Myanmar’s garment sector

The garment sector is increasingly important to the Myanmar economy. The market experienced strong growth in the 1990s and 2000s and accounted for 40% of national exports. However by the mid–2000s, economic sanctions from key importing countries had significantly impacted the sector; earnings decreased from USD $829m in 2001 to USD $312m in 2005. Following political reforms and the lifting of sanctions in 2007, garment exports increased. According to the Myanmar Garments Manufacturers Association (MGMA), Myanmar exported just over US$330m in 2010 and in 2014 had reached an impressive US$1.5 billion. These strong growth figures demonstrate the potential of the export orientated garment sector and industry experts suggest that alongside this Myanmar will see significant social and inclusive economic progress. Myanmar does not compete with low–cost, bulk order countries such as Bangladesh, India, Cambodia and Vietnam. Myanmar’s garment industry tends to specialise in higher quality, more technical garments. The country has advantages over other regional garment producers including low wages and a ready and abundant supply of labour. Labour shortages and frequent strikes in countries such as Cambodia, as well as significant labour standards risks and health and safety concerns in Bangladesh, are also driving buyers to diversify their sourcing locations. However, constraints to growth still exist in Myanmar, including poor infrastructure, lack of supporting functions, longer lead times and difficulties of doing business.

Sustainable pro–poor market transformation

The garment sector can empower Myanmar workers by creating sustainable employment opportunities providing improved pay and working conditions. The sector currently employs nearly 300,000 workers and this is estimated to rise to 1.2 million by 2020. In particular, the market offers significant employment opportunities for women who make up a large proportion (estimated to be at least 80%) of the workforce. Given the industry is predominately located in and around Yangon — due to port access — opportunities for workers are largely for urban dwellers, or rural workers who are willing to migrate.

Potential for market growth is supported by strong government interest in industrialisation. However, an increase in the number of factories and jobs is only one aspect to consider. For growth to benefit Myanmar’s workforce, new and existing jobs must be good quality, providing safe, long–term and well–paid employment.

Myanmar’s garment sector at a glance...

- Strong growth from 1990s to early 2000s, accounting for 40% of national exports.
- Economic sanctions imposed in early 2000s — significant impact on earning, decreasing from USD $829m in 2001 to USD $312m in 2005.
- Sanctions lifted in 2007 saw increase in export value.
- WTO estimated that in 2012 the export value was USD $972m, which was 10.9% of total national exports.
- Myanmar’s garment industry began blooming in 2014, earning USD $1.5 billion from exports.
- As of 2016, nearly 300,000 workers involved in the industry.
- MGMA expects the industry to earn USD $10 billion and create 1.2 million jobs by 2020.
- Foreign investment is rising; 26.5% of Myanmar’s total FDI went into the garment industry in 2013, followed by 27.4% in 2014 and 29% in 2015.
Market structure and performance

Garment production
It’s estimated there are over 450 garment factories in Myanmar focusing on the export market. These factories are largely concentrated in industrial zones in and around Yangon. The majority of factories operate under the CMP model, which means all raw materials are imported and designs, patterns and instructions are provided to the factory. With CMP, profit margins are low as there is limited value added by the factory.

An alternative production model is Full Service Manufacturing (also known as Free On Board). With Full Service Manufacturing, factories arrange the purchase and import of raw materials, and provide other services such as garment design, merchandising, logistics and warehousing. This approach can significantly increase margins. However, few factories in Myanmar have the space, skills or access to credit to support this type of operation. There is a significant range in factory size, ownership and capability. In terms of ownership, 75–80% are foreign owned or a joint venture, while the remaining 20–25% of domestically owned factories is decreasing. In terms of factory size and capability there are around 20 “top-end” factories with more than 1,000 workers, modern machinery and established high standards for quality, productivity, efficiency and working conditions. These factories are mainly foreign owned or joint ventures that work with international brands. There are around 30 medium sized factories with 500–1,000 workers, producing high quality products but which would benefit from productivity and labour standards upgrading. These factories are a mixture of domestically owned and joint ventures. At the lower end are factories with fewer than 500 workers. These factories focus on basic CMP production and typically have low labour standards and significant room for improvement in management skills, technology and productivity.

There are several issues with production and productivity in Myanmar. Defect rates are high with 20–25% of garments requiring repair. Efficiency is low, with production taking up to three times as long as the industry standard. Management is not familiar with key productivity concepts and does not collect accurate data or analyse productivity. Owners of domestic factories often assign relatives or trusted friends to management positions, rather than hiring people with management skills and experience.

Key points
- Garment production techniques in Myanmar remain basic and focused on the CMP model which does not provide the full service that many international buyers require. This makes the industry less attractive as a sourcing location as other destinations such as Bangladesh, Vietnam and Cambodia are able to offer a fuller and more convenient for buyers.
- Garment factories in Myanmar typically under–perform in a number of productivity areas including
efficiency, quality (defect rates) and specialisation. This has a significant impact on the cost of production.

- Garment factories face worker issues including high turnover and absenteeism leading to a lack of trained and skilled labour. They are also under-performing with respect to worker welfare, social compliance and child labour issues.

**Buyers**

Buying between factories and their clients is generally managed either through international and local agents, or – rarely - through retailers’ head-office buying teams liaising directly with factories. European and American buyers, manufacturers and retailers are interested in sourcing from Myanmar. However, there are concerns due to a lack of regulatory enforcement; lack of compliance around labour standards, health and safety, and human rights; inefficiencies in production (including high defect and rework rates); the cost of land, quality of infrastructure, access to energy; and reliability of customs and export. Despite these concerns, many buyers wish to diversify their sourcing away from high risk countries such as Bangladesh and countries where costs are increasing such as China. Myanmar has an opportunity to “get things right” from day one in terms of being compliant with ethical labour standards, and establishing factories with the right level of skills. Western brands in particular are looking for signs that Myanmar is prepared to make changes to ensure a strong ethical foundation for the industry. However, from the factory perspective there is little incentive to invest in the changes required by Western buyers. They have many orders from customers in Japan and Korea who demand low volume, high quality products and impose few requirements regarding labour standards, or health and safety. Factories are often able to make a higher margin on orders from Asian buyers.

**Key points**

- As labour standards and productivity improve, Western buyers have increasing incentives to invest in Myanmar’s garment industry. Rising costs in China mean that a lower cost sourcing destination is highly desirable and Myanmar is one of the remaining locations which can provide this at the scale required.
- Still, due to concerns regarding productivity and compliance issues, some Western firms have yet to develop significant relationships with Myanmar garment factories. Conversely, Korean and Japanese buyers are not pressed by such concerns and are not incentivised to support or influence industry improvements.

**Agents**

Local agents are often used to facilitate orders with Cut, Make, Pack (CMP) factories where the capacity to deal direct with buyers and procure raw materials is limited. In a typical CMP order, buyers deal with agents to negotiate and confirm the design, pattern, fabric, order quantity, export dates, and the price per piece. The agent then subcontracts production to one or more factories and arranges for the raw materials to be delivered from the buyer to the factory. The agent also arranges for export either directly or through a forwarding company. Typically agents work as administrative middle-men rather than providing additional value-added services. In some cases, agents have a negative impact on factories by putting considerable pressure on the factories around price, quality and lead times.
Key points
- Most agents operating in Myanmar work with Japanese and Korean brands. These agents do not have any incentive to support factory improvements.
- The current focus of the industry on CMP makes agents a very powerful player in the market as both factories and brands are reliant on them for orders.

Raw material import
Myanmar is not a major producer of textiles or raw materials of international export standard. Raw materials for stitching, assembly and packaging are imported. This has significant impact on the lead times for garment manufacture in Myanmar — import and delivery of raw materials take on average 21 days compared with other countries such as Vietnam where lead time is seven days. In terms of how the industry typically evolves, garment factories come first, followed a few years later by local manufacture of trims and threads, while fabric manufacture comes much later still.

Key points
- Supply chain partners have little interest in investing in the Myanmar garment industry at the moment as they do not see a sufficient commercial opportunity. Market growth is required for this investment to take place.
- Lead times for raw material import contribute to high total production times, making Myanmar less competitive than other regional manufacturers.

Logistics and shipping
Raw materials and finished garments are by shipped either by sea or air freight. Some agents employ a forwarder to manage shipments, preparing necessary export documents for the agent. Fast, reliable transport and export procedures are important. However, Yangon ports have limited capacity, and ships can only dock at certain times during the week, tide permitting. This hinders planning and production times.

Key points
- Given the reliance on imports of raw materials for production as well as export of finished products, efficient shipping is needed.
- At present, inefficient shipping and logistics is one of the factors contributing to long lead times for orders from the Myanmar garment industry. This means they are typically unable to support the requirements of “fast fashion” which demands a 4–5 week guaranteed delivery time.

Retail
Garments produced in Myanmar are sold globally with the vast majority going to Japan and Korea. Exports to the US and Europe are increasing. The reason that some brands focus on labour standards is not due to pressure from European or American consumers. Certainly, some consumers do avoid garments if they believe them to be produced under exploitative practices, but this does not apply to the vast majority of consumers, as demonstrated by recent experiences in Bangladesh. Disasters in Bangladesh garment factories, while widely reported in Europe, did not result in consumer action or negatively impact on low-cost brands sales. However, brands do suffer when they are confronted by NGOs or labour groups that believe they are supporting poor ethical practices. Pressure tends to come from investors, who are much more aware and sensitive than consumers.

Key points
- Retail customers are unlikely to change their buying practices due to ethical concerns. The cost of a garment will remain one of the most important factors in purchasing decisions.

Over 450 garment factories operate in Myanmar. Most are located in and around Yangon.

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