

Policy Review on Myanmar Economy

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What can the Myanmar garment industry learn from Vietnam's experience?

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The garment industry has been one of the main drivers of industrialization in many Asian economies (Sachs 2005, 195), and Myanmar is no exception. With an abundant supply of labor, Myanmar has a clear comparative advantage in labor-intensive sectors such as the garment industry. Currently the largest non-resource based, export-oriented manufacturing sector, garments also represent the only industry integrated into regional and global production/distribution networks.

The Myanmar garment industry has both grown and declined over the previous two decades amid the changing international economic environment and fragile availability of market access. Between 1990 and 2001, Myanmar exports soared by 69 times. Garments' share of Myanmar's total exports increased from 2.5 percent in 1990 to 39.5 percent in 2000. The US offered the largest market but this was suddenly lost due to sanctions imposed upon Myanmar by the US government in 2003 (Kudo 2008). This led to a drastic decline in exports of garments, which in 2005 had contracted to about 38% of 2001.

As a response, garment suppliers in Myanmar started exploring Asian markets, and

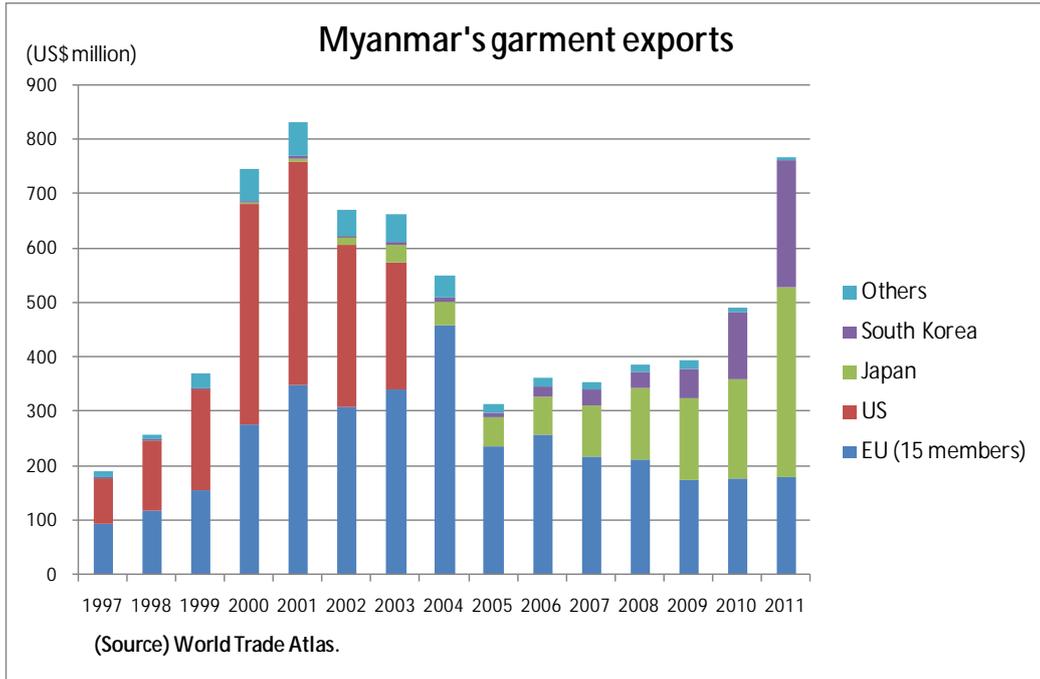
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Japan took over the US position as Myanmar's largest export destination for garments. Japan held a 45.5% share of Myanmar's total garment exports in 2011. South Korea also became an important market for Myanmar garments, with a 30.3% share in the same year. The garment industry of Myanmar seemed to be back on track, gaining momentum via exports to Asian markets.

Moreover, with the new "civilian" government in place pushing for real changes on the political front, the US government has started relaxing its sanctions against Myanmar. In connection to this, it is expected that the Myanmar garment industry will regain access to the US market in the near future. This is good news for the industry.

Despite an improved international business climate surrounding Myanmar, its garment industry is still facing serious challenges inside the country, including a rapidly increasing wage rate, particularly when denominated in US dollars as a result of an acute appreciation of the local currency.² Another challenge is the high production costs due to shortages of electricity and a poor transportation

² The parallel market exchange rate of the kyat had appreciated by two times in real effective terms for the period of January 2008 to July 2011. This was driven by large inflows of foreign currency into the economy, which could not find an outlet due to exchange restrictions. The introduction of a managed float in April 2012 as a first step toward unifying the exchange rates apparently contributed to the recent depreciation of the kyat (IMF 2012).



infrastructure. These bottlenecks have already played out negatively in hampering garment suppliers' overall export performance, particularly when compared with other major Asian garment exporters.

In this context, the Vietnamese experience provides an interesting reference point. Myanmar and Vietnam are in a way similar, as both have opened up their economies and started exporting garments in the early 1990s. However, their performance since has been very different. In 2000, Vietnam's garment exports were just about double those of Myanmar. With a booming economy creating alternative job opportunities, labor shortages and wage increases in Vietnam's garment industry have been serious as well.

Nevertheless, its growth has been very robust, with export volume of about 11.4 billion US dollars in 2010, which is 20 times larger than that of Myanmar. Export growth continued in 2011, and is estimated to have reached 13 billion US dollars. The growth performances of the garment industries of

these two countries in the past decade have been clearly different. What were the reasons behind this, and what can the Myanmar garment industry learn from Vietnam's experience?

First, Vietnam's garment suppliers achieved impressive productivity growth and product upgrading. These happened mainly through connections with international markets where technological transfer from foreign buyers, particularly Japanese, has been key (Goto et al. 2011). When labor costs are increasing, the only way to accommodate this and still be competitive is through increased productivity. Garment production is highly labor intensive, and substitutability between labor and capital is very limited. In such a case, intangible knowledge and skills becomes essential for productivity growth. While wage increases have been rapid in Myanmar, they are still among the lowest in the region. However, as Myanmar's productivity levels are well below those of its peers, including Vietnam, it is not yet able to fully exploit its potentiality.

Second, while Vietnam's export-oriented garment industry was dominated by large state-owned enterprises, government intervention had been relatively limited. Similar to the case of Myanmar, Vietnam's garment industry is of high import intensity where most of the materials are imported. In this situation, excessive red tape and irrational import-export restrictions (such as the "export first policy" in Myanmar) are direct costs and major detriments to competitiveness.³

Third, Vietnam has been relatively open to foreign businesses, particularly in terms of foreign direct investment. This is in stark contrast to the case of Myanmar, where a substantive number of suppliers are represented by a Myanmar person while actual operation is controlled by a foreign entity (often called a "sleeping partner"), which is a clear manifestation of an anti-foreign business climate.

Fourth, the macroeconomic conditions have been relatively stable in the past decade. Of particular importance to the export-oriented garment industry is the exchange rate, which in Vietnam has been quite stable against the US dollar. In contrast, again, the volatility of the Myanmar kyat, coupled with a complex multiple exchange rate system (which is now being unified) has discouraged the engagement of foreign buyers.

What are the implications of the Vietnamese case? First, a targeted policy intervention toward this sector is not necessarily vital. Instead, removal of excessive government control and anti-business regulations are of higher priority. Second, a more open and transparent

policy for foreign businesses is needed. The garment industry is a typical buyer-driven chain, which is governed and coordinated by foreign buyers. These buyers are important as they control entry of local suppliers into the chain. As diffusion of technology occurs through such linkages, links with such foreign businesses is critical, particularly in terms of process and product upgrading. Third, consistent policies for a stable macroeconomic environment and investment in basic infrastructure, particularly in power supply and transportation linkages, are necessary.

³ Even though the cutting, making, and packing (CMP) arrangements provided firms in Myanmar a byroad for importing raw materials such as fabrics, Myanmar still restricted imports of sewing machines, vehicles and other necessary items for production (Kudo 2009, 81-83).

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