



Responsible sourcing in a frontier market

Introduction

Exports from Myanmar to the EU rebounded significantly in 2014, more than doubling from 2013 totals. This comes largely because several companies – including H&M, Adidas and nearly a dozen other major European brands – expanded their sourcing operations in Myanmar to capture the 0% GSP tariff incentive. More still, as one of the frontiers for cost-competitive garment sourcing, many retailers are eager to diversify into this market. Still, as a nation emerging from years of isolation and military government, challenges and business pitfalls exist.

This document is intended to provide a cursory overview of a complex market. We offer a brief glimpse at topics such as:

- export volumes
- product specialties
- ports & shipping
- factory locations
- problems encountered by local factories
- doing business with CMP producers
- business associations working with the garment sector

About SMART Myanmar

SMART Myanmar is a three-year project funded by the European Union and implemented by sequa gGmbH. Since early 2013, SMART has been working primarily in Myanmar's garment sector on issues including capacity building and production improvements, social compliance, environmental awareness and lean production. SMART has a team of one dozen staff with expertise ranging from industrial engineering to accountancy to economics. As such, SMART is well-placed to help your company understand this dynamic market. We offer this sector profile as an introduction to a garment industry with major challenges but also vast potential.



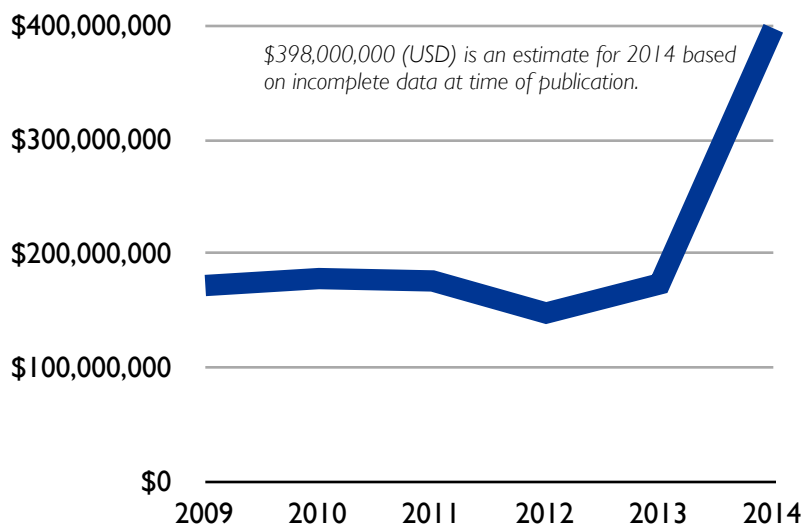


Garment exports from Myanmar...

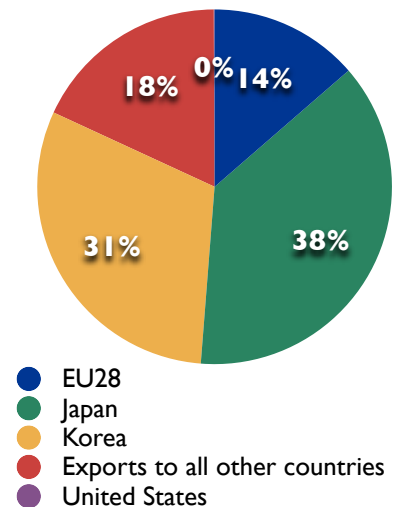
...to the world

...in 2011: \$0.7 billion USD
 ...in 2012: \$0.9 billion USD
 ...in 2013: \$1.2 billion USD
 ...in 2014: \$1.6 billion USD (SMART Myanmar projection; note: MIC previously predicted \$1.5 billion USD)

...to the European Union (HS61 & HS62 product categories)



Share of European market related to Myanmar's other export destinations in 2013 (garments HS61 & HS62)



Notes on some particular product types & specialties of Myanmar

Wovens: As recently as 2012, 93% of garment exports from Myanmar consisted of woven products, primarily jackets and outerwear, as well as woven shirts and blouses for the Japanese market.

Knitwear: Since the re-instatement of the European Union's Generalized System of Preferences (GSP) on July 19th 2013, knitwear production has been expanding rapidly, much of it fueled by Chinese and other foreign investment. In consequence, Myanmar has several newly established knitwear factories, as well as a few smaller knitwear factories which survived the period after US sanctions.

Children's Apparel: Similar to the resurrection of Myanmar's knitwear industry, there are now at least eight factories in Myanmar with specialization and capacity for children's apparel.

Undergarments: Underwear production is currently very limited. About five factories in Myanmar can produce undergarments at high volume, and these factories are operating at full capacity. An additional three or four factories can produce at lower volumes, but these factories often need to be assisted if they are to increase their capacity.

Sportswear: Another particular specialty of several factories in Myanmar is sportswear, including ski pants and sports coats. There are several options for quality and quantity in this product category.



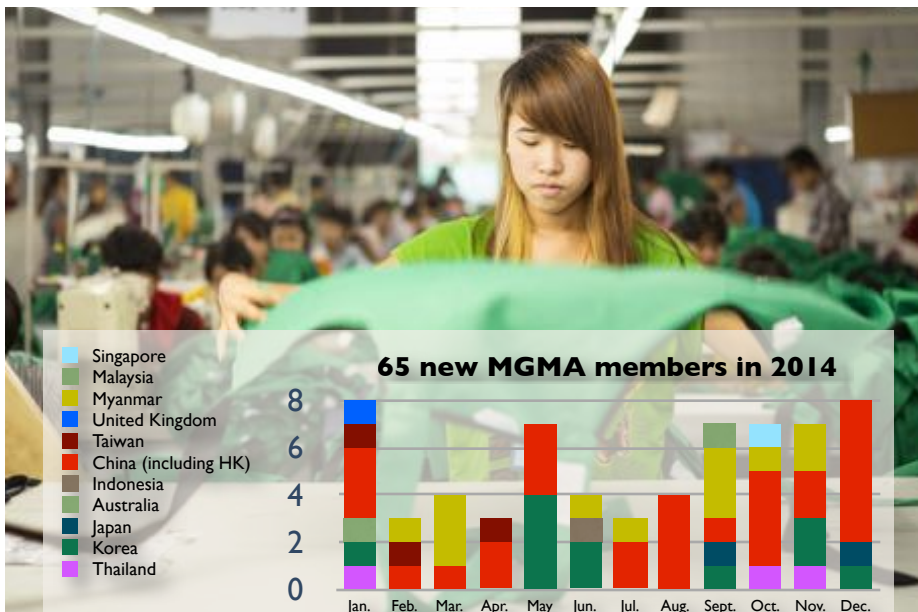
How many garment factories in Myanmar?

- **Approximately 300 garment factories** engaged in production for export markets. The vast majority are located in Yangon.
- **About 50% are officially foreign-owned.** A further 20-30% are partially foreign owned. (domestic owner with silent foreign partner)
- **250 factories in Yangon, 93 in one township – Hlaing Thayar – in the west of Yangon.** This is, by far, the largest concentration of garment factories in the country.
- **11 garment factories in Bago.** Bago is a city less than 2 hours drive north of Yangon and has the 2nd largest concentration of factories.
- **3 garment factories in Patheingyi.** Myanmar's 4th largest city has excellent potential as a future hub for garment sector investment. Two new factories are currently producing there and several more are reportedly planning to set-up.
- **1 new garment factory in Hpa-An.** Another city which recently saw its first garment sector investment. Hpa-An's proximity to garment producers in Thailand makes it interesting for some producers.
- **Thilawa.** This special economic zone next to Yangon (10km southeast) has attracted intense international interest and it is anticipated that several garment factories will begin construction in the Thilawa SEZ before the end of 2015.

Yangon's industrial zones



More than one new factory per week in 2014



MGMA is composed of locally owned, foreign-owned and joint-venture garment factories, as well as designers and other affiliate members. As of December, 2014 there were 275 garment factories among MGMA's 294 active member companies.



Ports & shipping

According to the Myanmar Ports Authority (MPA), Yangon handles approximately 90% of the port traffic in Myanmar, although this is expected to change in the future when major SEZ developments in Dawei and other locations begin producing.

There are several ports located in and near Yangon. The most noteworthy are:

- **Asia World Port Terminal (AWPT)**
- **Bo Aung Kyaw Port**
- **Myanmar Industrial Port (MIP)**
- **Myanmar International Terminals Thilawa (MITT)**

The port at Thilawa has the capacity to handle somewhat larger ships. The MPA states:

“The Yangon Port is accessible to vessels of 167m LOA, 9m Draft, 15000 DWT and Thilawa Port is accessible up to vessels of 200m LOA, 9m Draft, 20000 DWT.”

The ports of AWPT, MIP and MITT are currently the most promising for future development & trade. AWPT itself is estimated to handle nearly half of all port traffic in Yangon. Thilawa currently handles a much smaller percentage – only 3% in 2013, but this will certainly increase as its capacity develops and as the economic zone in Thilawa develops. MITT is wholly owned by Hutchison Port Holdings, one of the world's largest ports operations companies.

MIP handled over a quarter of Yangon's port traffic in 2013. MIP is similar to AWPT in that both are privately owned and investing heavily in scaling-up.

Bo Aung Kyaw Port is government-owned and often used for military purposes.

In total there are nine deep sea ports throughout Myanmar, but all are in varying stages of development and capacity.

Air freight, ground transport, etc.

Air freight:

Most air-freight enters and exits through Yangon's Mingalardon Airport, located in north Yangon. A newer and larger airport – slated to begin construction this year nearer to the city of Bago – will presumably make possible an expansion of options for air freight. The Mandalay Airport also handles smaller volumes of international air freight, but is not currently relevant for garment producers.

Roadways:

Myanmar's road infrastructure is comparable to Cambodia on the more heavily traversed corridors. Specifically, the roads connecting Yangon and Mandalay and the roads connecting Yangon with neighboring cities. Outside of these routes linked to Yangon, road infrastructure is often abysmally bad. This is unfortunate for many reasons, but better road infrastructure would potentially create better overland options for trade, in particular with China, India, Bangladesh and Thailand.

A new highway is being completed in early 2015 which will better link Hpa-An with Mae Sot in Thailand. This will allow the garment industrial park there to have faster and potentially economical access to garment production inputs from Thailand.

Railways:

Myanmar started railway passenger services in 1877 and cargo soon followed. Unfortunately, not much has been done to maintain and modernize. The old rail network is under government control and is not useful for significant cargo transport.

LOGISTICS & SHIPPING

The vast majority of goods relevant for Myanmar's garment sector – from production inputs to finished goods – are transported to Yangon via cargo feeder ships ('feedermax' size) to & from Singapore.

According to a 2014 Asia Development Bank survey of 111 firms using the Asia World Port Terminal, it takes an average of 6.5 days from arrival at port until goods are able to be removed. The customs clearance process for imports via AWPT takes, on average, 3 days.

A small percentage of goods are trucked in & out of Myanmar via Thailand and China. Indeed, the ASEAN highway project connecting Hpa-An with Mae Sot Thailand will soon allow for a faster and more economical trucking of goods.

In terms of overall logistics performance, Myanmar ranks much lower than most other countries in the World Bank's Logistics Performance Index. However, like many other things in this country, heavy investments and rapid improvements are being made related to Myanmar's port terminals, customs procedures, roadways, etc.

The Myanmar International Freight Forwarders Association (MIFFA) is a good resource for detailed information on shipping options & costs.



Problems encountered by local factory owners

In such a dynamic industry characterized by an immense influx of foreign competitors and orders from new regions, local factory owners are caught in a veritable vortex of economic forces. The biggest problems local factory owners encounter are:

- **Staff turnover.** Salaries are quickly rising as many new factories start operations. More than one garment factory opened per week in 2014. Many of these factories were started by Chinese investment, typically by international conglomerates with immense economies of scale and industry expertise. As such, local factories struggle to compete for qualified staff when the foreign entrants are in a much stronger position to pay the highest wages. Factories who pay sewing operators on the lower end of the current salary range – about \$85 per month inclusive of overtime pay and bonuses – see about 10% monthly staff turnover. The largest foreign-owned factories often pay an all-inclusive salary of about \$150/month and do not have to contend with such high turnover.
- **Difficulty to get trained employees.** This is very much related to the staff turnover problem because training becomes more vital when new employees are constantly being taken on. Simply put, adequate training institutes and schools do not exist. MGMA runs a small training school focused on basic sewing training and supervisory skills, but this institute, which serves about 20-30 students per month, is minuscule compared to the needs of the industry.
- **Production efficiency.** After US sanctions in 2003, European orders also decreased. Myanmar's surviving locally-owned factories began exporting heavily to the Japanese and Korean markets. Japanese and Korean retailers have different product requirements and consumer preferences are generally different from EU and US orders. They are typically smaller volume, offer a higher CMP rate, and have very strict quality inspections (not necessarily more or less strict than EU orders, just strict in different ways). This all matters because what happened from 2003–2012 was that quality and product complexity increased but overall production efficiency went down. As such, to succeed once again with higher volume orders, locally owned factories must improve their production efficiency.
- **Social compliance and OHS.** For similar reasons just mentioned, Myanmar's garment producers missed out on a decade-long international shift towards improving occupational health & safety and embracing socially responsible business practices. The good news: Many factories lack such behavior and practices not because they do not want it, but because they simply do not know about it. Before the SMART Myanmar project, practically no locally owned factories in Myanmar had knowledge of 21st century OHS practices and CSR.
- **Working in CMP.** Most locally owned factories are accustomed to work as CMP (cut-make-pack) producers and struggle to capture added value in the production process because...
 - 1) Policy framework is not conducive to FOB production.
 - 2) Lack of sourcing knowledge and networks.
 - 3) Lack of sufficient domestic financing options (including LoCs and B2B LoCs).
 - 4) Lack of enough skilled merchandizers in Myanmar.

SMART Myanmar has been working directly with 16 factories on most of these issues and indirectly with nearly 300 factories. In particular, SMART has targeted social compliance and production efficiency as priority areas for intervention.



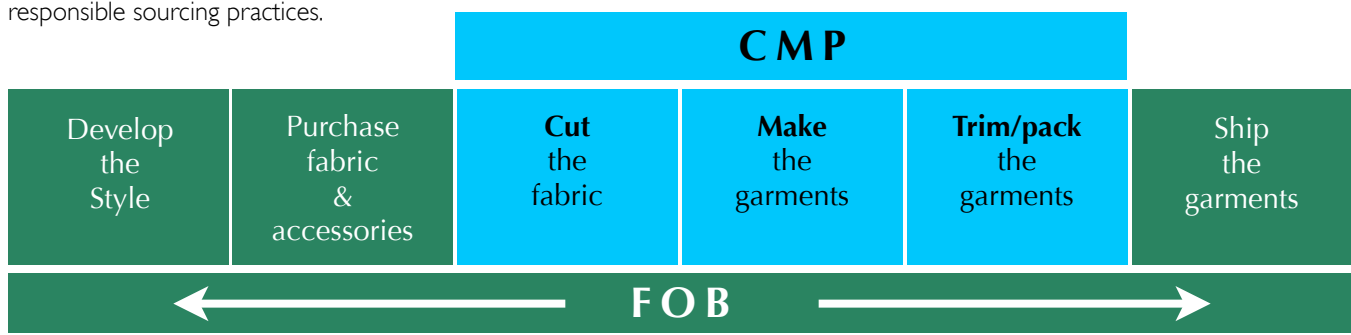


Doing business with CMP producers

If a business is not in a position to deal directly with a contract manufacturer then you will need to rely upon an intermediary to handle the purchasing of production inputs and shipping arrangements. There are now several companies in Myanmar specializing in this activity.

However, the best thing for Myanmar's locally owned factories are EU buyers who are willing to guide them along. Responsible buyers have an opportunity to support the healthy development of Myanmar's garment industry. Many locally owned factories can produce mid-quality, relatively complex garments, with particular specialization in woven products and outdoor wear.

SMART Myanmar is helping several Myanmar producers reach to an FOB level of production and also reach European social standards and auditing requirements. It is SMART's expectation that there will soon be several locally owned factories suitable for European retailers. To help in this transition, the industry needs responsible retailers to incentivize this transition through their willingness to engage positively, to develop long-term business relationships, avoid rush orders, and implement responsible sourcing practices.



Reaching for FOB

CMP (Cut – Make – Pack) is the norm, whereby factories earn a much lower rate than those producing on FOB terms. Due to a very restrictive banking system, a limited domestic textile industry and restrictions on textile imports (unless for re-export), many local factories are able to work only as contractors who conduct cutting and sewing operations. In this type of export, all materials, including threads, buttons, zips, labels, linings, and most of the packaging, are imported and have to be provided by the buyer/client. The local factory is able to assemble the pre-designed article, package it, and export it. All documentation and paperwork needs to be organized by the buyer/client or through domestic & regional agents. Several factories are trying to move towards FOB but this is currently challenging for the majority of locally owned companies.



Facts & figures...

Lead time:

61 days minimum for EU orders.

Raw material delivery: 18-24 days. Customs clearance: 3-7 days. Manufacturing: 14-45 days. Transport of goods to the EU: 26 to 30 days. (Source: MMRD)

Factories:

143 garment factories registered as Myanmar companies (local investment)

132 factories registered as 100% foreign-owned or joint-venture with a foreign partner

Note: Several factories registered as locally-owned companies have shadow foreign investors.

Legal working hours:

44 hours per week. 60 hours with overtime.

The Ministry of Labour's Factory Inspections Department issued a directive in 2014 granting a waiver which allows for up to 64 hours per week, however 60 hours is the maximum recognized by the ILO and most major EU brands.

6 days per week and 10 hours per day is the maximum allowed by law. (1951 Factory Act; However, temporary waivers allowing more hours are occasionally request by factories and granted by the Ministry of Labour)

Sewing operator wages:

\$40-\$180/month = Salary range

The lower end of this range represents the base pay of workers who are unskilled, entry-level sewers. The upper end represents the salary – inclusive of overtime – that highly skilled sewing operators can make at Yangon's highest paying garment factories. Generally, a factory cannot retain workers unless it pays a minimum of \$80/month inclusive of overtime.

\$95-\$125/month = Industry average among exporting factories

Inclusive of overtime & bonuses, most factories pay within this bandwidth, however factories outside Yangon tend to pay less.

The government is expected to announce a minimum wage around May of 2015.

Employees:

187,363 = est. number of workers at MGMA's 294 active member companies in Dec. 2014.

93% of the employees in the sector are women.



Sports coats and outerwear have been a specialty of several Myanmar factories for many years. Interestingly, Myanmar barely produces lower quality and less complex items such as cheap t-shirts, as the country cannot compete with low cost producers in Bangladesh and China. This and several other factors have incentivized the garment industry in Myanmar to focus more on mid-to-high quality range products and on slightly more complex items.



About MGMA

The **Myanmar Garment Manufacturers Association (MGMA)** is among the country's largest business member organizations, consisting of over 300 member companies who collectively employ more than 200,000 individuals. Among them are the vast majority of Myanmar's exporting garment factories. Officially founded in 2002, MGMA is governed by an executive board and operated by a staff of one dozen individuals. In addition to other activities, MGMA operates a skills training centre in north Yangon, engages in business matchmaking for MGMA member companies, produces sectoral research reports and serves as the voice of the industry in policy discussions with the government of Myanmar; with trade unions, and with any other interested stakeholders.

SMART Myanmar has been highly engaged with MGMA since early 2013, helping to strengthen the organization's capacity to become a valuable business services organization, as well as helping MGMA learn how to advocate for socially responsible business practices and to provide advisory services on clean & lean manufacturing techniques.



Above right: SMART Myanmar industrial engineer works with an MGMA factory member at a productivity workshop in mid-2014.

Above left: Students at MGMA's garment sector training institute MGHRDC – an institution which offers basic sewing and supervisory training for garment workers.

The Myanmar Garment Manufacturers Association

7th Floor, UMFCCI Tower
29 Min Ye Kyaw Swar Street
Lanmadaw Township, Yangon
+95 1-214829, 1-2300253
garment.mgma@gmail.com
www.myanmargarments.org



SMART Myanmar is a project funded by the European Union and implemented by sequa.

This document has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of the SMART Myanmar project and can in no way be taken to reflect the views of the European Union.

Contact details:

SMART Myanmar Project Office

11th Floor, UMFCCI Building
29 Min Ye Kyaw Swar Street
Lanmadaw Township, Yangon
Myanmar

+95 9425328289

Project Director:

Simone Lehmann
simone.lehmann@sequa.de

Senior Project Manager, SCP

Theeri Kay Thi
tkaythi@gmail.com

+95 95142642

Project Manager, Marketing:

Su Tayar Lin
sutayarlin@googlemail.com

+95 95158286

Project Manager, SMART 'SCP Desk' at the Myanmar Garment Manufacturers Association:

Jacob A. Clere
jclere@gmail.com

+95 9250123164

Visit our website for the latest project news & updates:

www.smartmyanmar.org

This report prepared by Jacob Clere for SMART Myanmar. *Photo credit: Shady Ramadan.*

Data and information presented come from a variety of sources including: internal SMART data, internal MGMA data, UN Comtrade Database, Eurostat, CBI's September, 2013 'Value Chain Analysis: Garment Sector Myanmar', MMRD's 2014/15 Garment Directory and from discussions with the Myanmar Investment Commission.