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EUROPEAN CHAMBER OF COMMERCE IN MYANMAR

EuroCham serves as the voice of European business in Myanmar. Its main mission is to significantly 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, October 2018



The voice of European business
in Myanmar

ADVOCACY

BUSINESS SERVICES

EVENTS

European Chamber of Commerce in Myanmar

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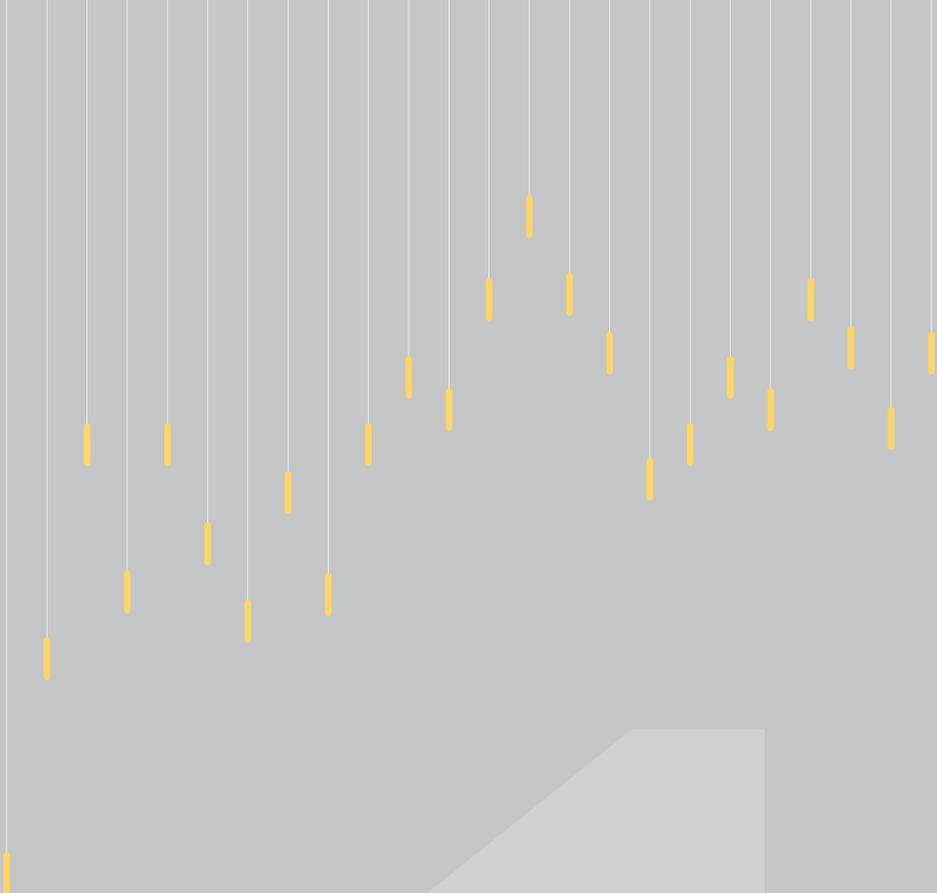
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ACRONYMS

CMP	<i>Cut-Make-Pack</i>
EBA	<i>Everything But Arms</i>
EU	<i>European Union</i>
FIL	<i>Foreign Investment Law</i>
FOB	<i>Free-On-Board</i>
GSP	<i>Generalised Scheme of Preferences</i>
HS	<i>Harmonised System</i>
ILO	<i>International Labour Organisation</i>
LIFT	<i>Livelihoods and Food Security Trust Fund</i>
MGMA	<i>Myanmar Garment Manufacturers Association</i>
MIL	<i>Myanmar Investment Law</i>
SMART	<i>SMEs for Environmental Accountability, Responsibility and Transparency</i>
SOMO	<i>Centre for Research on Multinational Corporations</i>





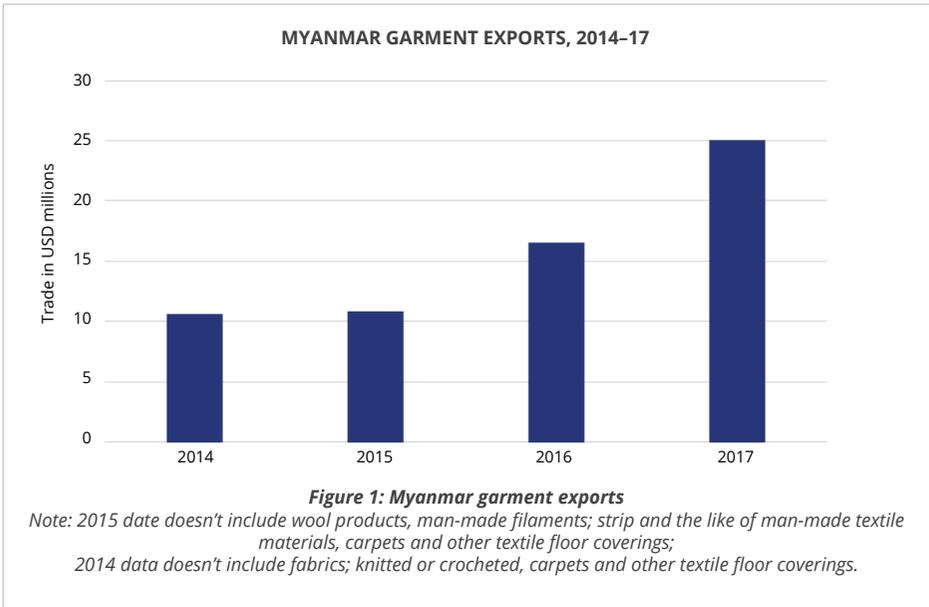
1. SECTOR OVERVIEW

1.1 CURRENT MARKET SITUATION / UPDATES

Historically, Myanmar has a strong textile base, but the industry has suffered from the country's isolation and the international sanctions. However, the gradual opening of Myanmar has contributed to the renewal of this sector. As a matter of fact, since the removal of the sanctions, the garment industry has been the main driver of the development of Myanmar's manufacturing sector, and more broadly of its robust economic growth. It constitutes one of the main exports of the country, bringing substantial revenues to the State and employing 450,000 workers, more than 90% being women, in over 600 factories, according to the Myanmar Garment Manufacturers Association (MGMA).

1.2 EXPORT DATA

In 2017, data from UN COMTRADE estimated Myanmar's worldwide exports in the garment sector to stand at around USD2.5 billion, a figure that has been growing at a fast pace.



According to the European Union (EU), textile was the top product category in Myanmar's exports to the EU in 2017: with a value of EUR1.125 million (~USD1.225 million), it accounted for 72.2% of the EU's total exports. Its volume has been constantly growing at a strong rate since 2014, with a CAGR of 69.5% over three years. More generally, the EU is the main importer of Myanmar textiles products.

Myanmar's other major trade importers are Japan, South Korea and the US. China is also an important trade partner, as most garments are imported from this country, while the final product is reexported to China.

Unsurprisingly, this sector has proven its attractiveness to foreign investors. In 2015, half of the factories were fully owned by foreign investors, and between 20 and 30% more were joint-venturesⁱⁱ, though the foreign partner is sometimes inactive. Most of the investors comes from South Korea, followed by China, Hong Kong, Taiwan and Japan.

1.3 LOCATIONS

Most of the garment factories operate in the Yangon region. According to the MGMA, half of the existing garment factories are located in Yangon, particularly in the Hlaing Thayar industrial zone, while other are based in Thilawa Special Economic Zone, located around 25 km south of Yangon. Their concentration is explained by the convenient access to port infrastructures and the presence of many industrial zones.

The remaining locations, by order of importance, are predominantly found respectively in Bago, Patheingyi, Hpa-An and Mandalay, though this latter is mostly focused on the production of textiles for the domestic market, as it is renowned for its *longyi*, the Myanmar traditional dress. Finally, the Kyaukpadaung Special Economic Zone, in Rakhine State, is still under development. The implementing consortium, led by Chinese investors, aims to attract a plurality of industries, including the textile sector.



Figure 2:
Garment factories location distribution in Myanmar

The Myanmar governments also owns 13 textile industries, regrouped in a state-owned enterprise under Ministry of Industry in the No. 3 Heavy Industrial Enterprise (HIE-3), with other factories in paper and chemicals. The map below shows their locations.



Figure 3: Locations of state-owned textile factories in Myanmar
Source: Myanmar Ministry of Commerce, National Export Strategy, Textiles & Garments

1.4 STRUCTURE OF THE MYANMAR GARMENT INDUSTRY

1.4.1 Actors

Usually, the garment industry is made of three main types of actors: the resellers, who place the orders and sell the products; the buyers, who are intermediary agents; and the producers.

In Myanmar, agents play a particularly important role since producers and buyers maintain little relationships with each other. For example, they provide financial guarantees.

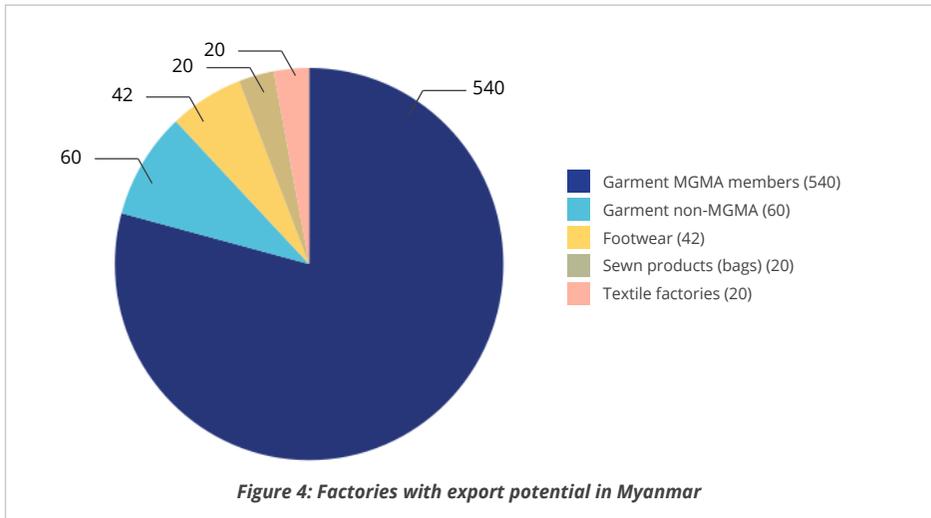
Some Western firms have already established relationships with local factories, thus joining the Asian garment retailers that have moved their production to Myanmar.

Example of some famous international brands outsourcing in Myanmar include:

- Primark in 2012, working with 8 partnersⁱⁱⁱ
- H&M in 2013. Since then, it has expanded and is currently working with many manufacturing and processing factories^v
- C&A, New Look, GAP, this latter being among the first US companies to re-enter Myanmar, in 2014
- Muji in 2015

Even though there are many garment and textile factories in Myanmar, a large majority of them have little capacities and operate only for the domestic market. As such, most of the international brands are working with Asian investors in Myanmar, all the more that the local companies usually fail to comply to the Western standards.

According to the SMEs for Environmental Accountability, Responsibility and Transparency program (SMART), the repartition of factories that have the capabilities to produce for overseas markets is as follows:



The project has further estimated that a factory employs on average around 1,100 employees.

1.4.2 Production

The garment industry comprises several sub-sectors, which have an unequal weight in Myanmar exports, as seen in the table below.

HIS code	Commodity	Trade value (USD)	Proportion of garment exports
50	Silk	220.500	0.01%
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	138	-
52	Cotton	13.787.788	0.55%
53	Vegetable textile fibres; paper yarn and woven fabrics of paper yarn	241.093	0.01%
54	Man-made filaments; strip and the like of man-made textile materials	558.263	0.02%
55	Man-made staple fibres	7.839.149	0.31%
56	Wadding, felt and nonwovens, special yarns; twine, cordage, ropes and cables and articles thereof	549.628	0.02%
58	Fabrics; special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery	4.668.168	0.19%
59	Fabrics; special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery	579.517	0.02%
60	Fabrics; knitted or crocheted	3.473.525	0.14%
61	Apparel and clothing accessories; knitted or crocheted	3.473.525	19.74%
62	Apparel and clothing accessories; not knitted or crocheted	1.934.176.555	77.15%
63	Textiles, made up articles; sets; worn clothing and worn textile articles; rags	46.037.132	1.84%
	Total	2.507.158.912	

Table 1: Composition of Myanmar 2017 garments exports worldwide

Source: UNComtrade

About 77% of Myanmar's garment exports indeed consist in "non-knitted nor crocheted Apparel and Accessories", while the second main export is knitted and crocheted clothes. Within this subcategory, Myanmar produces a wide diversity of clothes, which are more focused on high tech and premium clothing than neighboring countries as Cambodia, such as high-tech sportswear^v or formal suits. Woven products are the main exports to the EU, though the share of knitted products is gradually increasing.

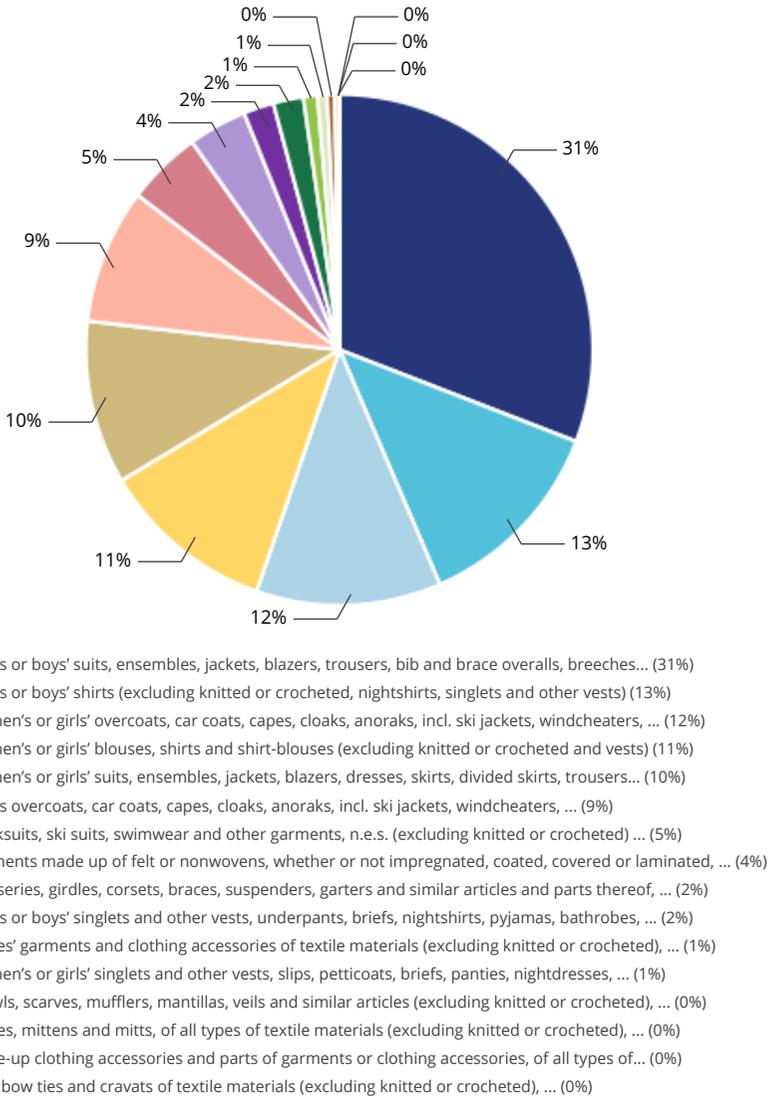
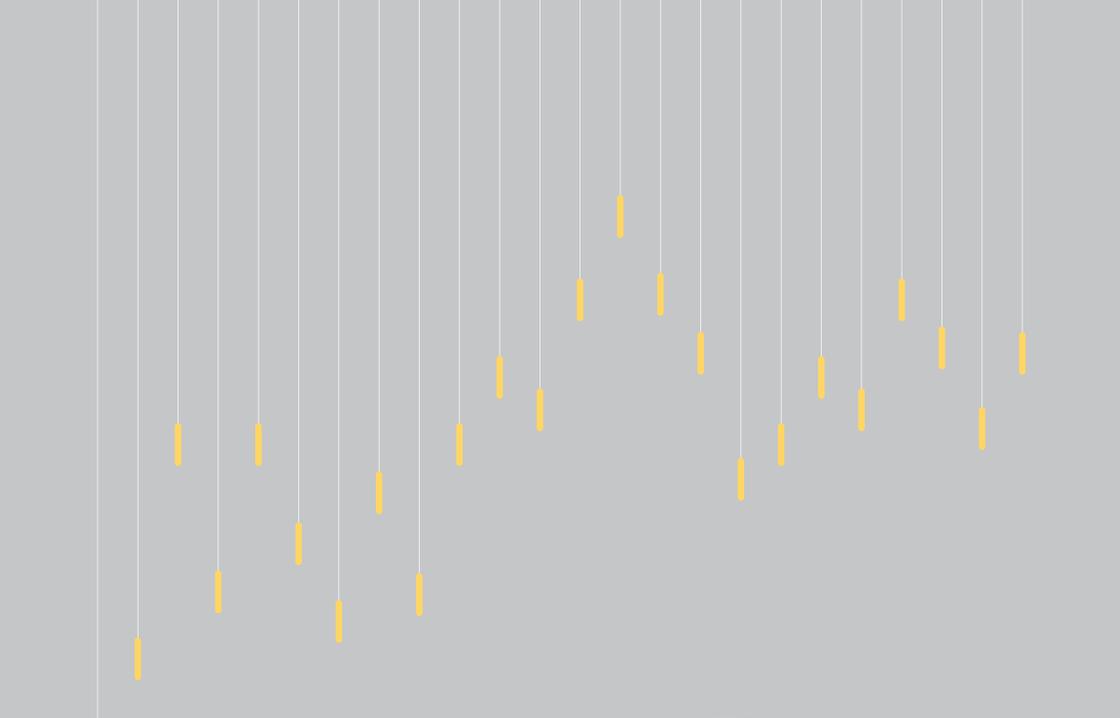


Figure 5: Myanmar textile exports by category in 2017
(Source: ITC Trade Map)



2. INVESTMENT OPPORTUNITIES

2.1 INFORMATION ON TENDERS

The army manages its own textiles industries, so no call for tender for military uniforms is public, and the tendering process for school uniforms has been criticised for its lack of transparency.

2.2 RECENT INVESTMENTS

Recent projects have involved the call to develop land in the government's garment factory #1, located in Shwedaung, in order to develop a Specialised Textile and Garment Zone from 2016^{vi}. A feasibility study is being conducted by a Japanese company while in a second phase the government will invite foreign investors to develop this project.

In 2016, a local company signed a memorandum of understanding with a Korean group in order to develop a factory operating on a Free On Board (FOB) basis.

In 2018, Chinese investors launched a new factory located in Yangon's Shwe Pyi Thar Industrial Zone, able to produce 4 million pieces each year.

Finally, the project of the Maubin Industrial zone has been approved by the government. Implemented by a joint venture with Chinese investors, the zone is expected to host 42 garments factories out of a total of 50^{vii}.

2.3 POTENTIAL OPPORTUNITIES FOR FOREIGN INVESTORS

2.3.1 Strengths

Large labour force

Myanmar enjoys a large pool of unskilled workforce that is suitable for factory work. The population is young and keeps growing at an annual rate of around 0.8% up to 2025^{viii}.

Labour costs

The labour costs are the lowest in the world after Bangladesh, which constitutes a major factor to ensure the competitiveness of the national garment industry in international markets, especially since labour costs in China have been rising.

The following table indicates median wages for several positions in the industry, based on DICA's survey^{ix}.

Position	Median wage in MMK
Local manager	600
Accountant	450
Production supervisor	360
Production worker	150-300
Office staff	240

Trade agreements

Myanmar enjoys privileged access to foreign markets through trade agreements. The EU-Myanmar trade is done under the Generalised Scheme of Preferences (GSP). The country also enjoys tax-free exports with Japan.

Myanmar's membership in the ASEAN also enable Myanmar to have access to the organisation's trade agreements with China, South Korea, etc.

The GSP

Since 2013, a GSP enables Myanmar to enjoy duty- and quota-free access to the EU for any exports, except arms and ammunition, a programme known as "Everything But Arms" (EBA).

Quality

The historic customers of Myanmar have been far-East Asian countries, more particularly Japan and South Korea. They have placed high emphasis in the quality of the products. As such, Myanmar factories have the knowledge to produce high-tech and premium garments.

2.3.2 Weaknesses

Skills

Some factories experience a high turnover rate, because new entrants in the industry offer higher wages. Another problem with the workforce is the lack of relevant skills, as training schools for the garment industry don't exist, though this landscape is currently evolving. It is also difficult to recruit citizens for technical and supervisor-level positions. Factories also have little experience in sourcing activities, while the textile sector is unable to provide enough fabric.

Productivity

The previous elements all contribute to lower the productivity of garment factories. Besides, local garment factories are used to produce in small volume for Asian buyers, which also imposed strict standards. Yet, this differs from the requirements of European buyers. Thus, the productivity of the Myanmar garment industry is much lower than its neighboring competitors.

Rising labour costs

Since the beginning of the year, the national minimum wage has been increased to MMK4,800 daily for 8 hours of work. Given the low productivity, many factories fear that it will be detrimental to Myanmar's competitiveness, and some factories have threatened to close.

Lack of good infrastructure

As energy shortages are still frequent in the country, production sites should be equipped with generator to keep operating. The lack of an efficient transportation system and the limited internet coverage outside of the urban area also have a negative effect. This adds costs.

Weak banking system

Access to funds and loans remains difficult for companies, as banks request a high collateral and charge high rates. Besides, letters of credits issues by Myanmar banks are not recognised abroad, which forces trade business to have them issued overseas, hereby raising the costs and time to produce and ship.

2.3.3 Segments for investments

Outsourcing in Myanmar is attractive for medium to high-end products, and products that are more complicated to elaborate, such as formal wear, jackets and “technical” sportswear, on a CMP (Cut-Make-Pack) basis. SEZs and industrial zones in Yangon are especially attractive, given their convenient access to export infrastructures.

CMP vs FOB

Under a CMP production, all the raw materials, such as fabric, buttons, etc., are imported. Factories are merely in charge of assembling these elements.

Under of FOB system, the factory receives orders from the garment reseller, and is responsible for the whole production process.



3

3. GOVERNMENT RULES AND REGULATIONS ON FOREIGN INVESTMENTS

3.1 GENERAL LEGAL / INVESTMENT STRUCTURE INFORMATION

3.1.1 Myanmar Investment Law

The new Myanmar Investment Law (MIL) was signed in October 2016 and has been effective since April 1, 2017; the MIL combines the Foreign Investment Law (FIL) 2012 and the Citizens Investment Law 2013. The new investment law was created to attract both foreign and local investors by simplifying the application process and offering tax breaks, incentives, rights and protections for businesses.

Key changes	Description
Ease of foreign investment	Foreign investors are permitted to own 100% of businesses which are not on restricted or prohibited lists.
Investment screening	<p>An investor may submit an investment screening application to the Myanmar Investment Commission (MIC) for nonbidding guidance on whether a proposal investment:</p> <ul style="list-style-type: none"> • 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; • In a promoted sector under the MIL and related notifications.
Devolvement of authority for endorsement application	Application with investments less than USD5 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	<p>Business 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.</p> <ul style="list-style-type: none"> • Less developed regions (Zone 1) granted 7 years of tax exemption; • Moderately developed regions (Zone 2) granted 5 years of tax exemption; • Adequately developed regions (Zone 3) granted 3 years of tax exemption.
Long-term land lease possible beyond MIC permit	Foreign investors that invest under Foreign Investment Law (FIL) scheme can lease land from the government for 50 years and then extend it for another 20 years with two 10-year extensions.

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 due to 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.

Table 2: Key changes to investment areas

Key points of MIL

Under the MIL, a foreign investor is allowed to conduct business in Myanmar as a:

- 100% foreign-owned entity in permitted sectors;
- Joint venture with foreign, local, or government entities.

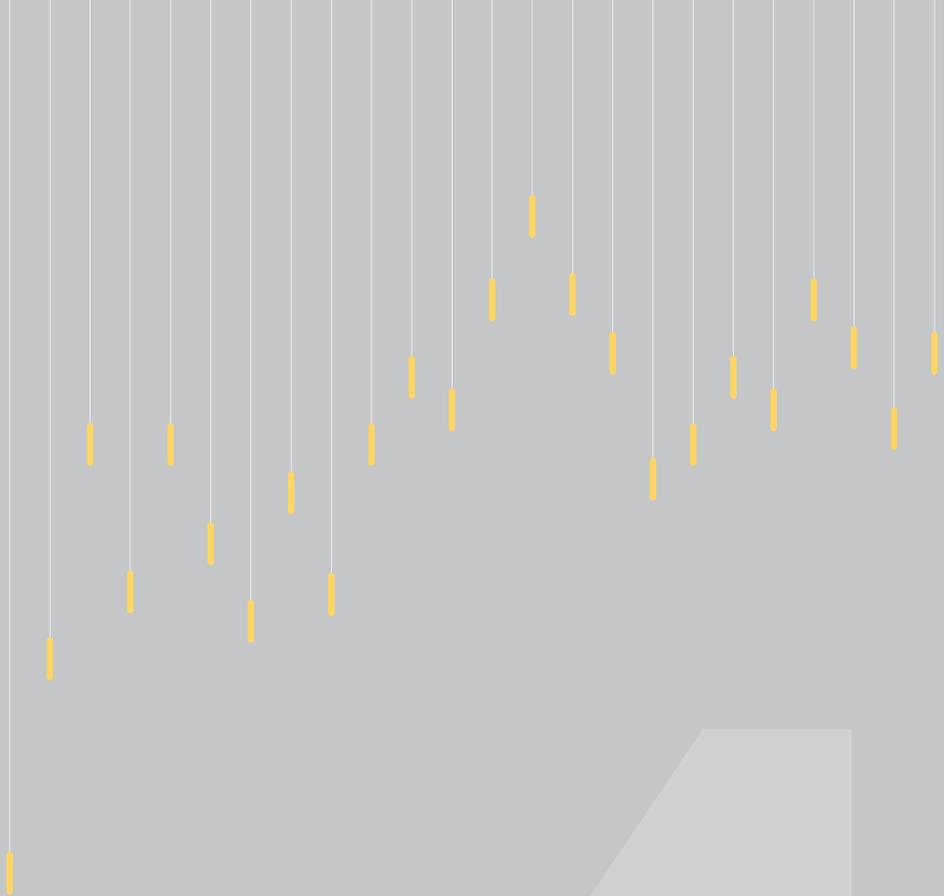
The promoted sectors* in the garment industry are:

- Spinning, weaving, dying and finalizing
- Production of rope, varieties of rope and net
- Production of clothes
- Production of women’ underwear
- Production of varieties of hat
- Production of varieties of bags including baggage, hand bag and haversack
- Production of sport items
- Production of varieties of shoe
- Production of finished leather products
- Production of leather baggage and hand bags
- Processing and production of wool and fur.

3.1.2 New laws

The New Company Law is in force since August 2018. Major changes to note are:

Key changes	Description
Registration	All companies having some operations on Myanmar must re-register under the New Companies Law, a process that can be done online through MyCo.
Ownership	A company with a foreign ownership of under 35% will still be regarded as a Myanmar company, and those shares can be freely traded.
Shareholding and dividends payments	New rules have been enforced.



4

4. CHALLENGES AND OUTLOOK

4.1 CHALLENGES

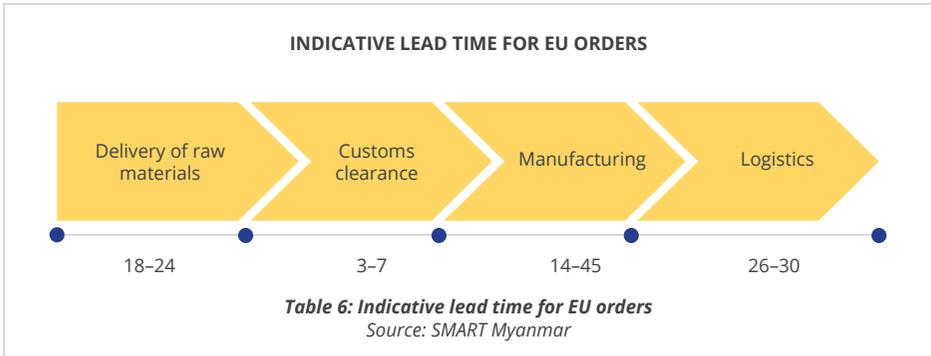
Labour standards

Along with other Asian countries, the Myanmar garment industry has been criticised for its poor labour standards and its current practices, and Western companies identify high compliance risks as a deterrent to do business with local factories. Indeed, labour laws are rarely fully enforced, and workers are deprived of most of their rights, working and living in precarious conditions. According to SOMO^x, excessive overtime is common, while employers do not fully pay the minimum wage. Some factories have been found to hire children. Finally, worker’s awareness about their rights is low, as is the level of unionisation.

International agencies such as the International Labor Organisation (ILO), or national development agencies have implemented projects, for example the EU’s SMART project, to improve business practices in the area.

Competitiveness

Most of the fabrics must be imported as Myanmar has little capacities to produce them locally. This adds time to the production process, especially because of lengthy customs procedures. SMART Myanmar estimated a lead time of at least 61 days between the placement of the order and the delivery for the EU market.



Obstacles for Preventing the Climbing of the Value Chain

The Myanmar garment industry is based on the “Cut-Make-Pack” process, in which the garment factories are solely in charge of cutting and assembling the materials prepared and provided beforehand by the buying company, which is also in charge of exporting the final product. As such, local factories are focused on the labour-intensive tasks that create little economic value.

To increase their profits, local garment factories should adopt the “Free-On-Board” process, in which garments factories are in charge of the whole manufacturing, from preparing the fabrics to exporting the final product to the reseller. This process would further remove the intermediaries, enabling factories to have a larger role in the supply

chain and to increase the value of their contribution. Climbing the value chain would also enable Myanmar to withstand competition from other low-cost garment suppliers, such as Cambodia and Bangladesh.

However, the current environment of Myanmar still prevents producers to adopt the FOB model, mostly because of the current weaknesses of the industry as described in 2.3. In addition to those factors, the tax system favors the CMP against the FOB, since only the former enjoys tax-free imports and exports. The impact is even more important as the country is not able to produce domestically quality fabrics. Finally, complicated customs procedures encourage the recourse to intermediaries.

4.2 OUTLOOK

The garment industry is expected to continue to grow at a strong rate in the upcoming years, leading to more factory opening and employment opportunities, and remaining one of the most important manufacturing area for the country.

The sector is rapidly evolving as positive developments are being introduced. For example, the Aung Myin Hmu Garment Skills Training Centre has been established by the Livelihoods and Food Security Trust Fund (LIFT) in 2017 to train factory workers. Besides, the MGMA reveals that foreign investment in dyeing and washing facilities has been growing, enabling some local factories to take care of this project. This constitutes a first encouraging step to large-scale transition towards the FOB model.

Government's Strategy

The Garment sector is a sector part of the National Export strategy elaborated by the government in 2015. Its aim is to strengthen the sector by increasing the export markets, the quality and product assortment – like knitwear, and by building capabilities to enable Myanmar to be in charge of most of the steps in the supply chain – especially in design.

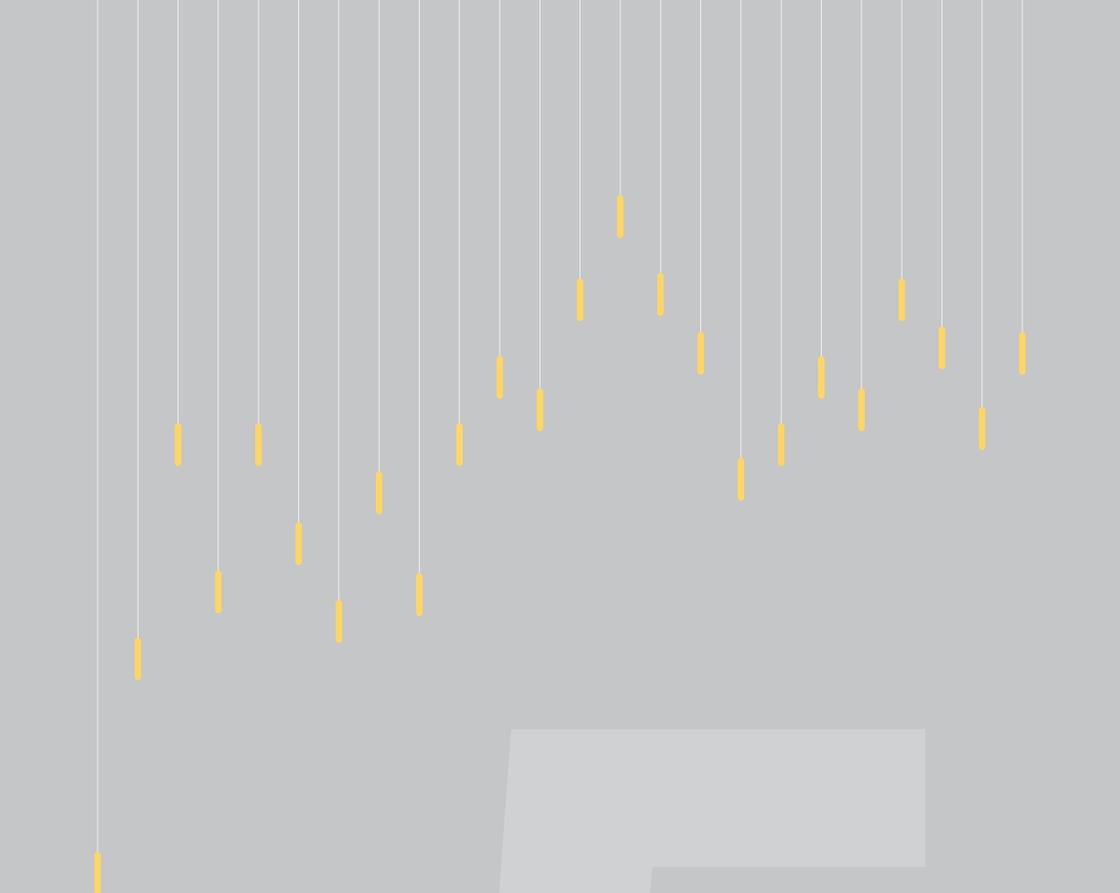
The government is also promoting this industry during trade negotiations with foreign countries, for example with Taiwan.

The MGMA has also elaborated a 10-years roadmap for the development of the sector, planning to reach a value of USD8-10 billion and to employ 1-1.5 million workers, while also improving business practices.

In addition, the opening of the retail sector to foreign investments, allowing among others to sale of clothing, is likely to stimulate garment production in the country by international brands.

Given this, it is expected that the garment industry will keep being attractive for foreign investors, especially brands with a strong experience in dealing with international markets. Construction of new industrial zones hosting garments factories are being planned, while the completion of two dry ports in Yangon and Mandalay by 2019 will sustain exports in the sector.

In the short-term, the country remains especially attractive for firms with existing experience in emerging markets, as the standards for operations remain low.



5

5.
INDUSTRY CONTACT INFORMATION

5.1 GOVERNMENT OFFICES

MINISTRY OF INDUSTRY

Encompasses the government-owned factories in textiles.

Mailing Address	Director General Ministry of Industry Office No. 30, Nay Pyi Taw
Contact	(+95) 67 405 320, 405 055, 405 413, 405 151, 405 059

NO. 3 HEAVY INDUSTRIES ENTERPRISE

Mailing Address	Office No. 37, Zeya Htani Road, Nay Pyi Taw
Contact	(+95) 67 408 156, 408 364, 4083 56, 408 074, 408 160 mpd3hie@gmail.com

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.

Mailing Address	Nay Pyi Taw Director General Department of Trade Ministry of Commerce Office No. 3, Nay Pyi Taw
	Yangon No. 228-240, Strand Road, Kyauktada Township, Yangon
Contact	(+95) 67 408 002, 408 265, 408 485 (Nay Pyi Taw) (+95) 67 408 251, 408 328, 408 405 (Nay Pyi Taw) (+95) 1 251 197 (Yangon) mocdotict@gmail.com

MINISTRY OF PLANNING AND FINANCE

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

Mailing Address	Director General Department of Customs Ministry of Planning and Finance Office No. 45, Nay Pyi Taw
Contact	Customs House, Strand Road Kyauktada Township, Yangon (+95) 67 430 171 (Nay Pyi Taw) (+95) 1 380 729, 67 410 060 (Yangon)

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 Planning and Finance.

DIRECTORATE OF INVESTMENT AND COMPANY ADMINISTRATION (DICA)

Mailing Address	Director General Directorate of Investment and Company Administration Ministry of Planning and Finance No. 1, Thitsar Road, Yankin Township, Yangon
Contact	(+95) 1 658 143 (+95) 67 406 471

MYANMAR INVESTMENT COMMISSION (MIC)

Address	No. 1, Thitsar Road, Yankin Township, Yangon
Contact	(+95) 1 657 891 (+95) 1 658 127/ 128/ 129/ 130

5.2 BUSINESS 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.

Mailing Address	MGMA UMFCCI Tower, 9th Floor, No. 29, Min Ye Kyaw Swar Street, Lamadaw Township, Yangon
Contact	(+95) 1 2314 829, 2300 253 (+95) 9 443 399 441, 9 443 399 442 inquiries@myanmargarments.org myanmargarments@gmail.com managingdirector@myanmargarments.org

MYANMAR INDUSTRIES ASSOCIATION

Mailing Address	No. 29, UMFCCI Building, 6th floor, Min Ye Kyaw Swar Street, Lamadaw Township, Yangon
Contact	(+95) 1 2314 830, 2314 831

5.3 ASSOCIATIONS

SMART MYANMAR

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

Mailing Address	No. 29, UMFCCI Building, 11th floor, Min Ye Kyaw Swar Street, Lamadaw Township, Yangon, Myanmar
Contact	(+95) 9 262 600 436 (+95) 9 425 328 289 jacob.clere@smartmyanmar.org sumon@smartmyanmar.org

SONE SIE (FORMERLY PYOE PIN)

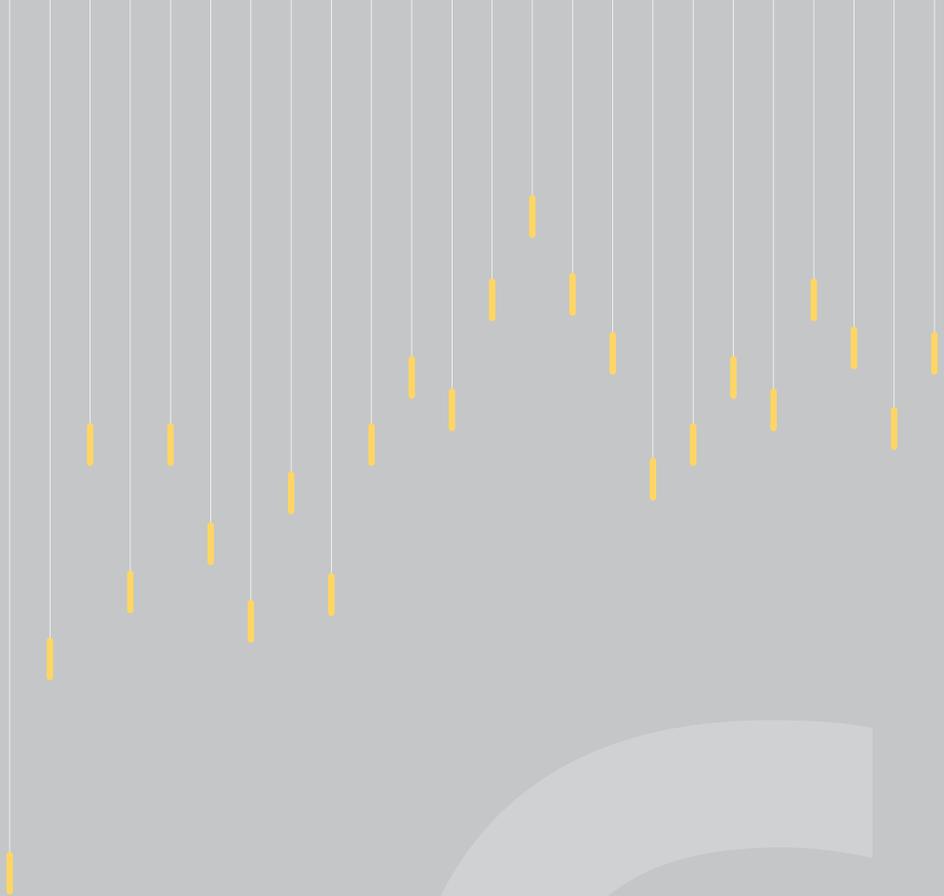
UK-funded programme aiming at promoting transparency and CSR in various businesses, including the garment sector.

Mailing Address

No. 23, 1st floor (right)
Strand Mansion
40th Street (lower block, entrance from Merchant
Street), Kyauktada Township, Yangon

Contact

(+95) 1 254 658



6

6. ANNEX

6.1 DEFINITION OF THE GARMENT SECTOR BASED ON HARMONISED SYSTEM (HS) INDICATORS:

Commodity Code	Commodity
50	Silk
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric
52	Cotton
53	Vegetable textile fibres; paper yarn and woven fabrics of paper yarn
54	Man-made filaments; strip and the like of man-made textile materials
55	Man-made staple fibres
56	Man-made staple fibres
58	Fabrics; special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery
59	Textile fabrics; impregnated, coated, covered or laminated; textile articles of a kind suitable for industrial use
60	Fabrics; knitted or crocheted
61	Apparel and clothing accessories; knitted or crocheted
62	Apparel and clothing accessories; not knitted or crocheted
63	Textiles, made up articles; sets; worn clothing and worn textile articles; rags

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FEEL WELCOME



STAY AT



ACCOR HOTELS

SOFITEL

HOTELS & RESORTS

INLE LAKE MYAT MIN



PULLMAN

HOTELS AND RESORTS

YANGON CENTREPOINT



PULLMAN

HOTELS AND RESORTS

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