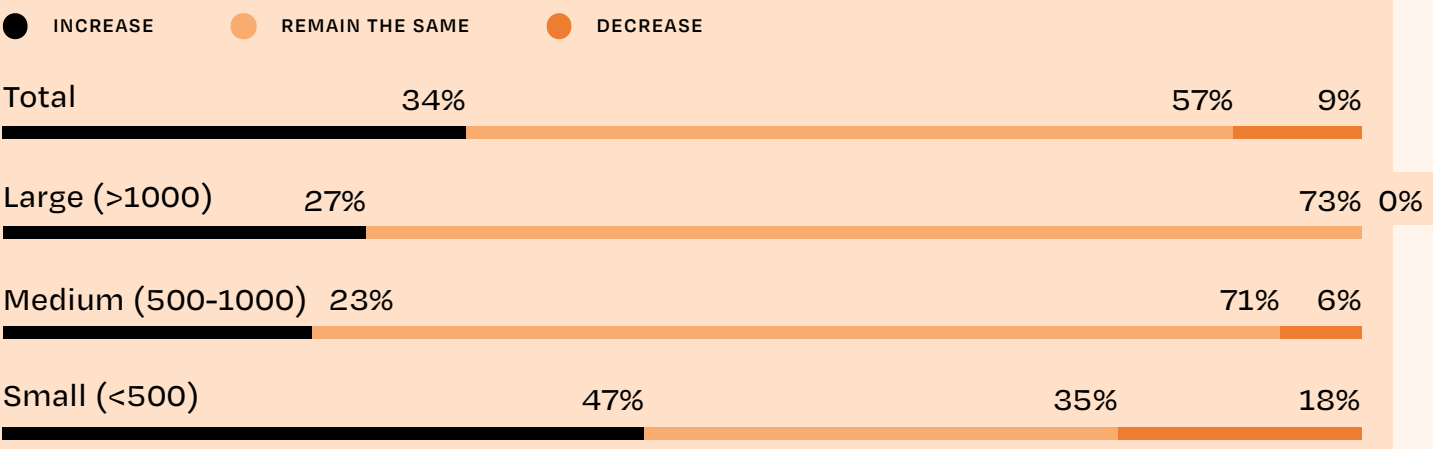
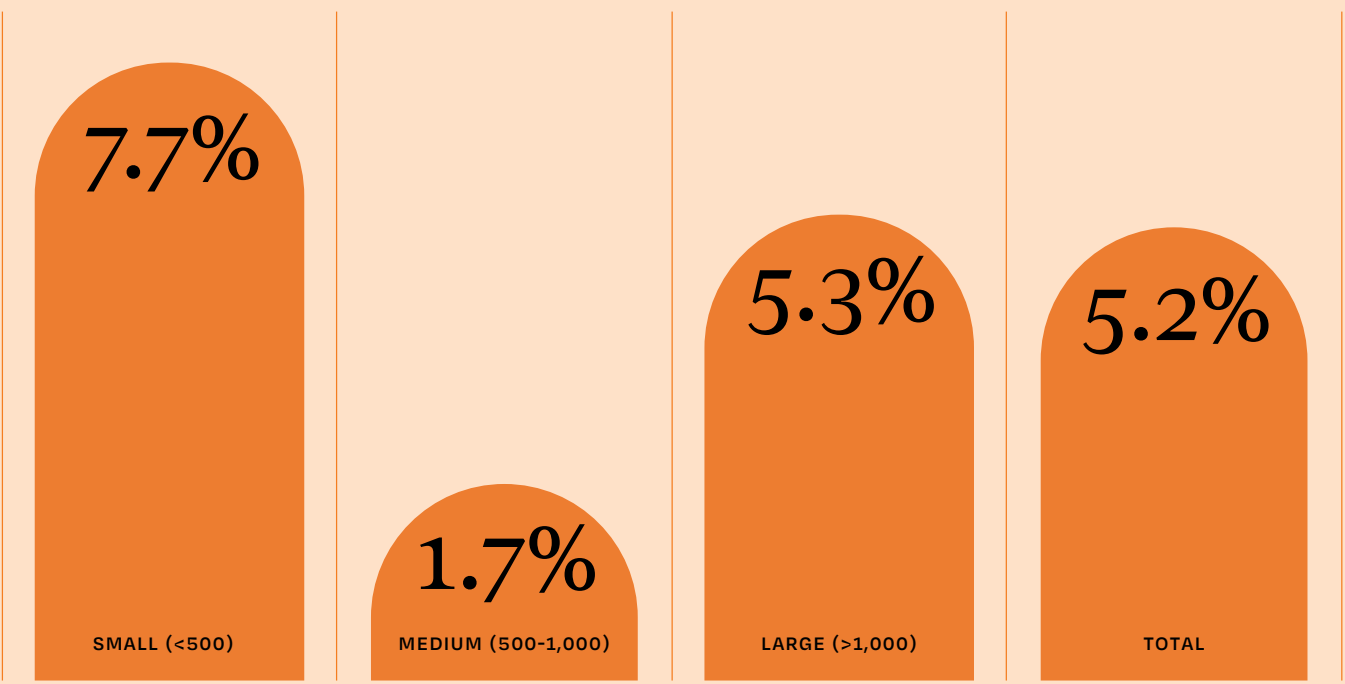


FIGURE 17 AVERAGE SALARY CHANGE IN 2022 COMPARED TO 2021



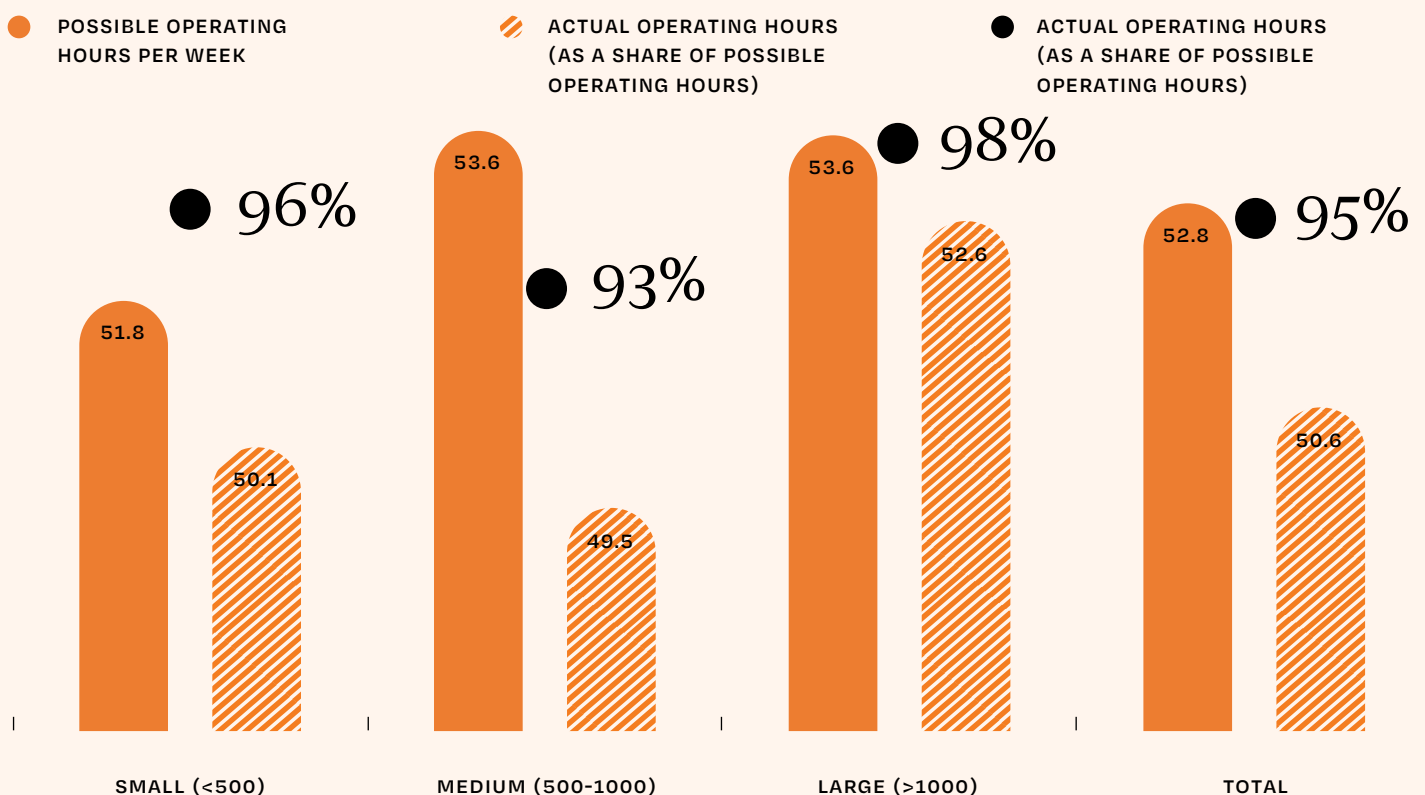
Source: World Bank Garment Industry Survey 2023

Garment firms
are currently
facing significant
challenges.



Despite facing a challenging business environment, garment firms operated nearly full-time in 2022 (Figure 18). On average, firms operated 50.6 hours per week out of the possible 52.8 hours in 2022, although firms may not have run at full capacity during the time that they were operating. Firms reported that their ability to run at full capacity was constrained by a range of supply- and demand-side factors. Around half of firms that operated at less than full operating hours reported lower demand as a key challenge.

FIGURE 18 OPERATING HOURS



Source: World Bank Garment Industry Survey 2023

Although export values in 2022 surpassed 2019 levels, most firms did not achieve their target output. Only 27 percent of the firms set a target for their output in 2022 (Figure 19). Among those firms that did set an output target, on average, only 76 percent of the target was achieved.

Access to electricity was reported by most firms as a 'major' or 'very severe' obstacle to their current operations, while the lack of political stability was also



viewed as a constraint (Figure 20). Given disruptions to electricity provision since early 2022 and deteriorations in access in recent months, 68 percent of firms indicated that access to electricity was an obstacle to their operations (Box 2). Lack of political stability was reported by 62 percent of firms as an obstacle, followed by access to finance (Box 3).

While only 22 percent of garment manufacturers considered trade regulations a challenge, discussions with input suppliers revealed a different story. Focus group discussions revealed that the import licensing process had emerged as a critical issue, causing delays in product arrivals and introducing complexity into the licensing process. Also, although garment firms generally reported a favorable policy environment for exports, logistics service providers noted that trade policy changes and inefficiencies in port clearance processes had created challenges.

FIGURE 19 TARGET OUTPUT

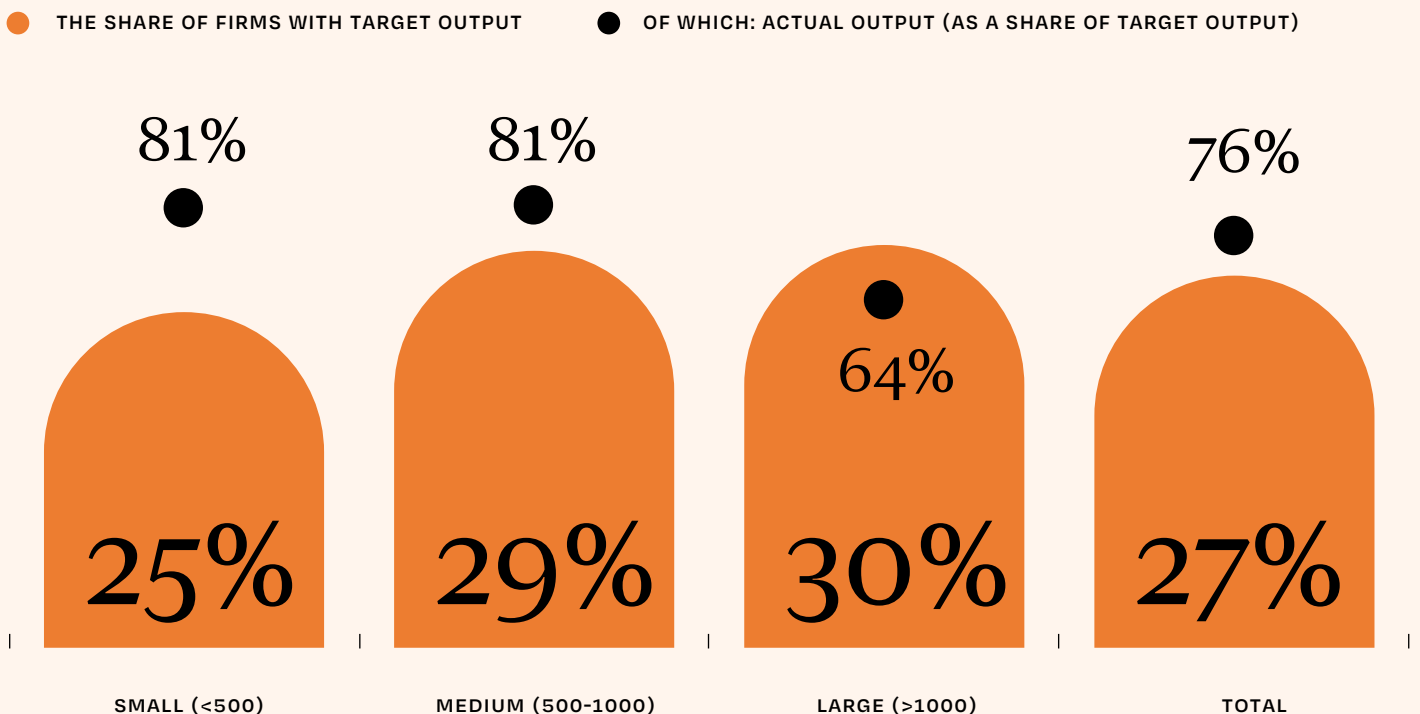


FIGURE 20 OBSTACLES TO THE CURRENT OPERATIONS

● MODERATE OBSTACLE ● MAJOR OBSTACLE ● VERY SEVERE OBSTACLE

Access to electricity



Political stability



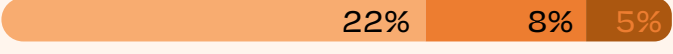
Access to finance



Crime and disorder



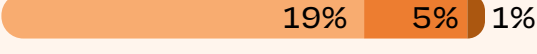
Access to internet



Transport



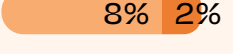
Skilled labor



Trade regulations



Tax administration



BOX 2 POWER OUTAGES

The garment industry has suffered from substantial losses due to frequent and prolonged power outages. On average, in 2022, garment firms experienced two power outages per day, each lasting approximately 3.5 hours (Figure 21). These power disruptions severely impacted business operations, leading to production delays and additional operating costs. To prevent a backlog of orders from buyers, firms relied on generators, which accounted for 62 percent of total electricity consumption (Figure 22). However, the reliance on generators raised fixed investment and variable costs, including expenses for diesel and

Source: World Bank Garment Industry Survey 2023

Note: For output change in 2022 compared to 2019, only firms operated in 2022 and 2019 were included for calculations.

Note: Responses for "moderate obstacle," "major obstacle," and "very severe obstacle" are combined to report as the biggest obstacle.



maintenance. On average, garment firms estimated the total losses attributable to power outages to be equivalent to 31 percent of their total annual sales in 2022. Focus group discussions also revealed that the availability of fuel has been constrained at times, further worsening overall operational challenges.

FIGURE 21 POWER OUTAGES

- NUMBER OF POWER OUTAGES PER DAY IN 2022
- ▨ AVERAGE LENGTH OF A POWER OUTAGE IN 2022 (IN HOUR)
- ESTIMATED LOSS FROM POWER OUTAGES IN 2022 (% OF TOTAL SALES)

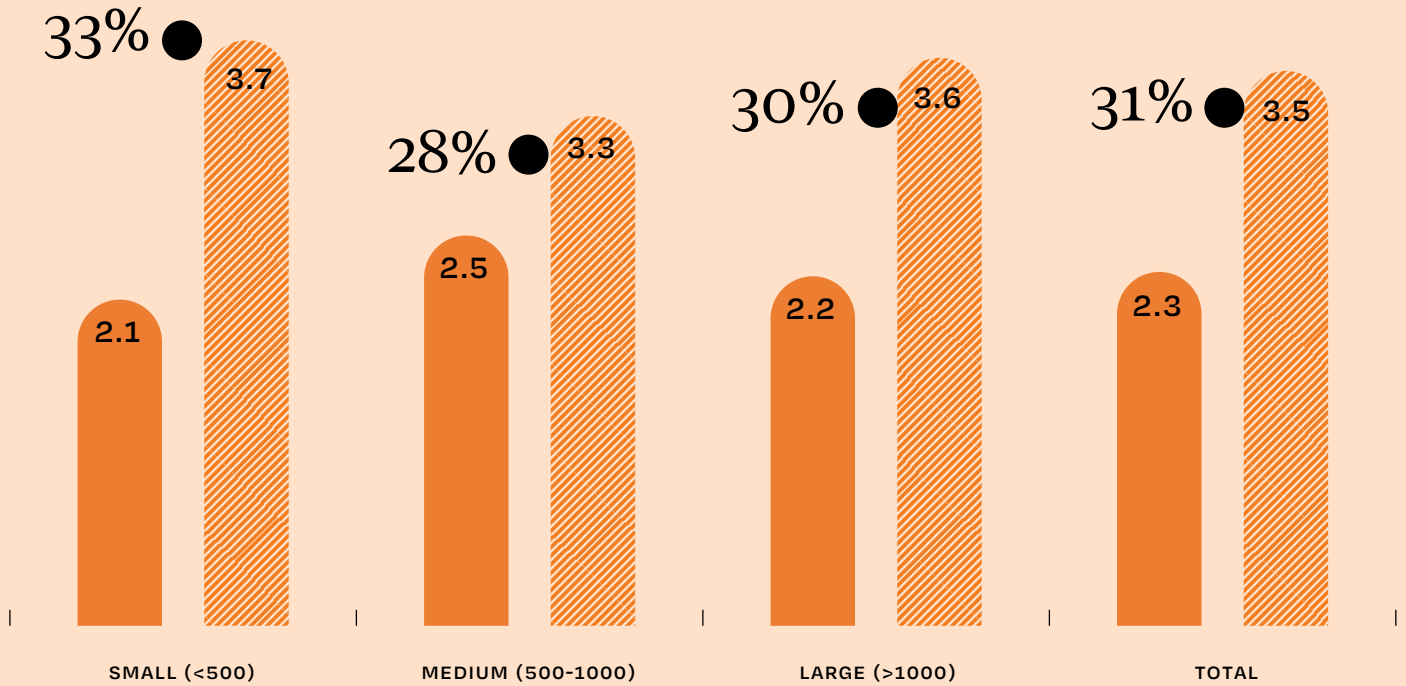
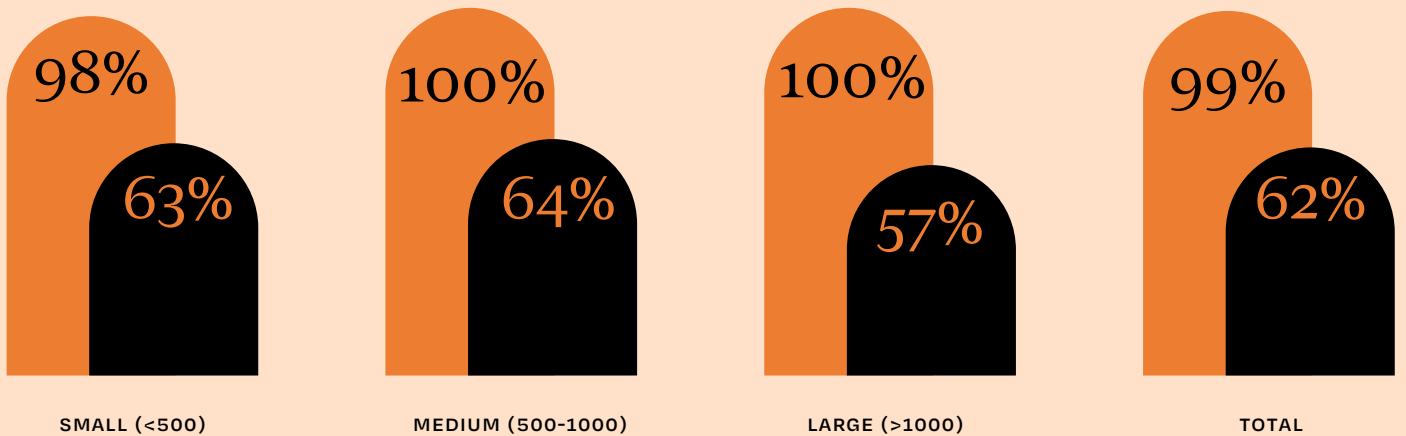


FIGURE 22 RELIANCE ON GENERATORS FOR ELECTRICITY

- THE SHARE OF FIRMS OWING GENERATORS
- AVERAGE SHARE OF ELECTRICITY COMING FROM GENERATORS



Source: World Bank Garment Industry Survey 2023



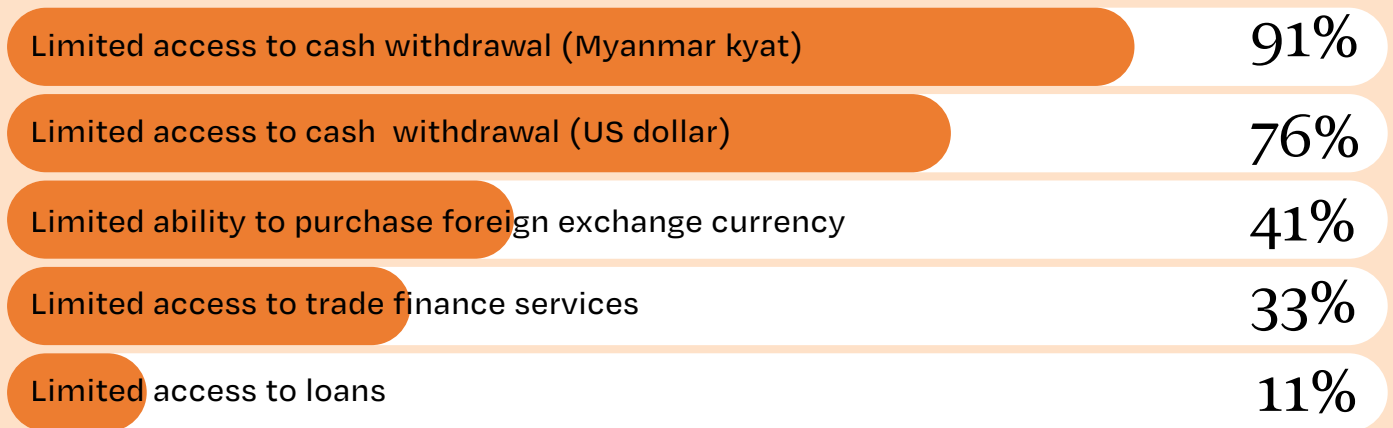
BOX 3 ACCESS TO FINANCE AND BANKING SERVICES

Garment firms rely primarily on internal funds rather than loans to fund their operations (Figure 23). These internal funds are largely retained earnings from CMP service charges. Internal funds were used as the financing source for both fixed assets (as reported by 89 percent of firms) and day-to-day operating costs (as reported by 87 percent of firms). Only 2 percent of firms reported obtaining loans from friends and family for day-to-day operations, and no firm reported loans from money lenders.

FIGURE 23 FINANCING SOURCES – BY SHARE OF FIRMS



FIGURE 24 BANKING SERVICE CONSTRAINTS – BY SHARE OF FIRMS



Source: World Bank Garment Industry Survey 2023

While access to loans was not viewed as a major constraint, garment firms reported difficulties in withdrawing cash and purchasing foreign exchange. Limited access to cash withdrawals (both

in kyat and US dollars) were cited as challenges by most garment firms, in contrast to reports that difficulties in accessing kyat had eased since the end of 2021 (Figure 24). Despite being foreign currency earners, 41 percent of firms faced constraints in accessing foreign exchange currency due partly to foreign exchange surrender requirements. Additionally, 33 percent of firms reported limited access to trade finance services, which can be required when firms need to import machinery or inputs not supplied by the buyers. Access to bank loans did not pose a significant constraint for most garment firms, reflecting their reliance on internal funds as their primary financing source.

The outlook for the garment industry remains constrained and subject to significant risks.

The outlook for the garment industry is clouded by ongoing operational challenges such as unreliable power supply, cumbersome import licenses and customs clearance procedures, foreign currency shortages, conflict and logistics constraints, and high inflation. These challenges increase the cost of doing business and will tend to reduce the international competitiveness of Myanmar's garment industry – as well as its attractiveness as a destination for foreign investment – to the extent that they persist over time. Moreover, in the context of a squeeze in profit margins, high inflation and declines in real



wages could see labor migration become an increasingly pressing issue for the industry. Discussions with garment manufacturers revealed that they had experienced their employees (including skilled ones) resigning due to outward migration plans driven by lower wages and inflationary pressure in Myanmar. In addition, some employees have opted to return to their hometowns due to the unstable political environment.

Reliance on the EU as a destination for almost half of its garment exports leaves Myanmar vulnerable to reductions in orders from that market and dependent on the continuation of trade preferences. Several global brands, including Primark¹⁶ and H&M,¹⁷ have already exited the Myanmar market, resulting in substantial job losses. Discussions with garment manufacturers revealed that order suspensions or cancellations by European buyers led to the closures of some firms during 2020 and 2021. While a few firms have taken steps to diversify their markets, most do not have backup plans. Moreover, while trade preferences remain in place, any future move to withdraw the EBA scheme would likely lead to further reductions in orders from the EU. It could also impact working conditions and labor rights if those firms currently exporting to the EU market shift to other markets where requirements on labor standards are lower.¹⁸

Despite these constraints and risks, surveyed garment firms were cautiously optimistic about their sales prospects through 2023 while acknowledging the need to address ongoing challenges. While they anticipate sustained sales momentum in 2023, they were cautious about making predictions beyond 2023 due to their heavy reliance on exports and the persistence of the challenges outlined above. Stakeholders emphasized that political stability is a prerequisite for effectively addressing these challenges.

A substantial shift in Myanmar's garment industry away from the CMP (Cut, Make, Pack) model to more

16 Business & Human Rights Resource Center, 2023. Myanmar: Closure of two Primark suppliers leaves 2,200 workers 'adrift'; incl. co. response.

17 The Irrawaddy, 2023. H&M's Forced Exit Leaves 42,000 Myanmar Workers Asking How They Will Eat

18 GSP beneficiaries such as Myanmar are required to ensure labor rights as set out in the International Labor Organization (ILO) conventions; however, monitoring and enforcement can be challenging.



19 Examples of other operating models in the garment industry are free-on-board (FOB), whereby manufacturers are responsible not only for the manufacturing process but also for transporting to the port of entry and loading garments to vessels or other types of vehicles and advanced models such as own design manufacturing (ODM) and own business manufacturing (OBM) that includes not just manufacturing and shipping but also designing and branding of products.

advanced models¹⁹ is unlikely, even over the medium term. Only 18 percent of firms reported planning to upgrade their operating models in the next three years (Figure 25). The most significant challenges identified by these firms planning to upgrade are limited access to electricity, followed by limited market access and limited access to finance (Figure 26). Focus group discussions with garment manufacturers indicated that the uncertain business environment largely explains why most firms prefer to stay with the CMP model.

FIGURE 25 THE SHARE OF FIRMS WITH A PLAN TO UPGRADE THEIR CURRENT OPERATING MODELS

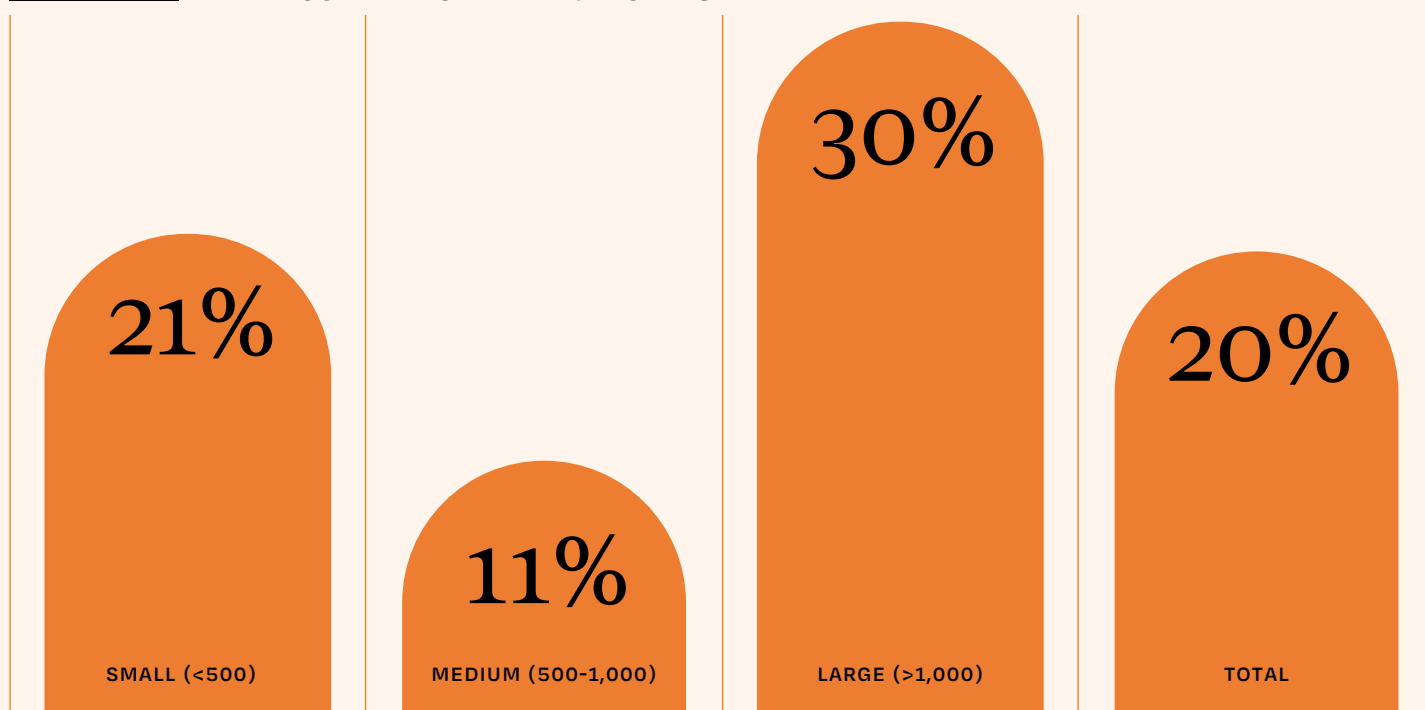


FIGURE 26 POTENTIAL CHALLENGES THAT FIRMS COULD FACE TO UPGRADE THEIR CURRENT OPERATING MODELS

