

# **Vulnerability Profile of Myanmar**

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## Executive Summary

This vulnerability profile has been prepared by UNCTAD to provide an analytical assessment of Myanmar's preparedness for graduation from the LDC category. The country first met the graduation criteria in the 2018 Triennial Review. A strong economic and social development performance in 2011–2020, as well as its reduced vulnerability has put the country on a solid path towards graduation based on all three criteria of per capita income, human assets and economic (and environmental) vulnerability. This progress is a product of several interrelated factors that have propelled the country's development, including its abundant natural resources, a growing population, and booming exports supported by its strategic location in Southeast Asia.

### Areas of vulnerabilities

Myanmar has implemented a series of major policy reforms over the decades, partly in response to economic and political sanctions, as the country emerged from isolation. The gradual removal of sanctions and the opening of the political space has helped the country attract foreign investment and the restoration of trade preferences has boosted exports. Myanmar's GDP growth rate in 2016–2018 has been strong, hovering just below 7 per cent annually. However, the growth pattern, particularly since 2011, has enhanced the divergence in productivity among agriculture, manufacturing and the service sectors. The potential of the country to sustain growth is limited by the quality of jobs that are being created by the different economic sectors, with manufacturing failing to stimulate massive job creation despite its leading role in production. As a result, the export growth has not translated in improved living standards for the bulk of the population.

Myanmar's strategic trading partners include its neighbours (Bangladesh, China, Lao People's Democratic Republic, Thailand and India), Japan, and other ASEAN countries. Exports to ASEAN partners have grown from \$390 million in 2000 to \$4 billion (24 per cent of the total) in 2019. Exports to China increased from \$260 million in 2010 (3 per cent of the total) to \$5.7 billion (32 per cent of the total), while imports from China have grown from \$964 million to \$6.4 billion in 2010–2019. Trade with the EU accelerated from \$119 million in 2010 (\$58 million exports from Myanmar to the EU) to \$3.6 billion in 2019 (\$2.8 billion exports from Myanmar to the EU). ASEAN member states – particularly Thailand – were Myanmar's closest allies during the years of sanctions and have continued to provide the country with an economic cushion even during the uncertainties brought by the coronavirus pandemic.

The growth outlook in 2020 remained positive but weak as the global economy continued to face headwinds due to the COVID-19 pandemic. Trade deteriorated because of supply chain constraints and a shrinking international demand, while geopolitical risks have increased largely on account of retaliatory tariff escalation between United States, China and other affected countries. Market volatility particularly of energy commodities and agricultural raw materials would be the main concern to Myanmar. However, Myanmar needs also to pay attention to the increased risk of concentration in digitalized supply chains. Fears over global value chain expansion and concentration of value added in high-tech industries which overlap with strong geopolitical and technology supremacy issues may not be relevant for Myanmar currently. However, growth of its low-tech industries

may be extremely constrained by the tendency of technology leaders to overly consolidate particularly in the technology-laden segments of global value chains.

## **Implications of the vulnerabilities**

### *I. Social development has improved but there are challenges*

Myanmar's population stands at 54.4 million and it is projected to reach 65.8 million by 2050. Slightly over a quarter of the population (25.5 per cent) are aged 0–14 years, and over two thirds (68.3 per cent) are in the 15–65 age bracket. The human assets index, which measures the contribution of health and education to human capital development, shows that Myanmar has been performing better than the threshold in all triennial reviews of the CDP. There has been a steady improvement of the gross secondary enrolment ratio from 30 per cent to 64 per cent in 2000–2020. As a result of widespread poverty, in both rural and urban households, school drop-out rates are high during the transition from primary to middle school and from middle to high school. About 24 per cent of adolescents (of lower secondary school age) were out of school in 2017, and nationally, one in four children do not complete primary school, with the dropout rate even higher in poor communities. Fewer than one in three students will finish upper secondary school.

In health, Myanmar has made tremendous progress on all three health indicators of the HAI, namely the under-five mortality rate, maternal mortality rate, and the prevalence of stunting. The under-five mortality rate has declined from 94 in 2000 to 46 per 1,000 live births in 2020, while maternal mortality has declined from 340 per 10,000 in 2000, to 289 in 2010 and 250 in 2020. The prevalence of stunting among children under five years has declined from 35.1 per cent in 2010 to 26.7 per cent in 2018, and the prevalence of undernourishment has also declined from about 37.7 per cent in 2000-2002 to 14.1 per cent in 2017-2019. Although government has increased the current expenditure on health from a paltry \$3.35 per capita in 2000 (amounting to 1.8 per cent of GDP) to \$58.04 per capita in 2017 (4.7 per cent of GDP), the public health system needs a boost to meet the increasing pressure for services and attain the goal of universal health coverage (SDG 3).

### *II. Economic and environmental vulnerabilities*

Myanmar first met the economic vulnerability graduation criterion in the 2009 and again in 2018. After a 25-per-cent decline between 2000 and 2009 – when it crossed the threshold level – Myanmar's vulnerability index increased in 2012, reaching 141 per cent of the threshold (using an inverted scale), as the country healed from the devastating impact of Cyclone Nargis. The economic vulnerability index has declined rapidly since 2015.

Myanmar faces economic vulnerabilities related to: (i) high reliance on natural-resource based activities and on limited destination markets for its exports, although manufacturing exports have been growing fast in recent years; (ii) the expected erosion of its preferential access to developed countries' markets; (iii) the loss of the trade-related support measures after the country graduates from LDC status, in particular the loss of duty-free and quota-free access to the largest markets of its manufacturing exports; and (iv) its huge investment needs in health, education and infrastructure which require large fiscal commitments that could jeopardize macroeconomic stability and debt sustainability. The country is ranked 2<sup>nd</sup> on the Global Climate Risk Index of countries most affected by extreme weather events (climate change risk) and weather-related

hazards raise its economic vulnerability. In addition, violence and weak institutional capacity hinder development. Absence of violence (peace) and strong institutions favour economic transformation, but weak political integration and displacements put strain on social development.

### *III. A delicate balance needed to navigate regional dynamics*

The country's trade links have expanded beyond developing countries in Asia. Currently (2019), developing Asia accounts for 66 per cent of exports, while developed economies in Europe account for 19 per cent. China and Thailand absorbed 50 per cent of Myanmar's total merchandise exports in 2019. These two countries are the only destination of Myanmar's natural gas exports, which represented 29 per cent of the value of total merchandise exports in 2011–2018. This market concentration means that any shock affecting the two destination countries is directly transmitted to Myanmar through the trade channel.

Myanmar enjoys trade preferences from Australia, Canada, the EU, Japan, Norway and South Korea. In addition, it benefits from duty-free access within ASEAN and from the trade preferences under the FTAs concluded by ASEAN with the five Asia–Pacific countries under the Regional Comprehensive Economic Partnership (RCEP). The duty-free access provided by preferential trading arrangements has been one of the key elements explaining the rapid growth of its manufactured exports, especially for products where MFN duties are high. The challenge of progressive preference erosion may be mitigated by the recently concluded Regional Comprehensive Economic Partnership (RCEP) between the 10 ASEAN member states and China, Japan, South Korea, Australia and New Zealand. For Myanmar, RCEP countries represent 67 per cent of its merchandise export market in 2019. They absorbed 39 per cent of its manufactured exports, 80 per cent of agricultural raw materials exports, 85 per cent of ores, metals, precious stones and non-monetary gold exports, and 99.7 per cent of fuel exports. The RCEP harmonizes the Free Trade Agreements between the ASEAN countries and the five other countries, eliminating the need for separate trade agreements among them. Therefore, diversification of export partners is a clear risk diversification strategy for the foreseeable future. Moreover, there is still scope for manufactured exports growth to the EU.

### *IV. Declining labour productivity slows structural change*

The total labour force has grown from 22 million in 2000 to 25 million in 2018, while during the same period the population in the 15-64 age group bulged to 36 million, an increase of 7 million. The poverty rate is currently at 25 per cent (2017), and 1.4 per cent of the population are living in extreme poverty. An agriculture sector plagued by low productivity levels employs half of the labour force, while the fast-growing industry (16 per cent of total employment) has not created as many jobs as the moderately productive service sector (34 per cent).

The slowdown in economic performance in 2011–2020 compared with the previous decade points to structural constraints that pose risks to its economy. The most obvious of these risks is the declining labour productivity, which is indicative of the limits that the country's growth path may not exceed without fundamental structural transformation. The quality of the labour force provides part of the explanation for the decline in growth, although other factors interact with labour productivity, such as the weak linkages created by the budding manufacturing and natural resources sectors, and the low growth of the rural economy. The educational level of

the labour force in Myanmar is low, as the majority (66 per cent in 2019) only have basic education consisting primary school or lower secondary school education. In the rural areas (where employment is concentrated in agriculture), the problem of child labour has been a recurring issue, linked to the higher poverty levels and the large number of school-age children that drop out from school.

Skills shortage and the uneven spatial development pattern have stalled Myanmar's progress towards structural economic transformation. The spectacular growth of 2001–2010, and 2011–2014 is unlikely to be replicated as it aligns with periods during which the global economy was conducive for the reforms undertaken. The national economy has weakened under the weight of its own structural limitations, especially low labour productivity levels and internal imbalances. Myanmar can build on the success of previous reforms by strengthening its technical and vocational education and training, as well as investing in education with a long-term vision for improving human capital, and social development for the coming decades.

The above suggests a critical gap in human capital development. Improved government investment in education particularly in rural areas may assist the country to raise the quality of its human capital. Policies such as liberalization and allowing private investment in the education sector may also help the country to meet the growing needs for skills in various sectors of the economy. However, there is a danger that such investments will be concentrated in the major cities and urban areas. Therefore, interventions aimed at improving the training of teachers for public schools in rural areas, raising the quality of results and building inclusive education systems are critical.

### **The way forward**

The momentum to graduate with all three criteria is a positive reflection of the efforts of the past to stick to policy reforms, and of the importance of regional partnerships. The domestic environment is now a critical focus for unleashing the full productive potential of the country, in line with the growing productive capacities that the country has already demonstrated its ability to harness, and utilize, but also its growing population whose competitive advantage is its youthfulness. The future development trajectory of Myanmar is an exciting prospect and should be the focus of all development partners to ensure that the country achieves its potential.

## 1. Introduction

In line with General Assembly resolution 59/209 which mandates UNCTAD to prepare the Vulnerability Profiles (VPs) for all LDCs that have met the graduation criteria for the first time, this report aims to assist the qualifying LDCs to increase their chances of achieving structural economic and social progress towards and beyond graduation from the LDC status. This, for UNCTAD, involves: (i) provision of country-specific analytical material on the implications of LDC graduation; vulnerability assessment and resilience-building; (ii) relevant advisory services to policymakers; and (iii) action to help the qualifying countries and LDCs in general, prepare for the global landscape in which they will step after graduation from the category.

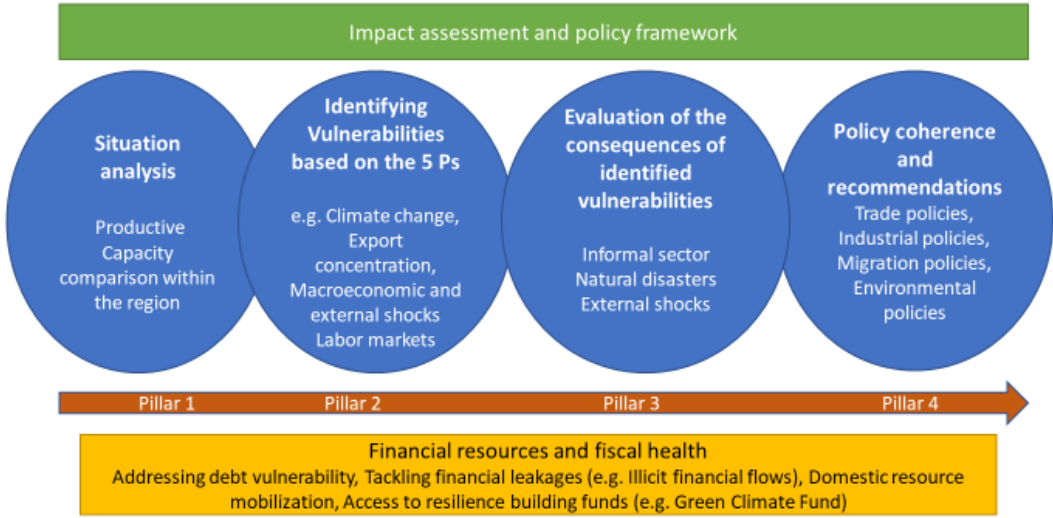
Myanmar first met the graduation criteria from LDC status in the 2018 review of the United Nations Committee for Development Policy. The country met all three graduation thresholds of income per capita, human assets, and economic vulnerability. The decision comes up for re-assessment at the next triennial review in 2021, with graduation likely to take place in 2024 (United Nations, 2018). In 2011-2020, Myanmar has been reducing its economic vulnerability index by an average of 1.9 per cent annually and with its strong economic and social development performance, the country is well placed to graduate based on all three criteria.

The background to this achievement is not without challenges. It follows political reforms launched in the early 2000s, during which Myanmar committed to removing political and economic barriers that were limiting its economic integration into the world economy. Domestic economic reforms date back to 1988 when the country launched its transformation policies to revive an underperforming economy but it took several years for the country to begin implementing meaningful political rights reforms that led to the removal of international sanctions, and opening of international trade and foreign investment. This triggered the entry of new public and private capital flows, boosting investment and economic growth that translated into improvements in the economic, social and vulnerability indicators. It is also important to recognize that the policy efforts and the fundamentals put in place during the years of isolation were conducive to building the momentum going into the next decade.

The transformation will likely be incomplete even when the country graduates from the LDC category. Myanmar is still facing various challenges and vulnerabilities that hinder its economic and social development. The aim of this vulnerability profile is to track Myanmar's progress towards graduation and to enrich the understanding of all major constraints on its development. The analysis is structured along the following four pillars: i) a situation analysis of the country; ii) identification of vulnerabilities based on the five P's of the SDGs, iii) evaluation of effects of the vulnerabilities, and iv) policy implications (Figure 1). While the first two pillars adopt a largely descriptive and backward focus, subsequent pillars assume a more forward-looking approach.



Figure 1: The conceptual framework of the vulnerability profile



The rest of the report is organized as follows. Section 2 presents a situation analysis of Myanmar’s path to graduation. It first provides a background to Myanmar’s development progress before delving into the regional dynamics and geopolitical issues the country faces. It then discusses the country’s competitiveness considering its role in the ASEAN group. It complements this discussion with an assessment of the country’s productive capacities in comparison with other countries in the LDC category and those within the South-eastern Asia and surroundings. Section 3 analyses areas of vulnerability including people, the economy and the environment. It begins with an analysis of Myanmar’s progress in meeting the LDC criteria, identifying the components that make up each criterion and evaluating their contribution to the progress realized, which permits the identification of the areas where improvement has been made and where challenges remain. It also highlights additional sources of vulnerability that are not captured by the three graduation criteria. Section 4 analyses the impact of the identified vulnerabilities on Myanmar’s prospects of building a resilient and sustainable economy. Finally, section 5 concludes with some policy options based on the main findings.

**2. Situation analysis of economic policy and performance**

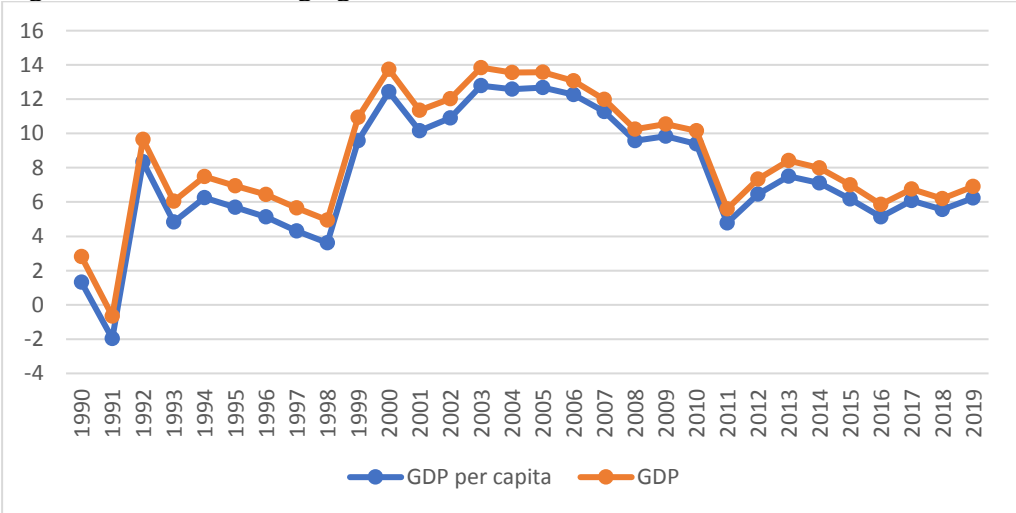
Myanmar’s high paced progression towards graduation from the LDC category is a product of several related factors that have a positive influence on the country’s development trajectory. First, the country is endowed with a wealth of assets and advantages that open vast potentials for a multi-pronged development strategy, drawing on agriculture, fisheries, forestry, mining, oil and gas, manufacturing, and services. It has extensive land and forests, 1930 kilometres of coastline and abundant water resources including five major rivers flowing through the country. It is rich in gems, precious

minerals, and natural gas. The country boasts a large population size, with a growing working-age population (aged 15 to 64) that represents an attractive workforce for investors seeking regional manufacturing facilities outside of China, especially as China’s wages have increased (McKinsey Global Institute, 2013; World Bank and EIF, 2016). Other factors include its rapid productivity growth buoyed by continuing reforms aimed at correcting the gaps left by years of isolation.

Second, the country has undertaken major policy reforms for several decades, some of which were in response to economic and political sanctions imposed on it, while others were a result of domestic policy shifts as the country went through various phases of development. The transition from central planning in 1988 helped the country to counteract growing internal and external economic imbalances, rising inflation, and weak economic growth that culminated with negative growth rates for three years in a row with a record of minus 11 per cent realized in 1988. There are many accounts about the success or failure of the reforms, but it is widely accepted that the increased space for the private sector in industrial, commercial and foreign trade sectors contributed to economic growth (Kubo, 2013; World Bank, 1995). At various stages of the reforms, state procurement and distribution of agricultural commodities contributed to keeping inflation in check. The creation of new private firms and liberalization of domestic marketing of agricultural commodities were positive for agricultural growth. However, state control in designated sectors including teakwood, petroleum and natural gas, minerals, precious stones and pearls were repressing investment growth in those sectors (Kubo, 2013).

Economic growth picked up in 1991-2000, with annual average growth rate of real GDP accelerating to 6.7 per cent as private sector extended activities to sectors previously dominated by state-owned enterprises (Figure 2). The progressive liberalization of the agriculture sector - which represented 58 per cent of GDP in 1990 - and the adoption of rice double cropping provoked a strong increase of agricultural production. The gradual liberalization of trade and investment policy attracted export-oriented foreign direct investment (FDI) in sectors such as garments, tourism, natural gas, mining and fisheries, which triggered an export boom that drove the value of export from \$316 million in 1990 to \$2.1 billion in 2000.

Figure 2: Annual average growth rates, 1990-2019



Source: UNCTAD secretariat calculations based on UNCTADStat

Third, the country has been fortunate in that certain positive events coincided with its reforms and helped it ascend to a higher economic growth path more rapidly. The fastest growth was experienced in 2001-2010 (Figure 2), as the new private sector activities in manufacturing and other sectors became more established. Exports became relatively more diversified as new products entered the export basket, replacing rice as the main export (Matsuda, 2009). UNCTADStat data show that in 1995-2000, the top two export earners were agricultural raw materials and manufactured goods that represented 34 per cent and 28 per cent of total merchandise exports, respectively. Manufacturing became the top export earner in 1999 driven by FDI in the export-oriented garment industry, reaching 47 per cent of total merchandise exports in 2000. Fuel export grew rapidly in 2001-2015 and was the top export in 2014 and 2015, before manufacturing came back stronger on the back of weak commodity prices that affected all oil exporters globally.

The economy has sustained robust economic growth at an annual average rate of 6.9 per cent in 2011-2019, underpinned by strong investment in large projects funded by new foreign capital inflows. FDI stock has doubled in 2013-2017 reaching \$26.4 billion and diversified in terms of both sectoral targets and geographical origin. Exports continued to grow at an annual average of 8.3 per cent between 2012 and 2018 despite the decline in commodity prices, spurred by a strong recovery in manufacturing exports. The latter's share in total exports rose from 7 per cent in 2011 to 38 per cent in 2018, with non-textiles manufacturing posting the strongest increase (rising from 7 per cent to 37 per cent of total exports). In 2012-2018, the share of machinery and transport equipment grew significantly from less than 1 per cent in 2011 to 64 per cent in 2016 before contracting to 29 per cent in 2018. Textiles, yarn and related products' best years were 1997-2004 when its share rose from 2.5 per cent of manufactured exports to 12 per cent, before faltering to less than 1 per cent in 2011. The subsector is making a decent comeback, as its share in manufactured goods rose to 5 per cent in 2015-2018.

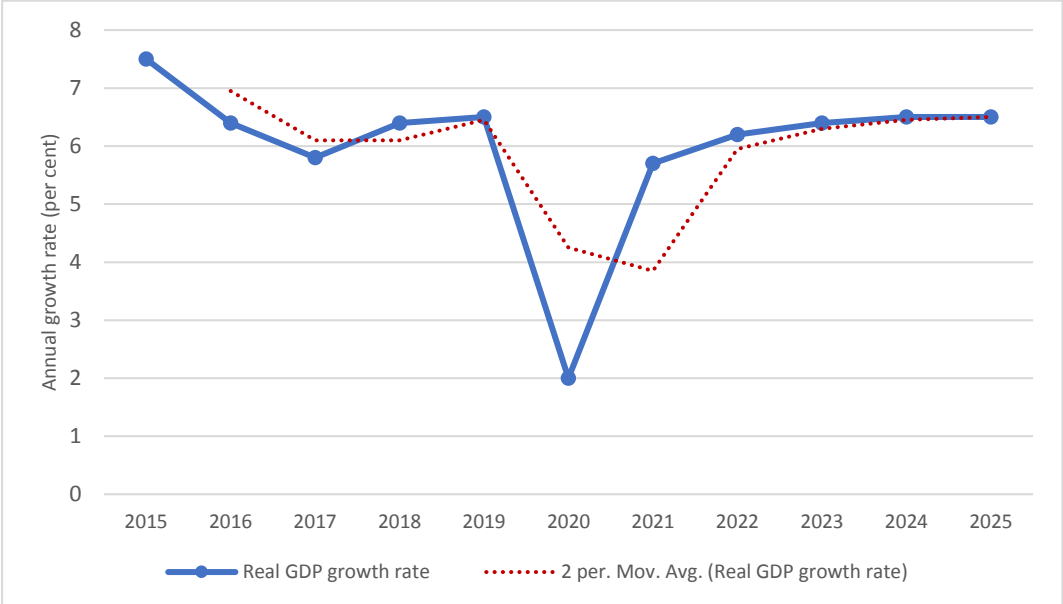
While at their beginning, the economic reforms were successful in boosting growth, attracting FDI and increasing exports, the exacerbation of protests and armed conflicts resulted in high political instability that ended up with unilateral sanctions gradually imposed by the United States of America and other countries members of the Organisation for Economic Cooperation and Development (OECD) from 2003. The sanctions impacted tourism, FDI, multilateral aid and bilateral aid from developed countries, but total exports continued to grow, increasingly headed to other Asian countries, in particular, Thailand (Ajmani et al., 2018). Exports grew at an annual average rate of 17per cent between 2001 and 2010, driven by a sharp increase in gas exports – at an annual average rate of 31per cent - from the Yadana and Yetagun gas fields which continued to attract FDI during the sanctions. Exports of garments mainly destined to developed countries continued to grow until 2007 before plummeting in 2008. Exports of wood and vegetables also increased, driven by demand from other Asian countries.

Last but certainly not least, the Government launched a political process in early 2000s aimed at gradual political opening, greater economic liberalization, and the resolution of ethnic conflicts. Elections - held in 2010 - opened new political space for the opposition, and ceasefire agreements were signed in 2011-2012 with several insurgent groups from ethnic minorities (Lall, 2012). In 2012, a new foreign investment law that fosters a more investor-friendly climate was passed. In 2012-2013, Western countries suspended most of their sanctions, the European Union (EU) reinstated the “Everything but arms” duty free and quota free access to its market under its Generalized Scheme of Preferences

(GSP) that was temporarily withdrawn in 1997. Myanmar cleared its arrears to the World Bank and Asian Development Bank using a bridge loan from Japan and secured a huge debt write-off by creditor countries grouped in the Paris Club, clearing the way for aid donors to support the government's reforms. Total debt relief amounted to \$5,956 million. In 2016, the United States restored LDC-specific GSP for Myanmar, granting it duty free access for approximately 5,000 products. Net ODA in real terms (at 2016 prices and exchange rates) received by Myanmar jumped from an annual average of \$202 million in 2000-2009 to \$1,269 million in 2010-2017 (OECD 2019).

Going into the last quarter of 2020, the growth outlook remained positive but weak as the global economy continued to face headwinds due to the coronavirus pandemic. The International Monetary Fund (IMF) projects that real GDP growth will slow down to around 2 per cent in 2020 as the effect of COVID-19 spreads in the South-East Asian region (Figure 3). It further projected that the economy may be back up to trend very quickly in two to three years, which is quite remarkable considering Myanmar's strong ties to the Chinese, Thai and East Asian economies. The UN projects that the raging pandemic would shrink the world economy by 3.2 per cent in 2020, and in the baseline projection, developing countries will see their economies shrinking by 5 per cent in 2020 (United Nations, 2020a). Strong domestic demand may help Myanmar to sail through the turbulent economic outlook despite its own internal economic adjustments going into the last quarter of 2020. Private consumption averaged 56 per cent in 2011-2018, a slowdown when compared to the previous decade when it topped 78 per cent. Gross fixed capital formation has more than trebled from 13 per cent in 2000-2009 to 32 per cent in 2010-2019, on the back of large-scale public projects and new investment drive as the economy opened up. Inflation has been generally low (single digit) but higher electricity tariffs and exchange rate movements may put pressure on inflation, with projections for 2020 and 2021 rising to 6.8 per cent and 7 per cent, respectively.

Figure 3: IMF projections of real GDP growth rate, 2020-2025



Source: UNCTAD secretariat calculations based on IMF, World Economic Outlook (October 2020).

## 2.1 Regional dynamics and geopolitical risks

Myanmar has the advantage of sharing borders with fast growing markets including China and India, that account for 40 per cent of the world's population. It also shares borders with the Lao People's Democratic Republic to the East, Thailand to the South East, and Bangladesh to the West. Not only are these economies growing rapidly, but economic integration in the region is gathering momentum, with Myanmar being part of that process. The expected China-Myanmar Economic Corridor (CMEC) linking South-Eastern China to the Indian Ocean envisages several large infrastructure projects. India and Myanmar are cooperating on enhancing land connectivity between the two countries, and ODA from Japan is also financing regional connectivity projects (IMF, 2019).

The geopolitical players of strategic importance to Myanmar include its neighbours, and key trading partners particularly China, India, Japan, and the ASEAN countries. Myanmar's strategic location attracts interests from partners for its land and sea link connecting East Asia, Southeast Asia and South Asia. With political stability backed by economic and social development, Myanmar can emerge as a key player in the ASEAN and global economy. Normalization of political situation has increased the space for investment and private sector growth. However, long-standing ethnic political tensions, cross border issues with refugees and internally displaced persons as well as the slow demilitarization of civilian affairs pose risks to the country's economic development (Grundy-Warr and Lin, 2020). The Multiparty Democracy General Election in 2020 passed peacefully but there is a need to increase the pace of reforms including the constitutional reforms to consolidate the democratic gains, encourage private sector growth, industrialization and expand on the national building efforts (Parameswaran, 2020).

Among its neighbours, China is the main trading partner. Exports to China have grown from \$260 million in 2010 (3 per cent of the total) to \$5.7 billion (32 per cent of the total), and imports from China have grown from \$964 million to \$6.4 billion in 2010-2019. China-Myanmar economic cooperation is promoted as a win-win strategic engagement which allows both countries to increase their economic footprint in each other's territories, and in the region. The China-Myanmar energy cooperation project launched in 2009 prior to the normalization of the political situation in Myanmar had high hopes for both countries, with Myanmar expected to benefit from increased refined oil products and the strategic link it gives China to the Indian Ocean and the Andaman Sea. The project brings development to south-eastern Chinese provinces of Yunnan and Sichuan, and builds on ASEAN's regional economic cooperation vision on the Trans-ASEAN Gas Pipeline of linking up to 80 per cent of the region's natural gas to ensure greater energy security and sustainability (Hong, 2011). The Sino-Myanmar oil and gas pipeline was completed in 2013, and gas exports commenced the same year (Yonghong and Hongchao, 2014).

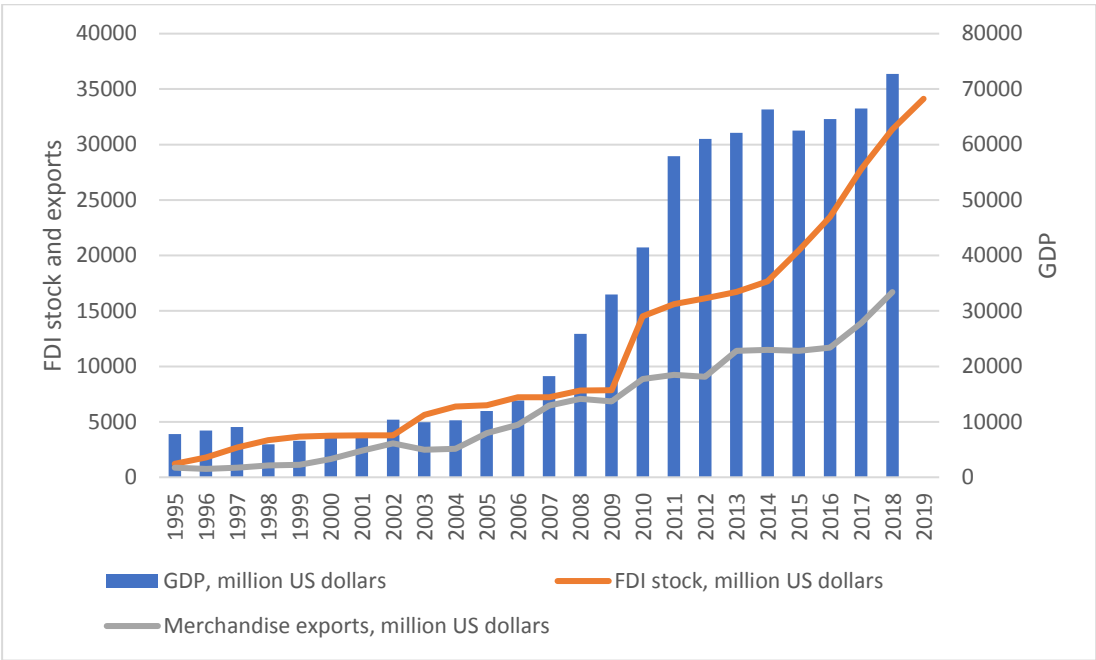
The future of the economic cooperation projects with China are expected to raise the profile of investment and trade between the two countries directly and could boost Myanmar's manufacturing and natural resources exports. Among them, the China-Myanmar Economic Corridor is touted as one of the pillars of China's Belt and Road Initiative that could spur massive investments on the Myanmar side. Among the proposed projects are: (i) the China-Myanmar Highspeed Railway connection in its various configurations, (ii) the Myanmar and China electricity grid interconnection, (iii) special economic and industrial zones, and (iv) if approved, the China-Kunming-Myanmar-

Yangon Ayeyarwady River Portage Passage (previously, the Sino-Myanmar Land and Water Transport Passage) (*The Irrawaddy*, 2019). The latter could increase the volume of trade between the two countries and potentially increase Myanmar's trade beyond the two countries.

Bangladesh, India, and Thailand also share historical and close cultural ties with Myanmar dating back hundreds of years. For these countries, the ties to Myanmar are more than just for economic influence, market share and control over natural resources including oil and gas, but also for ethnic and cultural identity. Defence and security are also common interests between Myanmar and its neighbours, particularly India, Thailand and China. Japan, which does not share a border with Myanmar, has increased its value-oriented diplomacy with Myanmar and corresponding investments in construction, shipping, rail, road, mining and offshore oil development. The EU is also upscaling its partnership with Myanmar couched within the framework of broader engagement with ASEAN and Asia generally, and aimed also at promoting democratization and economic reform. Through this engagement, the EU trade with Myanmar has grown from \$119 million in 2010 (\$58 million exports from Myanmar to the EU) to \$3.6 billion in 2019 (\$2.8 billion exports from Myanmar to the EU). There are other countries that do not have direct geopolitical influence on Myanmar but have important cultural and economic linkages with the country. For example, cultural exchange and tourism to Belgium, Finland, Poland and Bulgaria have grown, but the top destination from Myanmar is Philippines with close to 10,000 visitors every year.

There is empirical evidence that FDI inflows had positive impact on GDP in Myanmar, and that FDI has also played a role in boosting trade (War, 2019). However, sanctions and political risks for investment reduce the impact of investment policies, and may continue to impact the origin and destination sectors of foreign investments (Ramirez and Tretter, 2013). This is particularly true for politically sensitive FDI from the EU, the United States. In 2018, FDI inflows retreated by 18 per cent to \$3.6 billion as major foreign investors slowed their investment, with the humanitarian crisis in Rakhine state being a contributing factor (UNCTAD, 2019a). The progressive lifting of sanctions has been beneficial in attracting FDI, and in the last 5 years alone, FDI has more than trebled, and the sources have become more diversified. Inward stock has grown from \$3.75 billion in 2000 to \$14.5 billion in 2010 and \$34 billion in 2019. However, the removal of sanction has not changed the concentration of FDI in the extractive and energy sectors, instead it has deepened the interests of key investors in the sector, including those from China, Republic of Korea, Thailand, and Hong-Kong- Special Administrative Region of China (Bissinger, 2012). The recent drop in FDI inflows after Myanmar allowed 100 per cent foreign ownership in the wholesale and retail industries, and in mining operations, as well as 80 per cent foreign ownership in agriculture, points to the pervasive impact of investment risk perceptions, and the extra effort that needs to be put in place to diversify FDI destination sectors (Figure 4). FDI flows to Myanmar in 2019 was \$2.8 billion, representing a drop of 22.2 per cent, but electricity projects are expected to push foreign investment flows in 2020 (UNCTAD, 2020a). The announced electricity projects (\$9.7 billion in total) attracted investors from China and the Philippines, and new oil and gas projects are expected to boost FDI to nearly \$6 billion in the next five years (UNCTAD, 2019a). Improvement in the domestic market policies and recent upgrades to the investment laws could further enhance the investment climate and trigger diversity in the FDI destination sectors.

Figure 4: FDI stock, exports and GDP, 1995-2018



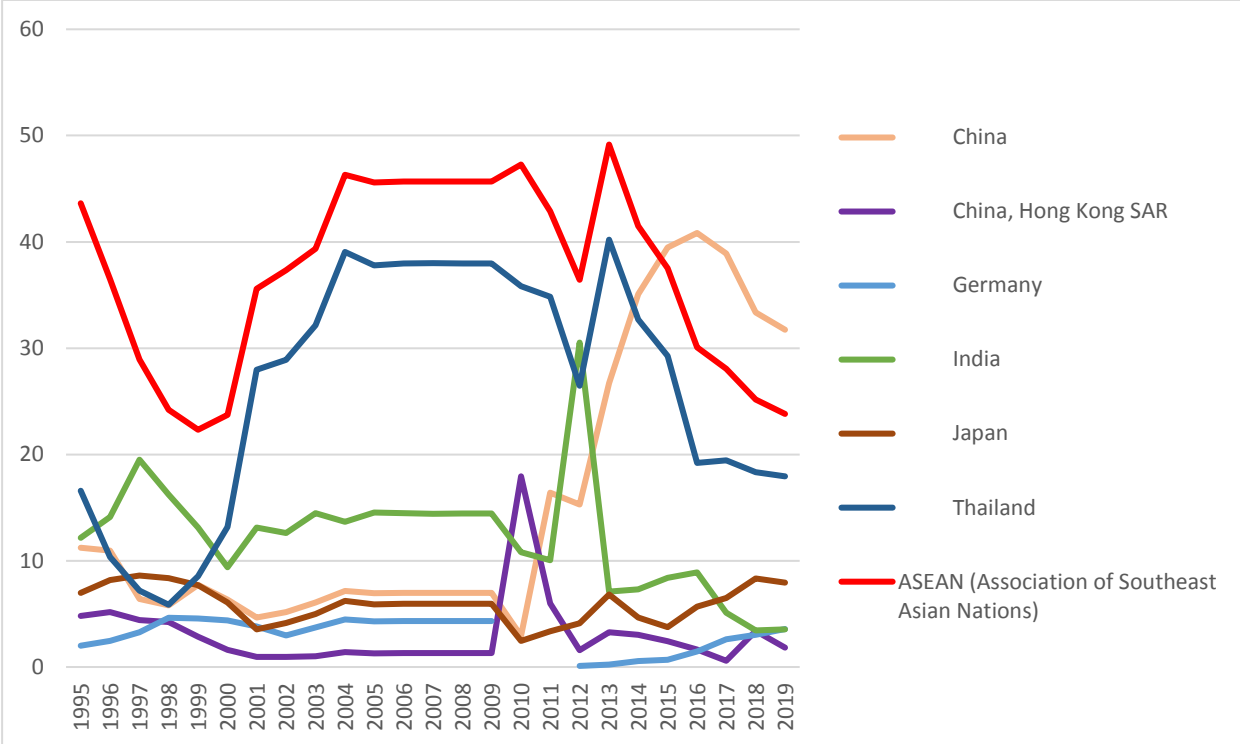
Source: UNCTAD secretariat calculations based on UNCTADStat

The macroeconomic environment has been stable, with low inflation, strong growth and cautious balance in the fiscal policy. Total public debt is low currently at 38 per cent of GDP in 2018/2019, split between public domestic debt (61.8 per cent of the total) and public and publicly guaranteed (PPG) external debt accounting for 38.2 per cent of the total public debt. As of 2018/2019, the largest share of PPG external debt is held by China (33.7 per cent), followed by Japan (28.7 per cent) (IMF, 2020a). Fears that debt owed to some of these bilateral creditors is more costly may be unfounded as interest obligations on it are not uncharacteristically high compared to the rest of the PPG debt stock. However, debt generally carries its own risk, particularly if the bilateral arrangement is linked to commodities or some collateral (United Nations, 2020b). It would be prudent for the authorities to seek to increase the concessionary share of new loans signed with bilateral and multilateral creditors.

With the changing character of international relations, and trade and investment cooperation among countries, Myanmar’s economic interest would be best served within the ASEAN subgrouping. The ASEAN member states – particularly Thailand – were Myanmar’s closest allies during the years of sanctions and have continued to provide the country with an economic cushion even during the uncertainties brought by the coronavirus pandemic. The regional grouping remains among the top export destination for merchandise from Myanmar although it has lost ground to China in 2011-2019 (Figure 5). Exports to China reached 40 per cent of the total in 2016, before receding to 32 per cent in 2019. Other economies that have become important markets for exports from Myanmar include Germany, Hong Kong Special Administrative Region of China, and Japan. These trading partners except China are relatively well insulated from the growing trade frictions between countries, and judging from the historical linkages between Myanmar and China, the US-China trade war is unlikely to have any direct impact on this relationship.



Figure 5: Myanmar top export market (shares, per cent)



Source: UNCTAD secretariat calculations based on UNCTADStat [accessed: November 2020]

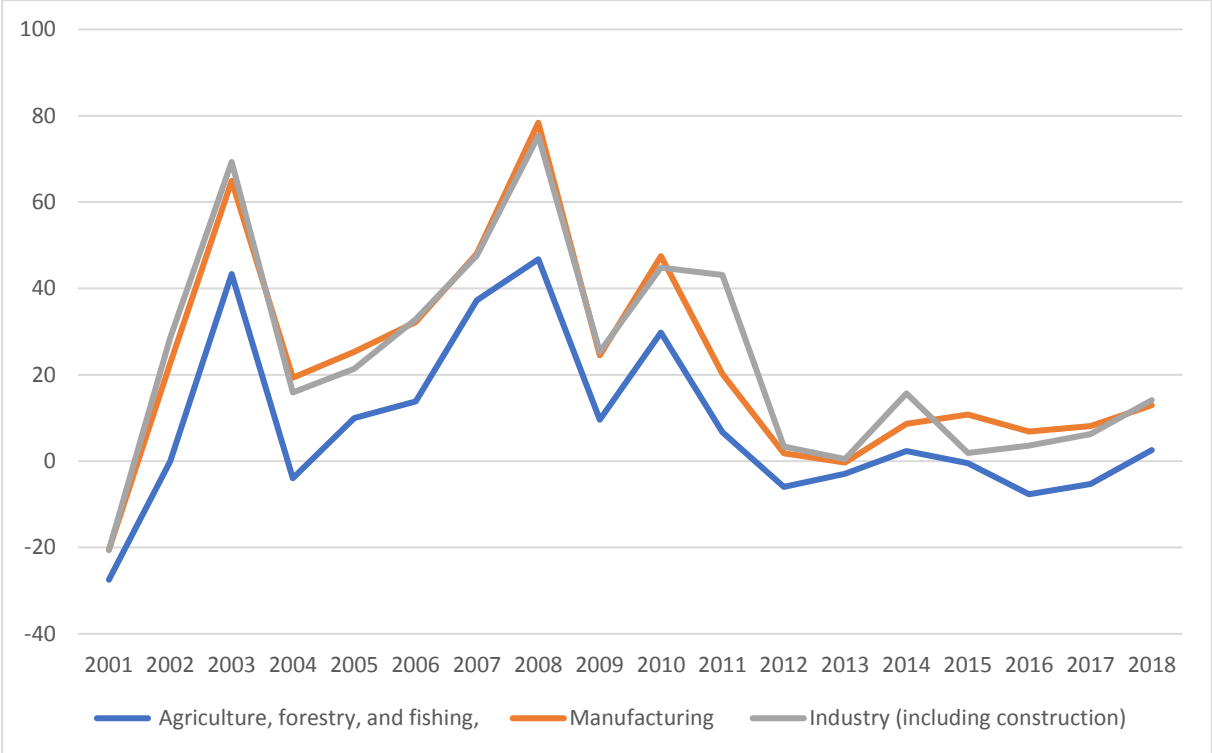
Beyond the COVID-19 shock which has seen trade deteriorate because of supply chain constraints and a shrinking international demand, geopolitical risks are increasing largely on account of retaliatory tariff escalation between United States, China and other affected countries. These actions are unsustainable and very costly in the current environment of a global slowdown due to the COVID-19 pandemic (UNCTAD, 2019b). An increase in market volatility particularly of energy commodities and agricultural raw materials would be the main concern for Myanmar but not the trade friction among the major economies. A major trend to watch is the rate of new infections of the coronavirus. Bringing it down, whether globally, regionally or at country level, is a difficult task despite the news of vaccine breakthroughs in Russia and the United States. Myanmar should also pay attention to the increased risk of concentration in digitalized supply chains. Fears over global value chain expansion and concentration of value added in high-tech industries which overlap with strong geopolitical and technology supremacy issues may not be relevant for Myanmar currently, but growth of its low-tech industries may be extremely constrained by the tendency of technology leaders to overly consolidate particularly in the technology laden global value chains. This is the case in the digital economy where a few global platforms and multinational enterprises control large market shares and subordinate other actors to becoming providers of raw data to those digital platforms and having to pay for the digital intelligence produced with those data by the platform owners (UNCTAD, 2020b). In this regard, Myanmar should seek to play a more leading role in the supply chain, beginning with the more realistic goal of becoming a manufacturing base as it develops its special industrial zones, and not to play a passive transit “hub and link” role in the East Asia, Southeast Asia and South Asia geopolitics.

2.2 Situating the country’s performance and economic structure in the regional context



Myanmar’s GDP growth rate in 2016-2018 has been strong, hovering just below 7 per cent. As noted above, the boom in 2000-2011 was due to sharp increase in manufacturing and industrial output which was growing at a very high rate (Figure 6). Although economic growth spluttered in 2011/2012, industry recovered strongly in 2014-2018, with large-scale construction projects and manufacturing picking up the pace as foreign direct investment rolled in. However, agriculture which employs half of the workforce slowed down since 2010 and has posted negative growth or very weak positive growth, ending 2018 with a 3 per cent growth. The sharp divergence between agriculture and manufacturing productivity has important implications for economic growth and structural transformation of the country. This is explained further in section 3, where it is shown how the potential of the country to sustain growth is limited by the quality of jobs that are being created by the various economic sectors. Manufacturing and agricultural export growth has not translated in improved living standards for the bulk of the population. This has been attributed to low investment particularly in the traditional sectors, and the uncertain policy environment due to political risks. During 2000–2010, Myanmar’s gross domestic investment averaged 14.2 per cent of GDP, the lowest among ASEAN countries (ADB, 2012).

Figure 6: Annual growth rate of value added by sector

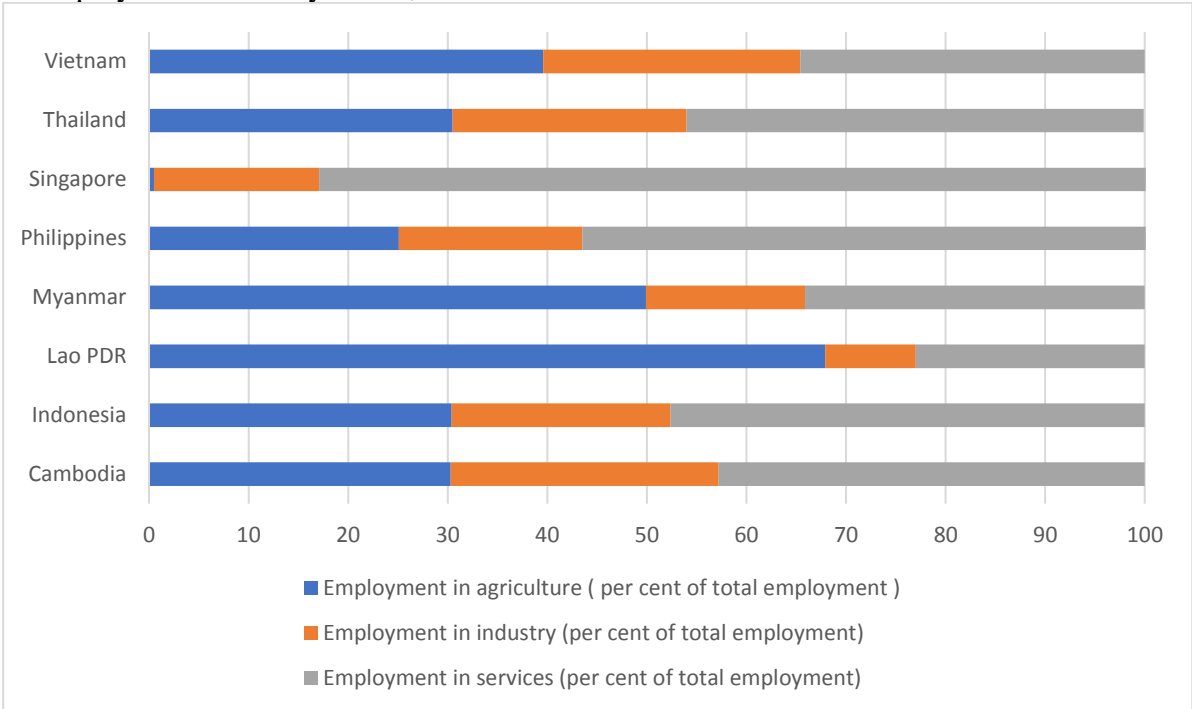


Source: UNCTAD secretariat calculations based on World Bank, World Development Indicators database [accessed: November 2020]

The ASEAN economies vary significantly in structure. Among the ASEAN LDCs, Lao People’s Democratic Republic is perhaps the closest in terms of structure of employment, with a dominant agriculture sector but Myanmar’s industry and services sectors employ proportionately more of its total labour force than Lao People’s Democratic Republic. Myanmar’s economy is agrarian but with emerging industry and services sectors, while Cambodia is a relatively diversified economy with 43 per cent of its labour force employed in services, 30 per cent are in agriculture, and 27 per cent are employed by the industrial sector (Figure 7). Myanmar’s industrial employment share has been stagnant

for quite some time although the industrial sector’s contribution to GDP has grown significantly. The Philippines’s economy is also a service-dominated economy, but its agriculture and industrial employment shares are quite significant.

Figure 7: Employment shares by sector, 2018-2019



Source: UNCTAD secretariat calculations based on World Bank, World Development Indicators database [accessed: November 2020]

Myanmar is the fourth smallest economy in the ASEAN group, with a GDP of about 13 per cent the size of Thailand in 2019. However, it is one of the fastest growing economies in the group, and relatively well insulated from the unravelling COVID-19 pandemic according to IMF projections for 2020-2022 (

Table 1). The comparison based purely on economy structure and size hides important information concerning productivity, and the potential to add to the existing productivity. UNCTAD has developed a Productive Capacities Index (PCI) aimed at measuring and benchmarking productive capacities of countries. UNCTAD defines productive capacities as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop” (UNCTAD, 2006), and identifies eight distinct categories that constitute the core components of the PCI. These categories are transport, energy, information and communications technology (ICT), human capital, natural capital, institutions, private sector and structural change (UNCTAD, forthcoming).

Table 1: GDP and GDP growth rate projections for selected ASEAN economies

Economy	GDP (current prices, billions of USD)- 2019	Real GDP growth (Annual percent change)			
		2019	2020	2021	2022
Brunei Darussalam	13	3.9	0.1	3.2	3.7
Cambodia	27	7	-2.8	6.8	7.3
Indonesia	1120	5	-1.5	6.1	5.3
Lao P.D.R.	19	5.2	0.2	4.8	5.6
Malaysia	365	4.3	-6	7.8	6
Myanmar	69	6.5	2	5.7	6.2
Philippines	377	6	-8.3	7.4	6.4
Singapore	372	0.7	-6	5	2.6
Thailand	544	2.4	-7.1	4	4.4
Viet Nam	330	7	1.6	6.7	7.4
ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand)	2735	4.9	-3.4	6.2	5.7

Source: UNCTAD secretariat elaboration based on IMF data [accessed: November 2020]

### 2.2.1 Benchmarking Myanmar's productive capacities

Building productive capacities successfully requires knowing their current levels and specifying benchmarks against goals and targets and with other developing countries (see Box 1).

#### Box 1: Productive capacities index

The UNCTAD Productive Capacities Index (PCI) is the first comprehensive attempt to measure productive capacities in all economies, LDCs, other developing countries and the developed countries. The index builds on the conceptualization of productive capacities defined as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop” (UNCTAD, 2006).

The PCI is a composite index of forty-six indicators belonging to eight components, namely, natural capital, human capital, energy, transport, ICT, institutions, structural change and the private sector. A detailed description of the methodology for the construction of the PCI is provided elsewhere (UNCTAD, 2020), but for the purpose of this publications suffices to say that – after imputation and/or forecasting of missing data as required – principal component analysis is applied to reduce the dimensionality of the data. The resulting factor weights are then used in the weighting of the individual indicators to construct each PCI component, which is subsequently standardized using the max-min normalization. The overall PCI score is finally obtained as a geometric mean of the eight components, whereby the geometric mean is chosen to reduce the level of “substitutability” across components. The PCI scale, both for the aggregate index and its components, ranges from 0 to 100, with 100 being the best score.

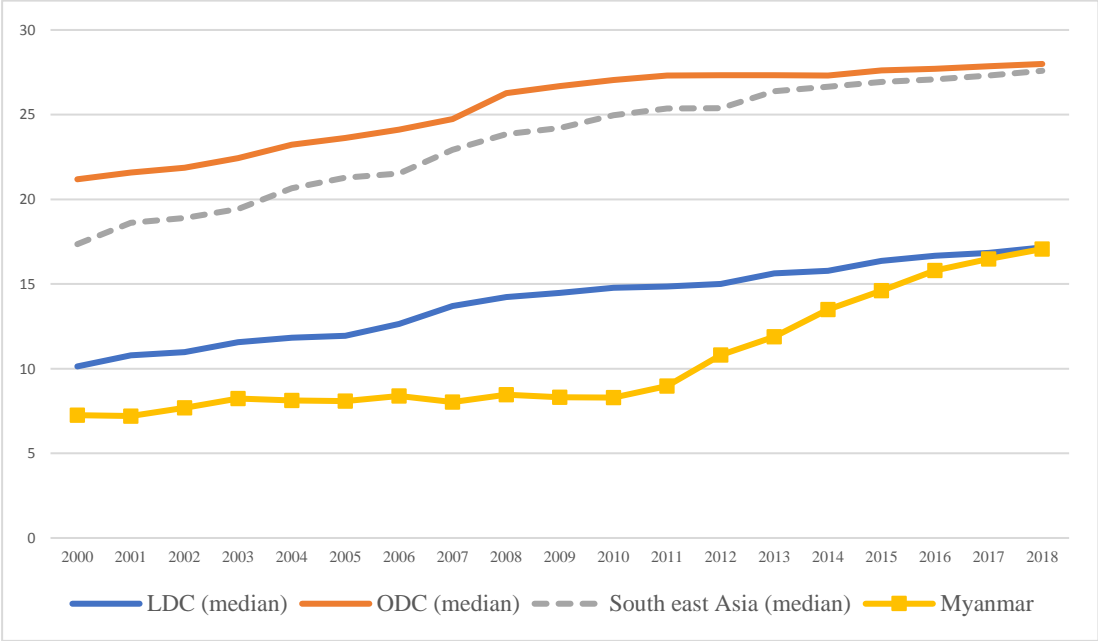
Source: UNCTAD, 2020. *Least Developed Countries Report 2020*

Productive capacities grow mainly through an endogenous process dictated by policy, and through the interactions and exchanges among countries. The PCI scale, both for the aggregate index and its subindices, ranges from 0 to 100, with 100 being the best score.

The PCI score at any point in time is an aggregate measure which incorporates not just the endowments of a country but also how it transforms its resources and benefits from interlinkages with other countries. Myanmar’s PCI score has risen from 7.2 which was 22 places below the LDC average score, to 17.1 which is only 6 places below the LDC average. The tremendous improvement in productive capacities is due to growth in ICT, institutions, and structural change. There were also marginal improvements in human capital, energy, and private sector capacity. ICT captures access to telephone and internet services, while institutional capacity reflects governance quality, and structural change reflects the evolution of at least three indicators- export concentration, economic complexity, and gross fixed capital formation.

In 2000-2018, the overall PCI scores for all countries in South-east Asia have improved to varying magnitudes and degrees. Myanmar recorded rapid improvements in its overall PCI score after 2011, when compared to the trajectories of the other developing countries and South east Asia during the same period, thanks to a wide range of political and economic reforms (Figure 8). However, Myanmar lags behind the regional economies on productive capacities.

Figure 8: Productive capacity index for Myanmar and related categories (2000-2018)

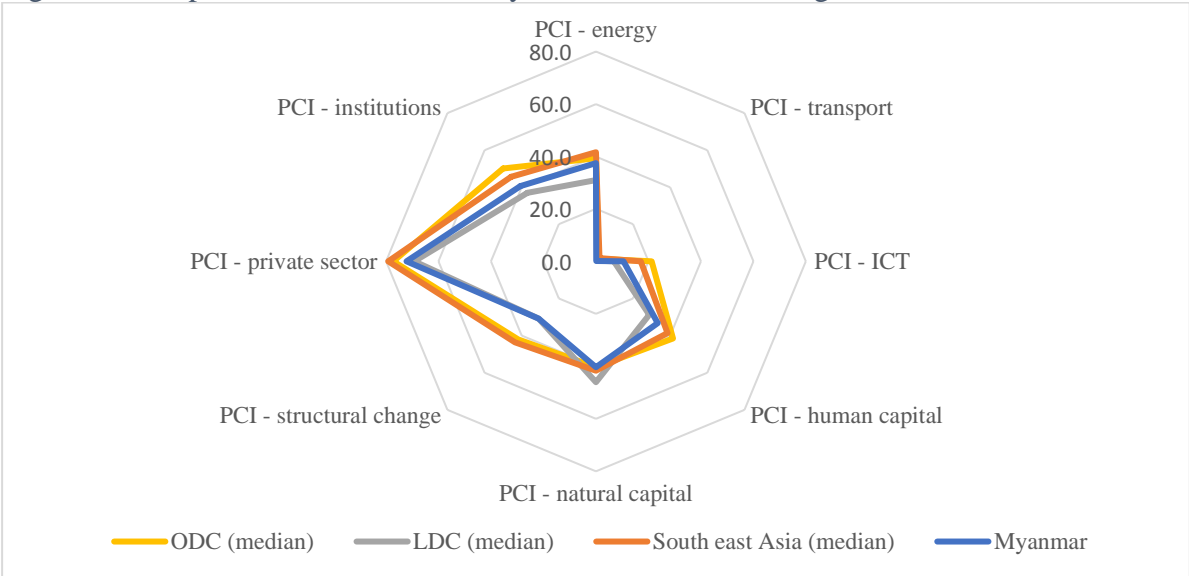


Source: UNCTAD secretariat calculations, based on data from UNCTADStat

To investigate the underpinnings of the trend and progress on the PCI score of Myanmar, it is instructive to examine the individual components of the PCI. Myanmar posted major improvements with respect to ICT, private sector, and institutions in 2000-2018. However, there were limited developments in structural change and human capital development notwithstanding improvements in institutional and infrastructural components (particularly ICT) of the PCI. Although substantial progress in access to education and health services has been achieved over the last decade, human development outcomes remain uneven across the population, constraining Myanmar’s development potential. There are significant disparities—by location (urban vs. rural), socioeconomic status and gender in: a) access to education, which widen markedly in secondary education; and (b) employment (see the discussion in section 3.1).

Most recent data on productive capacities shows that Myanmar outperforms the LDC median score in relation to most PCI components (Figure 9) particularly in private sector (with private sector investment contributing to nearly half of all growth in 2011-2016) and ICT components (and underperforms in all PCI categories, -with the exception of natural capital- and more particularly in human capital, structural change and ICT when compared to ODCs). Indeed, Myanmar was among the top 20 reformers in the 2020 Doing Business<sup>1</sup>—rising from a ranking of 182 in 2013 to 165 in 2019 —nevertheless there is considerable scope for improvement, as Myanmar lags behind many of its regional neighbours in both the availability and quality of key infrastructure and related services - for example firms identify the lack and reliability of power as a key constraint to doing business.

Figure 9: Components of the PCI for Myanmar and related categories, 2018



Source: UNCTAD secretariat calculations, based on data from UNCTADStat

The high performance of the private sector category is due to its components which are mainly related to cost and time to export and import. In 2012-2018, 90 per cent of Myanmar’s trade was with countries in Southeast and East Asia, while 70 per cent of its exports and 47 per cent of its imports were with its immediate neighbours (according to UNCTADStat data), which considerably reduces the cost of transport and logistics as compared to longer distance trade. The low level of the transport component is because of low volume of air cargo and passengers, as well as low density of roads per capita. Given Myanmar’s strong trade and cultural connection with neighbouring countries, the infrastructure gap may be shackling other sectors whose competitiveness depends on rail or road transports.

Although Myanmar outperforms the LDC median score in energy dimension of the PCI, Myanmar’s power sector is one of the least developed in Southeast Asia with more than half the population not connected to the national grid, and the rest being subject to

<sup>1</sup> Myanmar’s private sector is largely dominated by informal and very small enterprises and farms, with only a few large, modern enterprises. The high cost of doing business and trading across borders, constitute key constraints to private sector development, especially for SMEs. Small enterprises particularly suffer from complex bureaucratic processes for establishing and operating a business.

prolonged, and frequent power disruptions (Numata et al., 2020; Lee et al., 2016). Myanmar's transport connectivity challenges hamper the movement of goods and people and constrains economic activity weighing down on its competitiveness; the national transport networks, including roads, railways, and inland waterways, are outdated and in poor condition, and low capacity airports remain insufficient and remain key infrastructure obstacles (Asian Development Bank, 2012; Oxford Business Group, 2016). Myanmar's geographic location gives the country a unique opportunity to develop into a key transport connection hub between ASEAN, India and China.

The government of Myanmar recognizes that businesses require improved infrastructure, and the 2018 Myanmar Sustainable Development Plan (MSDP) emphasizes, in particular, electricity, roads, and ports (Malesky et al., 2019). The Ministry of Transport and Communications (MOTC) estimates that the transport sector would require some \$ 60 billion of investments over the next 20 years- with the government increasingly turning towards public-private partnerships (PPPs) to deliver major transport projects (Pwc, 2018). One of the most significant developments in the last seven years was the liberalisation of telecom market. The speed and scale of liberalisation have been unprecedented, resulting in near universal phone access from 15 per cent in 2013, at affordable prices and with data applications, with significant impact on the livelihoods (Norbhu, 2015).

### 2.3 COVID-19- related economic challenges

The impact of COVID-19 on growth in the region is expected to be similar across the South and South-east Asian subregion, and the IMF is projecting contractions in India (10% contraction of GDP) and Thailand (-4%) among the worst hit. China's economy will slow down and as the biggest importer of commodities in the subregion, its import demand for commodities may contract by \$15.5 to \$33.1 billion in 2020. Countries whose trade is highly dependent on exports to China will see economic activities deteriorate. For example, Myanmar's energy product exports to China will likely fall by 16 to 34 per cent, and the expected fall in demand for wheat and rice would substantially reduce exports of raw agricultural products by 52-58 per cent (Fugazza, 2020). Most of these estimates hinge on assumptions of catastrophic reduction in production and import demand, but price corrections due to demand conditions as well as unsynchronized local impacts of the pandemic on various economies and regions may mitigate the impact. Although global economic activity started to pick up in May and June, as many economies tentatively have reopened, transmission rates have rebounded and are accelerating in many countries, threatening further curbs and economic shutdowns.

Myanmar and other neighbouring countries were ordinarily expected to be affected by the pandemic given their proximity to China where the virus is thought to have originated. Myanmar confirmed its first case of COVID-19 on 23 March 2020, three months after the first cases were diagnosed in China. In order to prevent the spread of the pandemic, the Government put in place strict measures including travel restrictions, closure of land borders, instituting partial lockdowns, bans on mass gatherings, stay-at-home orders and curfews in some major cities, quarantining infected and exposed individuals, social distancing requirements, among others. These measures helped the country to contain the first wave of infections; with only 374 cases and 6 deaths reported, considering its

population size and its long and porous border with China. Since mid-August, however, the number of local COVID-19 transmissions has been increasing at an alarming rate throughout the country, with the highest cases reported in Yangon Region, followed by Rakhine State and Bago Region (OCHA, 2020). As of 12 November 2020, the country had registered 64,453 confirmed cases with 1480 deaths (Myanmar: WHO Coronavirus Disease (COVID-19) Dashboard, 2020). The much stronger second wave is already straining Myanmar's weak healthcare and social protection systems, and posing new challenges for efforts to avert poverty, food insecurity and malnutrition. Consequently, localised quarantine of viral hotspots and a ban on international tourism resumed following partial lockdowns in major cities in September and October, with a possibility of a second nationwide lockdown if the situation does not improve (Win, 2020).

Before the onset of the COVID-19, prospects for economic growth in Myanmar remained positive, namely a 6.4 per cent growth in 2020, on the back of structural reforms and increased investments in the transport and telecommunications sectors and stronger government infrastructure spending (World Bank, 2019). The pandemic has caused a steep decline in the economic growth; the World Bank's GDP growth forecast for 2020 has been revised to just 0.5 per cent, while the IMF forecasts that the economy in Myanmar will grow only 2 per cent this year. However, both World Bank and IMF projections indicate that the negative impact of COVID-19 on GDP growth may be short-lived, with growth levels recovery expected from 2021 (World Bank, 2020a; IMF, 2020b).

The economy is impacted by both supply and demand shocks. Measures aimed at containing the spread of the disease are likely to disproportionately affect micro, small and medium-sized formal and informal enterprises. The policy measures imposed by governments around the world, with Myanmar no exception, disrupted global and domestic economic activities and trade flows, curtailing domestic demand, visibly affecting wholesale and retail trade and tourism, and transportation, and the service sector (which represent about 41 per cent of the economy), as well as the manufacturing sector (specifically the garment sector, which generates about one-fourth of exports). The outbreak also has presented a major challenge to the construction sector due to suspension of projects, temporary lockdowns and cashflow problems. Declining demand for manufactured goods (e.g. cancelled orders and associated non- or reduced payment) among Myanmar's major trading partners (e.g., China) have led to loss of wages and unemployment. On the contrary, agriculture (about 21 per cent of the economy) and information and communications technology (ICT) sectors (i.e., a sudden surge in activities due to telecommuting and digital transactions) have proven relatively resilient in the face of the crisis so far (Diao et al., 2020).

Major disruptions in international travel, tourism, and supply chains have contributed to a significant contraction in global trade early this year. Trade represents about 61 per cent of GDP (in 2018, when compared to 0.2 per cent of GDP in 2011). Myanmar began feeling the impact of plummeting exports after the border closures with China in late January and early February, followed by significant cancellations to orders for garment exports from Europe (i.e., 70 per cent of garment exports go to the European Union market) in March (Htwe, 2020). The sectors most affected by Covid-19, particularly tourism, agriculture, and garments industry within manufacturing are female-labour intensive, hence the impact of Covid-19 has been disproportionate on women (UNCTAD, 2020c). With the reopening of borders, cross-border trade has rebounded, although the recovery in the garment sector has been slower as the demand from the European Union



market has continued to be low. Despite the pandemic, Myanmar's export revenues increased by around \$2 billion in the FY 2019/20, compared to the previous fiscal year (Loon, 2020). However, the trade deficit widened to \$1.8 billion in July, 78 per cent higher than the same period last year as the pandemic affected exports more severely than imports (World Bank, 2020b). For services trade, Myanmar's tourism revenue has been projected to decline sharply (as much as 50 per cent) in 2020, reflecting tightening global travel restrictions and falling earnings from hotels, restaurants, and transportation activities (Hein, 2020). As Myanmar has recently finalized a National Export Strategy (2020-25) – with a focus on export diversification into higher value-added manufacturing, market-oriented agriculture and services, it would be the right time to calibrate the initiatives and plans with the changing reality of the economic impact of COVID-19.

At the end of 2019, FDI in Myanmar showed signs of recovery, following record low levels in 2018. The pandemic partially disrupted planned investments and flows (FDI inflows falling \$100 million short of the target in FY 2019/20) as major source markets such as Singapore, China and Thailand have faced significant domestic downturns. FDI commitments increased by \$1.2 billion from FY2018/19 to \$5.7 billion in FY2019/20. About a third of FDI was channelled into electricity generation, while the real estate sector and the industry received about 20 per cent each (Tun Tun, 2020). The future trajectory of FDI inflows will depend on Myanmar's efforts to contain the virus and to mitigate country-specific risks, as well as the recovery in international markets (World Bank, 2019).

The COVID-19 outbreak has delivered a significant shock to commodity markets with the impact varying in magnitude and duration for different types of commodities. Mild winter (2019/20) coupled with steep decline in commercial and industrial usage as a result of COVID-19-related business closures have depressed demand for natural gas (albeit less severely compared to oil). The reduction in demand has driven commodity prices down with a decrease of 66 per cent and 22 per cent in oil and natural gas prices respectively between January and April 2020. A gradual reopening of the economies started in May but precautionary measures such as social distancing remained (and are likely to continue for several months), which helped with the rebound in natural gas prices in 2020Q3, almost reaching pre-COVID-19 levels. As an importer of oil, the decrease in crude oil prices has benefited consumers and producers in the country. Natural gas (Myanmar's second largest export product) rents accounts for 3.5 per cent of GDP (2018), and declining gas revenues are expected to increase the fiscal and external imbalances while intensifying financing pressure (World Bank, 2020a).

To mitigate the COVID-19 economic and social impacts, the government launched the COVID-19 Economic Relief Plan (CERP) in April 2020, with the aim of: i) improving macroeconomic recovery through monetary stimulus; ii) easing the impact on the private sector through improvements to investment, trade and banking; iii) easing the impact on labourers and workers; iv) easing the impact on households; v) promoting innovative products and platforms; vi) strengthening healthcare systems; and vii) increasing access to COVID-19 response financing (including contingency funds) (Government of the Union of Myanmar, 2020a). Direct support was provided to vulnerable households, workers, farmers, small businesses including those involved in e-commerce. Spending in the healthcare system was increased for efficient response to COVID-19 through among others, mass testing, protection and treatment, as well as upgrade of



hospitals and healthcare facilities for effective implementation of the Health Sector Contingency Plan.

As part of the economic stimulus, the Central Bank intervened by cutting the primary policy interest rate by 3 percentage points, between March and May, with the view to boosting macroeconomic recovery. The Central Bank also announced a temporary reduction in banks' required reserve requirement ratio from 5 per cent to 3.5 per cent, halted deposit auctions to maintain an adequate level of liquidity in the interbank market, and extended deadlines to comply with prudential regulations. The Kyat appreciated against regional currencies between April and August despite a widening trade deficit. The current account deficit of about 2.6 per cent of GDP in 2019 is expected to widen to 3.5 per cent of GDP in 2020 due to lower tourism exports and commodity prices (IMF, 2020c).

Before the COVID-19 outbreak, Myanmar's public finances were in a relatively good state. The fiscal deficit was about 4 per cent of GDP and general government gross debt was about 39 per cent of GDP, which led the IMF to assess Myanmar to be at a low level of external debt distress. However, in the wake of the pandemic, as economic activity decelerated, and with additional spending on social and welfare activities to limit socio-economic impact of the crisis, the government's budget has been hit this year. The fiscal deficit for the current fiscal year 2019/20 is estimated to be about 6 per cent, with general government gross debt standing at an estimated 42.4 per cent of GDP (IMF, 2020c). The pandemic brought inflation levels down slightly as lower oil prices and the slowdown in economic activity exerted a downward pressure on consumer prices. The most recent IMF estimates indicate that average annual inflation will be brought down to about 6.1 per cent in 2020, from 8.6 per cent in the previous year.

The impact of Covid-19 extends to external financing sources, particularly private flows. The decline in the flow of remittances to Myanmar represents the loss of crucial financial support for many vulnerable households. Labour migration has long been an important livelihood strategy for the people of Myanmar. Before the onset of the pandemic, Myanmar had an estimated 4.25 million migrants living abroad (mostly in Thailand, followed by Malaysia and Singapore, and other countries) (Government of Myanmar and UNFPA, 2016). Remittances form an important source of income. An estimated 18.5 per cent of the population (of whom 72 per cent live in rural areas and 56 per cent are women) receives remittances from a migrated household member and this accounts for half of the household income in poor households (Central Statistical Organization et al., 2017). Collectively, the formal remittances reached \$2.8 billion last year, constituting more than 4 per cent of the country's GDP (World Bank, 2020c). The informal remittance channels are quite prominent in the country, with 68 per cent of the informal remittances originating from Thailand (UNCDF, 2017). Slowing external demand and lockdown measures in destination countries have triggered a mass return to Myanmar as industries that employ foreign workers have been harshly affected and jobs are lost. The trajectory of economic recoveries in Thailand, Malaysia, and Singapore will be key in determining the impact of COVID-19 on remittance flows to Myanmar.

The scale of the full impact of the crisis on the economy is yet to be fully grasped, because: (i) the cases have again started to surge in the country; and (ii) the pandemic is still active at large in countries that are essential to Myanmar's economic stability and growth. The economic impact of the second wave of the COVID-19 pandemic, however,

seems to be more severe on businesses than the first wave, according to the World Bank's firm-level survey in September 2020. The survey results revealed that firms across all sectors (66 per cent) were not well prepared for the second wave of COVID-19. Agricultural, micro, and smaller firms were found to be the least prepared (73, 68, and 64 percent, respectively). The share of firms reporting a reduction in sales was 93 per cent in September (a major concern for small, and medium firms), while 34 per cent of firms experienced cash flow shortages and 29 percent of firms (especially agricultural firms possibly linked to their higher rates of informality) experienced a reduction in access to credit. Half of surveyed firms in agriculture and about a third of retail and wholesale firms reported the likelihood of falling into arrears within the next three months.

Strong economic growth, remittances and the resilience of a large informal economy were contributing to poverty reduction in Myanmar prior to the COVID-19 outbreak. Poverty – relative to the national poverty line – declined from 48.2 per cent in 2005 to 24.8 per cent in 2017 (Central Statistical Organization et al., 2017). The pandemic will reverse Myanmar's progress made over the past decade in reducing poverty and will increase inequality. People who work in the informal sector, often in casual or seasonal activities, with no job security, and are outside the formal safety net faced sudden income losses when mobility restrictions were imposed. From a gender point of view, the impact on women's livelihoods is expected to be more severe. Women represent 60 per cent of all workers in vulnerable employment, including a high share of the employment in sectors most directly hit by the crisis. According to data from the Myanmar Living Conditions Survey of 2017, 47 per cent of the population (almost half) living off the most-impacted economic sectors (i.e., tourism, hospitality, transportation and food services, retail, construction, and garments) are poor and near-poor. The World Bank projections show poverty rates increasing in the short term, with wealthier quintiles and households engaged in the service sector particularly likely to be affected, and no return to their pre-crisis levels until FY2021/22.

The slow economic recovery will take its toll on employment and income levels. According to the latest survey conducted by the World Bank in August 2020, although employment had picked up from May to August (informality of the labour market partially helped) but had not yet reached the level of March 2020; 15 per cent of households' main workers were still out of employment in August. The recovery was faster for wealthier household main workers. And of those still working, more than a third of households' main workers had experienced reduced incomes in August 2020 than before. Food security remained a concern, as households continued reducing their food consumption to cope with reduced income (World Bank, 2020d).

Although the Government introduced a series of emergency measures including cash transfers and credit to farmers and businesses, the support has not reached all the needy households (Headey et al., 2020). It is essential that the Government raises awareness of eligibility for cash assistance and takes steps to facilitate easier access to these funds. School closures in Myanmar resulting from the COVID-19 pandemic have affected millions of students, with more visible impact on the most vulnerable children and youth in Myanmar, exacerbating existing educational inequalities. Following a slowdown in new local transmissions of the virus, the Ministry of Education announced a phased reopening, starting with high schools in late July. However, at the end of August, the recently reopened high schools were swiftly ordered to close their doors, as the COVID-

19 cases started to pick up (UNESCO, 2020). With school closures, children and youth lose educational opportunities, which are quite important for their social and behavioural development. Access to broadband internet is still underdeveloped in Myanmar (0.2 people per 100), and almost non-existent in poor households and rural settlements, creating an obstacle for effective participation in remote learning. Sustained disruption of education could lead to a rise in child labour and child marriage, especially in poor households.

The COVID-19 pandemic exacerbates Myanmar's extreme vulnerability to multiple climatic and disasters triggers by natural hazards. Both urban and rural communities often have a limited understanding and knowledge of basic norms for COVID-19 prevention, like social distancing and proper hygiene. It will be essential to promote multiple use and integration of COVID-19 compliance with disaster response, such as installing hand washing stations in cyclone shelters.

### **3. Identifying areas of vulnerability**

#### **3.1 People**

According to UN DESA's *World Population Prospects 2019*, Myanmar's population stands at 54.4 million and it is projected to reach 65.8 million by 2050. Slightly over a quarter of the population (25.5 per cent) are aged 0-14 years, and over two thirds (68.3 per cent) are in the 15-65 age bracket.<sup>2</sup> Life expectancy at birth was estimated at 67 years in 2010-2015, the fourth worst in Asia and Oceania after Yemen, Afghanistan and Papua New Guinea (World Bank, World Development Indicators database). The share of the rural population remains high, only slightly falling from 73 per cent of the total in 2000 to 69 per cent in 2018. In absolute terms, however, the rural population has grown by almost 3 million to 37 million in 2000-2018.

The country has made strides on improving social development in various thematic areas including poverty, food and nutrition, education and health, but challenges remain. FAOSTAT data (July 2020) show that the average number of undernourished people has declined significantly from 17.8 million in 2000-2002 to 7.6 million in 2017-2019. The situation on water and sanitation has also improved tremendously although gaps remain particularly in the populous rural areas. The percent of the population using at least basic drinking water services has increased from 46 per cent in 2000 to 82 per cent in 2017. However, the proportion of the population drinking water from surface or unimproved sources is 33 per cent in rural areas and 7 per cent in urban (UN Water, SDG 6 Snapshot in Myanmar<sup>3</sup>).

The proportion of the population living under the national poverty line halved from 48.2 per cent in 2005 to 24.8 per cent in 2017 (Central Statistical Organization et al., 2017). The improved trend in poverty levels reflects improvements to the economy and growing investments in social sectors particularly education and health. Education, health and well-being are crucial elements of human capital development, which in turn is a key

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<sup>2</sup> <https://www.unfpa.org/data/MM>

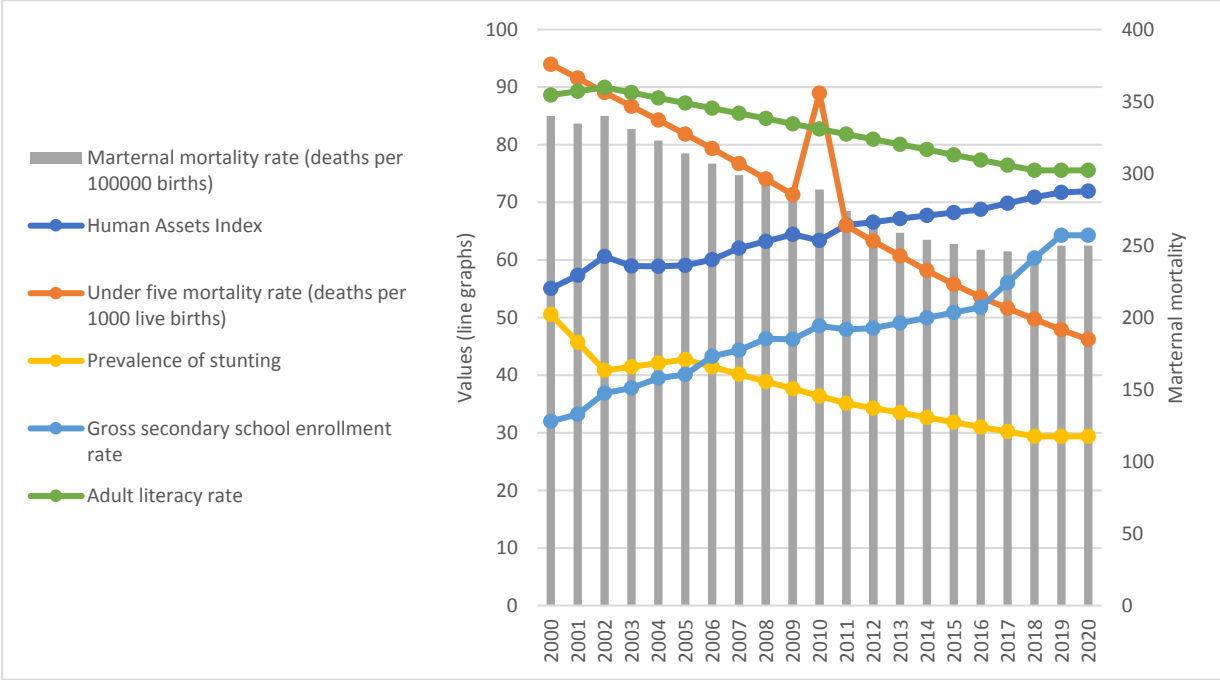
<sup>3</sup> <https://www.sdg6data.org/country-or-area/Myanmar>

factor affecting productivity and competitiveness and thus determinant of economic growth and development. To be productive and competitive, a country needs to invest in nutrition, quality health care, education knowledge and skills and to secure decent jobs and social protection for its population. All these elements are also necessary ingredients for creating inclusive societies, which is particularly pertinent in the case of countries with such an ethnic diversity as Myanmar.

### 3.1.1 Human Assets Index (HAI)

The human assets index is a composite measure that captures the contribution of health and education to human capital development. Based on this index, Myanmar has been performing better than the threshold level in all CDP triennial reviews since their start in 1991- except in the 2000 and 2003 reviews when it fluctuated around the threshold value. Currently available data shows that since 2011 Myanmar was firmly scoring above the graduation threshold set in 2015, and performance in 2000-2010 was generally positive (Figure 10). The strong performance is not unique to Myanmar as the HAI components have generally improved among developing countries. However, the variation of the ratio to the threshold of Myanmar’s HAI score uniquely reflects how far the country moves closer or away from the threshold, based on performance in the individual components of the index, namely, under-five mortality rate, prevalence of stunting, gross secondary enrolment ratio, adult literacy rate, and gender parity index for gross secondary school enrolment.

Figure 10: Human assets index and its subcomponents based on current CDP data



Source: UNCTAD secretariat calculations, based on data from United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria [November 2020].

#### a. Education

There has been a steady improvement of the gross secondary enrolment ratio from 30 percent to 64 per cent in 2000-2020, but adult literacy tumbled from 89 per cent in 2000 to 76 per cent in 2020 (Figure 10). This could be a result of the growing number of young

adults (15+) who fail to transition from primary to secondary education. However, it should be noted that national data report 7 to 12 percentage points higher gross secondary enrolment ratio in 2000 and 2018. The national data also show a steady improvement in adult literacy rate over 3 national censuses undertaken in 1973, 1983 and 2014, which reported rates of 71 per cent, 78.6 per cent, and 89.5 per cent, respectively. In addition, the Myanmar Living Condition Survey (MLCS) 2017 implemented by the Central Statistical Organization of the Ministry of Planning and Finance reports adult literacy of 85.6 per cent (Central Statistical Organization et al., 2017).

Some of the gains in the education sector are due to improved government investment in the education sector. Government expenditure on education was equivalent to 1.85 per cent of GDP in 2017/2018 and represented 7.75 per cent of the overall budget, up from 0.71 per cent and 3.66 per cent respectively in 2011/2012 (UNICEF and Government of the Union of Myanmar, 2018). The Government introduced free education for primary since 2011/2012, for middle school since 2014/2015 and high school since 2015/2016. It removed fees for registration, stationery and parent teacher association in all Government schools, and provides free textbooks and uniforms to all students. It also provides grants to all basic education schools to reduce the burden of their operating costs traditionally borne by communities (World Bank, 2017). UNESCO estimates puts the current (2019) expenditure on education at 10.5 per cent of the total government expenditure, or 1.93 per cent of GDP.<sup>4</sup> However, despite the significant increase of Government spending on education, Myanmar allocates the least for education as a percentage of its overall budget compared to other countries in the region. This percentage varies significantly with Thailand, Singapore and Indonesia getting closer to the 20 per cent; and Cambodia and Myanmar below 10 per cent (UNICEF and Government of the Union of Myanmar, 2018).

Although fees are not levied in government schools, families must pay for private costs such as transport, and other indirect costs to access education. As a result of widespread poverty, particularly among the rural and urban households, child labour remains a persistent concern in Myanmar, where one in five children aged 10-14 years are working. As a consequence, drop-out rates are high during the transition from primary to middle school and from middle to high school. According to the World Development Indicators of the World Bank, about 24 per cent of adolescents (of lower secondary school age) were out of school in 2017, but this represents a huge improvement as the rate stood at 56.4 per cent in 2000. Nationally, one in four children do not complete primary school, with the dropout rate even higher in poor communities. Fewer than one in three will finish upper secondary school (ChildFund, 2017). Despite a net primary enrollment close to 100 per cent (IMF, 2019), the mean years of schooling is 4.7 years, which is similar to Cambodia, but less than Lao People's Democratic Republic and Bangladesh (both 5.2 years), India (6.3) China (7.6) and Thailand (7.9) (ChildFund, 2017). It is also far from the objective set in the 2016–2021 National Education Strategic Plan of extending the basic education system for all to 13 years (IMF, 2020a).

The quality of education also contributes to the dropout rate among primary and secondary students. There is a lack of qualified and experienced teachers, a shortage of school buildings, decayed and overcrowded classrooms, lack of didactic teaching

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<sup>4</sup> <http://uis.unesco.org/en/country/mm>

methodologies, and outdated curricula. There is heavy reliance on memorization, and low levels of attainment in literacy and numeracy skills (ChildFund, 2017).

While shortcomings in education affect the population in general, minority groups have even fewer educational opportunities. Ethnic diversity, with minority groups speaking many different languages other than the one taught in schools, presents additional challenges for children as well as for educators (ChildFund, 2017; Government of the Union of Myanmar, 2016). Recent developments in education have seen the introduction of mother tongue-based teaching into government schools, such as the teaching of ethnic languages during school hours. This has been one of the main demands of ethnic minorities, and it is seen by many as a step in the right direction (South and Lall, 2016). However, flareups of violent conflicts makes access to education difficult for population living in conflict zones or for those displaced by violence.

Education and other social services including health are also significantly hampered by the lack of affordable and reliable access to roads and to energy. Although increasing significantly in recent years from 53 per cent in 2011 to 70 per cent in 2017, electrification rate in Myanmar is still the lowest in South-east Asia and the average annual consumption per capita is much lower than the world average (fifteen times lower in 2014) (according to World Bank, World Development Indicators database). Only 21.9 per cent of Myanmar's 150,816 kilometres of roads are paved and it is estimated that around 20 million people, or half of the rural population do not have road access (World Bank, 2017).

#### *b. Health*

Myanmar has made tremendous progress on all three health indicators, namely the under-five mortality rate, maternal mortality rate, and the prevalence of stunting. According to CDP estimates, the under-five mortality rate has declined from 94 in 2000 to 46 in 2020. The 2015-16 Myanmar Demographic and Health Survey implemented by the Ministry of Health and Sports (MoHS) also shows a strong decline in the under-five mortality rate from 103 to 50 deaths per 1,000 live births in the decade preceding the survey. Short birth intervals significantly raised the risk of child deaths, but other socioeconomic factors influence the trend.

Maternal mortality has declined from 340 per 10,000 in 2000, to 289 in 2010 and 250 in 2020. The Myanmar Demographic and Health Survey (MDHS) reported the value of 227 per 100,000 in 2015, which is slightly lower than the CDP estimates.<sup>5</sup> Although there has been progress, maternal health remains a challenge due to disparities between rural and urban, and across various ethnic communities. Improvement in maternal health is a factor that enhances child survival. Antenatal care, use of health facilities for deliveries and availability of postnatal care services are important for reducing child and maternal mortality (Mullany et al., 2010). There is an acute shortage of health workers, with 13 out of 15 States and Regions operating below the WHO recommended minimum number of 1 per 1,000 population for medical doctor. The national averages show that in 2015-2016, there was one doctor per 1,477,000 population, but with wide disparity between

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<sup>5</sup> Sources: Myanmar Demographic and Health Survey (MDHS) (2015-2016); and United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria. 22 January 2019

urban (one medical doctor per 633,000 population) and rural areas (one per 3,447,000 population) (Saw et al., 2019).

Another headline indicator of general population health is the prevalence of stunting. The available statistics show that the prevalence of stunting among children under five years has declined from 35.1 per cent in 2010 (UNICEF and Government of the Union of Myanmar, 2010) to 29 per cent in 2016 (MoHS/Myanmar and ICF, 2017) and 26.7 per cent in 2018 (Government of the Union of Myanmar, 2019). FAOSTAT data also show an improvement in the situation as the prevalence of undernourishment has declined from about 37.7 per cent in 2000-2002 to 14.1 per cent in 2017-2019. Nutrition and health are linked to poverty – both as cause and effect of poor access to health and education. Because so little is spent on healthcare, most people have to pay for treatment if they fall ill. According to the World Development Indicators of the World Bank, Government has increased the current expenditure on health from a paltry \$3.35 per capita in 2000 (1.8 per cent of GDP) to \$58.04 per capita in 2017 (4.7 per cent of GDP). These outlays have been used to finance construction of new health facilities and equipment needed for service delivery (World Bank, 2017). These efforts are reflected in a lower reported incidence of new HIV infections, drug-resistant malaria and tuberculosis, although much still needs to be done for the country to catch up with other Asian countries.

The public health system needs a boost to meet the increasing pressure for services and attain the goal of universal health coverage (SDG 3). Currently, only 2.5 per cent of the population is covered by health insurance which is administered by the Social Security Board, Ministry of Labour, Immigration and Population, far from the 2017–2021 National Health Plan objective of universal access to basic health services. Although the population above 65 years of age account for 6.2 per cent of the total, only 0.9 per cent of persons above retirement age receive a pension (contingency), hence dependency is likely going to increase regardless of the expected improvements in health and education.

### *3.1.2 Labour force and employment*

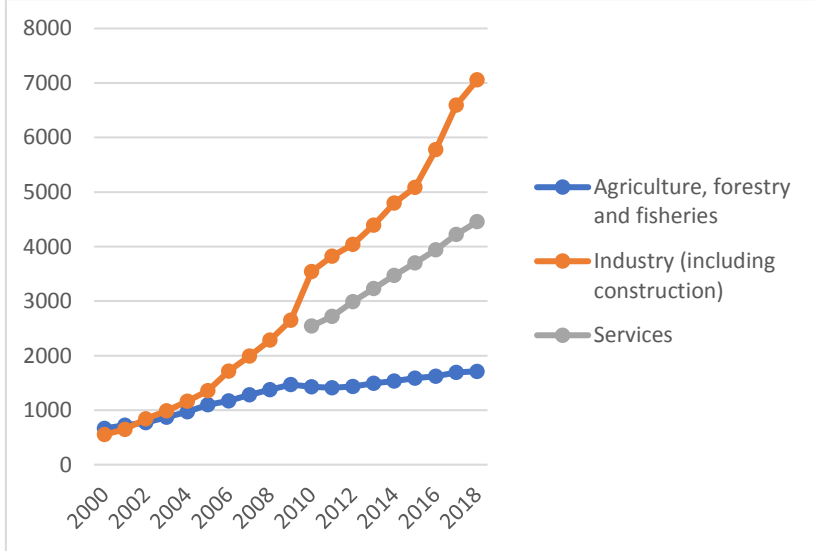
The total labour force has grown from 22 million in 2000 to 25 million in 2018, while during the same period the population in the 15-64 age group bulged to 36 million, an increase of 7 million. The ratio of the female to male labour force participation rate (in percentage terms) has worsened from 69.1 per cent in 2000 to 61.7 per cent in 2019. It is therefore not surprising that labour force estimates show that females make up 40 per cent of the labour force, although they make up 53 per cent of the 15-64 age group, and contributed 4 million to the growing potential labour force in 2000-2018. Unemployment remains low, only picking up slightly from 1.2 per cent in 2016 to 1.6 per cent in 2019. Among the female labour force, unemployment has jumped from 1 per cent in 2010 to 2 per cent in 2019, while among the male it rose marginally from 0.8 per cent to 1.2 per cent. The disparities between male and female labour force are more pronounced among the youth. For instance, while the youth unemployment is slightly higher than the national average at 3.9 per cent in 2019 (1.8 in 2010), the youth unemployment rate among female labour force stands at 5.2 percent in 2019 (1.9 in 2010) while among male youth it is at 2.9 per cent in 2019 (1.7 in 2010).

Agriculture is the dominant employment sector absorbing 50 per cent of the labour force in 2019 (61 per cent in 2000). The services sector is the second largest sector attracting 34 per cent of the labour force in 2019 (26 per cent in 2000). The value-added share of

industry (including construction) has more than trebled from 9.7 per cent to 32 per cent of GDP in 2000-2018 but the industry sector’s employment share remained virtually unchanged (13-16 per cent) in 2000-2019. There were also strong gains in manufacturing value added share, which rose from 7 per cent to 24 per cent of GDP in 2000-2018. In contrast, the value-added share of agriculture, forestry and fishing in GDP continued to shrink from 57 per cent to 25 per cent in 2000-2018.

The sectoral shift in the share of employment from agriculture to other sectors, particularly services, has been rapid, but the industry sector has not created as many jobs despite its growing economic status. This reflects the limited capacity of the sector to absorb labour surplus from the low productivity agriculture sector that is left to employ most of the workforce. Absorptive capacity is not the only constraint to creating a dynamic economy. Generally, labour productivity in Myanmar remains very low, despite some improvements to value added per worker achieved in recent years (Figure 11). For instance, Myanmar’s agriculture value added per worker in 2018 (\$1713) matched India but was less than half that of China. In industry, Myanmar’s value added per work exceeded India’s, but it was at less than half achieved by China. In services, Myanmar’s value added per worker was half of India’s, and thirty per cent of China’s in 2018. Myanmar needs to accelerate the pace of human capital development to impede low skills level becoming major obstacle to its economic progress. About 30 per cent of production workers in Myanmar are low skilled compared to 20 percent in developing East Asia and Pacific countries, and 4 in 10 hiring employers find that the workforce is inadequately educated (World Bank, 2018). The majority of the labour force (58 per cent) are in vulnerable employment, consisting own-account workers and contributing family workers, whose earnings and productivity are too low to make a dent on poverty.

Figure 11: Value added per worker, in constant 2010 US dollars



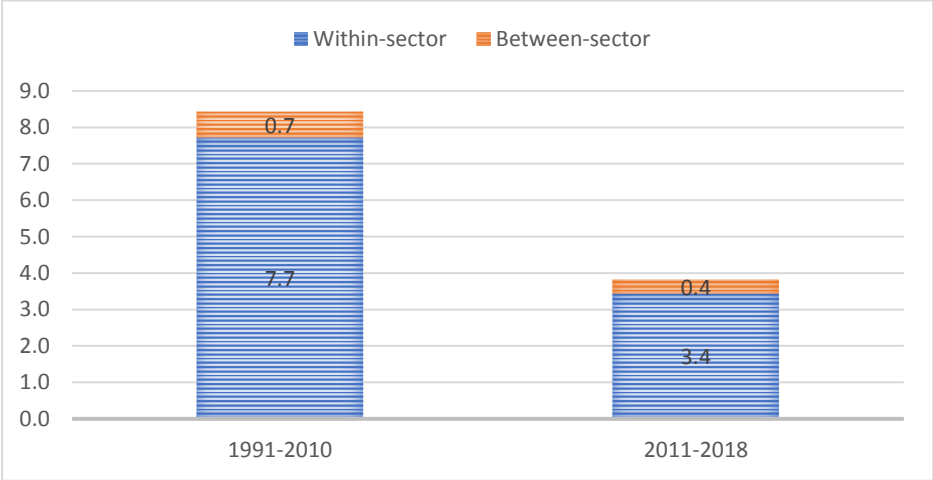
Source: UNCTAD secretariat calculations based on World Bank, World Development Indicators database [accessed: November 2020]

The structure of employment is a both a product, and a cause of the differences in labour productivity. Myanmar’s labour productivity is undergoing a familiar pattern among LDCs of structural change, that is, productivity growth has slowed down significantly over the years as labour shifted from agriculture to other sectors, mainly services. For



Myanmar, labour productivity growth averaged 8.4 per cent in 1991-2010, but it has declined to only 3.8 per cent in 2011-2018 (Figure 12). Despite this, Myanmar is still considered among the best performers among LDCs countries whose labour productivity growth averaged 1.9 per cent in 2011-2018.

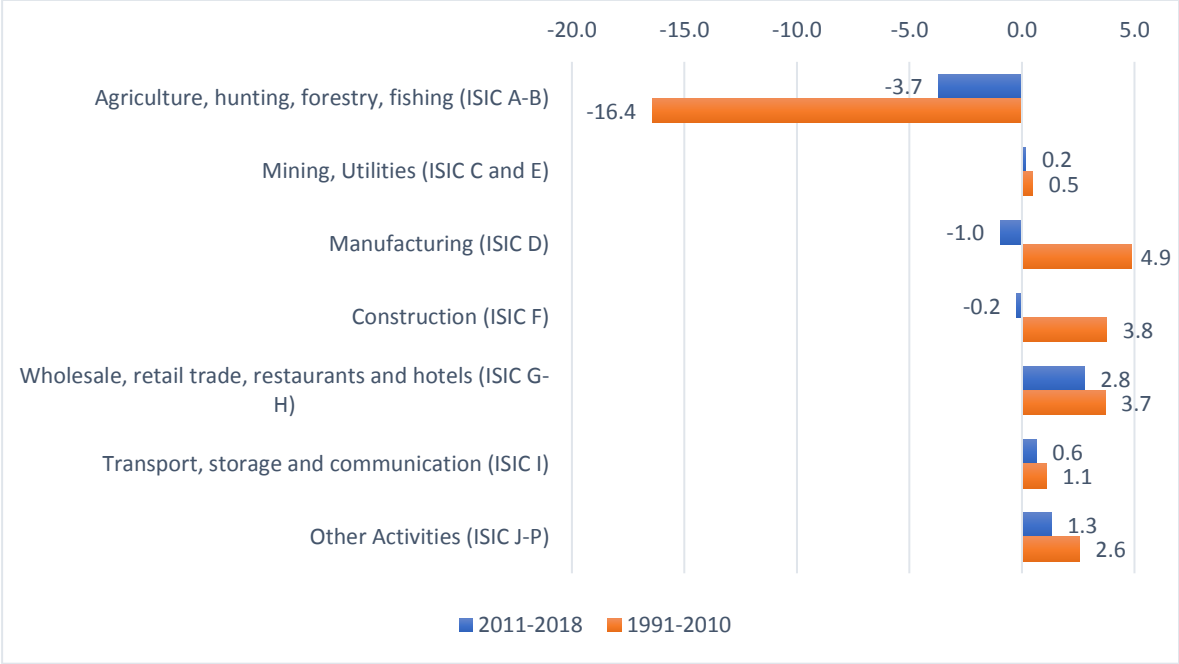
Figure 12: Labour productivity growth, 1991-2018



Source: UNCTAD secretariat calculations based on ILO data.

The slowdown in labour productivity growth signals structural constraints for the country to extract further growth from the economy. Labour productivity complements resource efficiency as a strategy for raising competitiveness and economic growth (Stocker et al., 2015). However, the slowdown in productivity shows that different dimensions of structural transformation including changes in the composition of output have not materialised. The most dramatic change in productivity has been in the agriculture sector where productivity is declining but at a lower rate in 2011-2018 than it was during 1991-2010 (Figure 13). As noted above, the shift in the structure of employment was mainly from agriculture to services sectors, ISIC G-H and ISIC I, both of which had a positive but declining labour productivity growth rates between the two periods. Manufacturing and construction also registered a decline in labour productivity in 2011-2018, although the aggregate value added per worker has been growing rapidly.

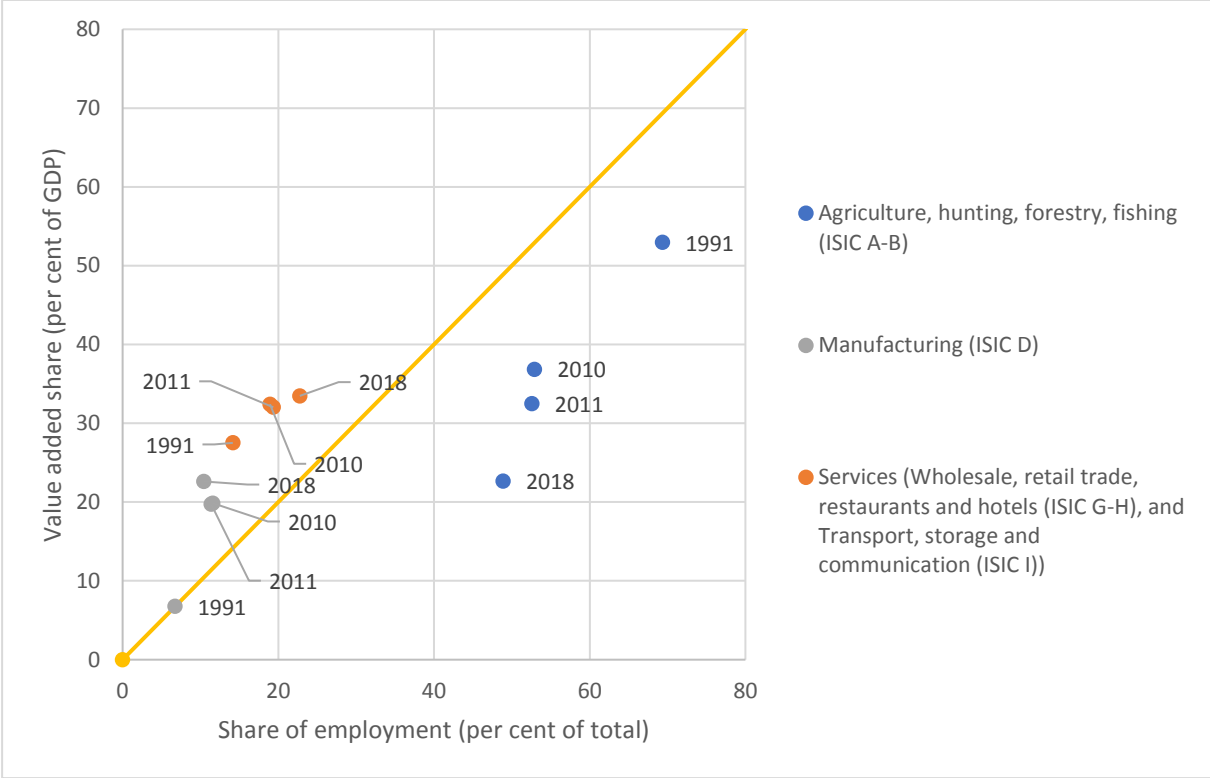
Figure 13: Average labour productivity growth (per cent) by sector, 1991-2018



Source: UNCTAD secretariat calculations based on ILO data

The growing working-age population and improvements in the quality of education may reverse the trend, particularly if training is geared towards preparing the youthful labour force for technology and innovation that are part of the competitive global market. As the structure of employment changes, policymakers should keep track of the labour productivity growth rates and the composition of output more closely to identify the bottlenecks to economic growth and structural transformation. In the case of Myanmar, both agriculture and services have potential for sustaining employment but the potential for gainful employment lies in other sectors (i.e., manufacturing) where jobs are currently limited. The value-added share of manufacturing more than doubled in 1991-2010 without adding much to employment (Figure 14). In 2010-2018, manufactured value-added share grew at a slower pace but the share of employment in the sector has declined. The services sector on the other hand has been adding to jobs and its contribution to economic growth was substantial. However, for the services sector to meaningfully contribute to structural transformation, there is a need to close the sector’s labour productivity gap to manufacturing.

Figure 14: Value added and employment share by sector, selected years



### 3.2 Prosperity

An increase in household income of the bottom half of the population is an indicator of shared prosperity. In the case of Myanmar, the reported inequality with Gini index of 38.1 in 2015 is relatively low compared to its neighbours, however, the World Development Indicators of the World Bank show that the lowest 20 per cent of the population held 7.3 per cent of income in Myanmar in 2015, and the lowest 10 per cent held only 3 per cent. On the other hand, the highest 10 per cent held 31 per cent of the income share, while the highest 20 per cent held 45 per cent of the income in 2015, hence any measure reporting improvement in income distribution should be contextualized. The low-income households also tend to spend proportionately more of their income on basics and essentials, for instance, the proportion of population spending more than 10 per cent of household consumption or income on out-of-pocket health care expenditure was 14 per cent in 2015.

According to the Poverty Report- Myanmar Living Conditions Survey 2017 (Central Statistical Organization et al., 2017), the proportion of the population living under the national poverty line halved from 48.2 per cent in 2005 to 24.8 per cent in 2017, but the extreme poor (1.4 per cent) and moderately poor (13.6 per cent) are quite significant for the populous nation. This was accompanied by a corresponding increase in the proportion of “non-poor secure” from 24 per cent to 42.3 per cent of total population, but the “non-poor insecure” increased significantly from 27.8 per cent to 32.9 per cent. During 2005-2017, the absolute number of poor people declined from 18.7 million to 11.8 million, despite population growth. The number of poor people is concentrated in the rural areas (87 per cent of the total) where the poverty headcount is significantly higher (30.2 percent) than in urban areas (11.3 percent).

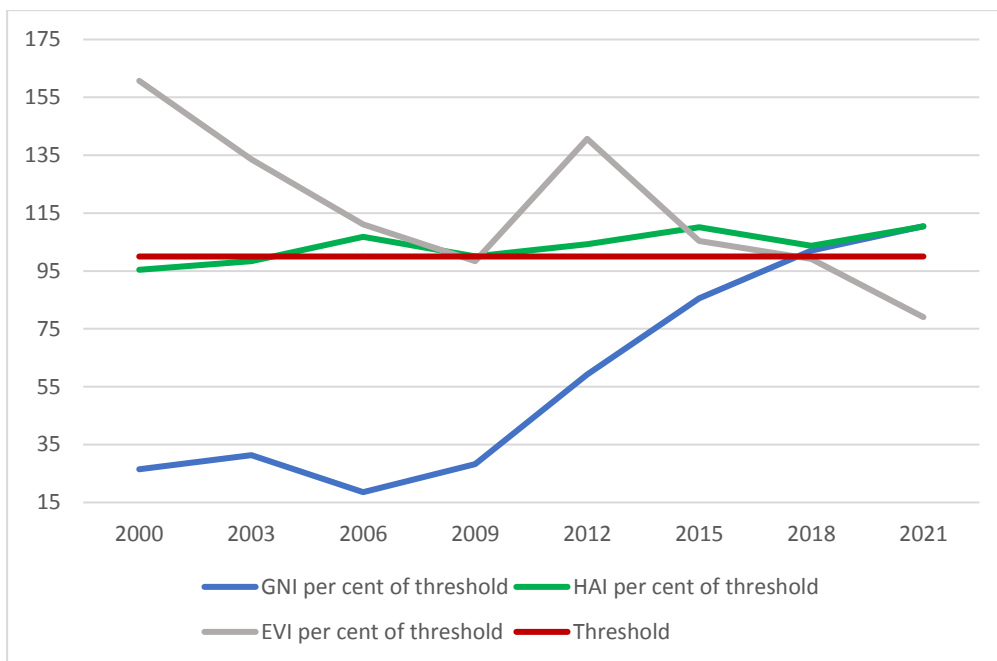
Differences in the engagement and returns from non-farm business and non-agricultural labour, proximity to major towns and cities, explain the differences in household incomes between

regions and cities. For example, Yangon, Mandalay, Mon, Tanintharyi and Sagaing have higher per capita incomes, boosted by a larger share of non-farm business and non-agricultural wages (Central Statistical Organization et al., 2017). In addition, there are significant disparities in terms of poverty and access to, and quality of, health and education services, particularly affecting ethnic minorities, the urban poor, and people living in rural and remote areas. Poverty is 2.7 times higher in rural areas where 30.2 per cent of the population is estimated to be poor compared to 11.3 per cent in urban areas. Most of the poor live in rural areas that represent 87 per cent of the country's poor. Region-wise, the poverty rate is the highest in Chin State, where 58 per cent of the inhabitants are poor, followed by the Rakhine State with 41.6 per cent. At the other end, three Regions – Tanintharyi, Mandalay and Yangon – have the lowest poverty rates in the range of 13-14 per cent (Central Statistical Organization et al., 2017).

Aside from non-comparability of data between individual CDP triennial reviews due to data revisions, changes in data sources, methodological changes and changes in composition of composite indices, it is reasonably possible to track and trace progress towards meeting graduation criteria at various stages. The following section takes into account the changes and analyses the evolution for Myanmar of two of the three LDCs criteria namely, GNI per capita and economic vulnerability. The third criteria, human assets index is discussed in section 3.1.

Among the three graduation criteria, the income criterion has always registered the weakest score in Myanmar, as its GNI per capita was one of the lowest among low-income countries, reaching less than the third of the graduation threshold level during the first part of the 2000s. By contrast, since the CDP started its triennial reviews in 1991, Myanmar's HAI score has been above the threshold level in all reviews except in 2000 and 2003. Its EVI score has bordered the threshold line since 2006 (except in 2012) and even crossed it by low margin in 2009. Myanmar had already met graduation requirements in 2009, when it crossed both the HAI and the EVI criteria by a very thin margin (Figure 15).

Figure 15: Myanmar's LDC graduation criteria, per cent of threshold 2000-2021



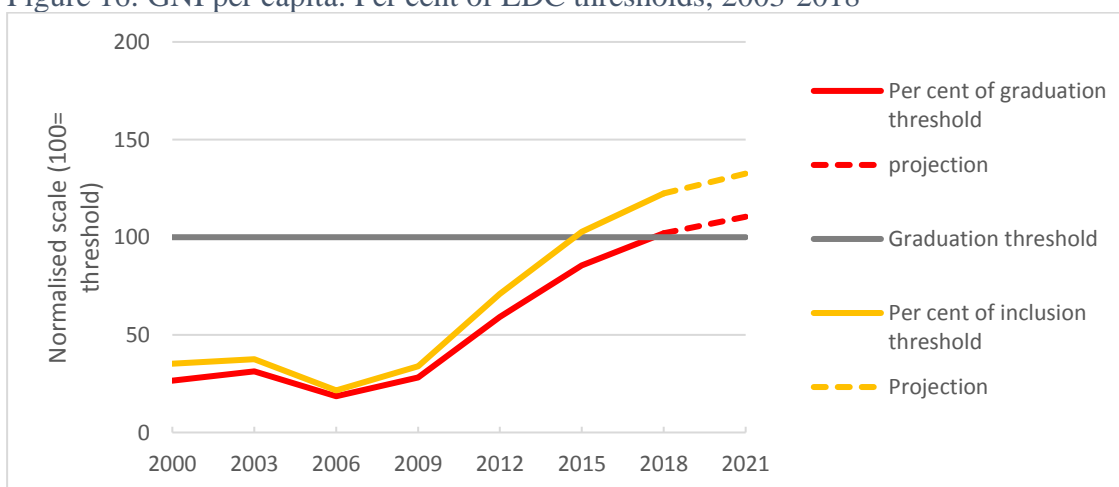
Note: Data after 2018 are projections.

Source: UNCTAD secretariat calculations, based on data from United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria [November 2020].

### 3.2.1 Gross national income per capita

Myanmar's GNI per capita has grown at a remarkable pace since the second half of the 2000s, soaring from 19 per cent of the threshold level in the 2006 CDP Review (that corresponds to 2002-2004 average), to 102 per cent in the 2018 Review when it met the income criterion for the first time (Figure 16). The remarkable rise of GNI per capita is linked to the economic boost in 2011-2019 coinciding with the progressive lifting of sanctions. Prior to that, economic growth was mainly driven by natural resources sectors including agriculture, fishery and forestry; oil and gas; mining; and electricity.

Figure 16: GNI per capita: Per cent of LDC thresholds, 2003-2018



Source: UNCTAD secretariat calculations based on data from United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria [November 2020].

After 2010, growth was underpinned by a broader range of activities that included tourism and manufacturing, which were spurred by improved access to capital and foreign markets after the progressive lifting of sanctions. The construction industry also made positive contribution to GDP growth as the number of infrastructure projects rose on the back of private-sector investment and aid inflows from multilateral partners. In addition, a series of large offshore liquefied natural gas (LNG) projects, such as the Shwe fields, came on stream in 2013, contributing to GDP growth and generating a jump in exports (EIU, 2015).

It should also be noted that Myanmar's population growth is low at 0.6 per cent annual change in 2018, compared to 1.1 per cent in Bangladesh and 1.5 per cent in Lao People's Democratic Republic. In addition, the population growth rate declined sharply during 2000-2010 as the sanctions deepened, and only recovered slightly from 0.62 per cent to 0.85 per cent between 2008 and 2013 before slumping back to 0.63 per cent in 2019. Therefore, while the economic base has been expanding rapidly over the last decade, the slow growth in population has contributed to the growth in per capita income (Table 2).

Table 2: Myanmar: GNI per capita and GDP per capita, 2010 to 2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GNI per capita, Atlas method (current US\$) Source: World Bank	850	1010	1,130	1,220	1,230	1,260	1,280	1,290	1,370	1,390	
GNI per capita (3-year average) Source: CDP	329	414	539	698	876	1,054	1,185	1,243	1,244	1,230	1,257
GDP per capita (current US\$) Source: World Bank	979	1,176	1,166	1,162	1,252	1,287	1,267	1,292	1,418	1,408	

*Note: CDP data correspond to a three-year period. For example, data for 2019 are from 2015-2017. Source: UNCTAD secretariat calculations based on World Bank, World Development Indicators; and data from United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria [November 2020].*

The economic growth benefited from a diversified and fast growing foreign direct investment stock on the back of normalized economic relations with the EU and other developed regions. Over the last decade, FDI was heavily concentrated in the extractive and power sectors, and China, Thailand and Hong Kong SAR, in this order, were the main investors (Bissinger, 2012). While in the period 1988/1989 - 2010/2011, these countries accounted for more than 70 per cent of total approved FDI, their share decreased to 33 per cent between 2011/2012 and mid-2019 and Singapore surged as the main investor concentrating 44 per cent of approved FDI in the latter period. FDI flows from countries such as Viet Nam and Japan have also been on the rise. Sector-wise, new sectors such as transport and communication, manufacturing, real estate, and tourism started receiving increasing FDI flows. Their combined share in total approved FDI projects since 2011 reached 61 per cent, while the share of oil and gas, mining and power has declined to 34 per cent from 86 per cent during the previous decade. The launch of a handful of special economic zones (SEZs), such as the Thilawa SEZ are also attracting FDI (EIU, 2015).

International trade flows have also grown tremendously between Myanmar and other countries beyond the ASEAN region. The trade mix has also improved with more products added to the export basket. Although gas remained Myanmar's largest export category, manufacturing registered a strong recovery, with non-textiles manufacturing posting the strongest increase.

Myanmar has benefited significantly from the reinstatement of its “everything but arms” – trade preferential access to the EU market – since 2013, with its exports more than doubling in a few years. However, the impact of trade on poverty is rather weak, first because of the manufacturing component which has been shown to have little impact on employment creation, and second because of the concentration of export in narrowly defined tradeable sectors, leaving the majority of the population in typically traditional agriculture and non-tradeable services.

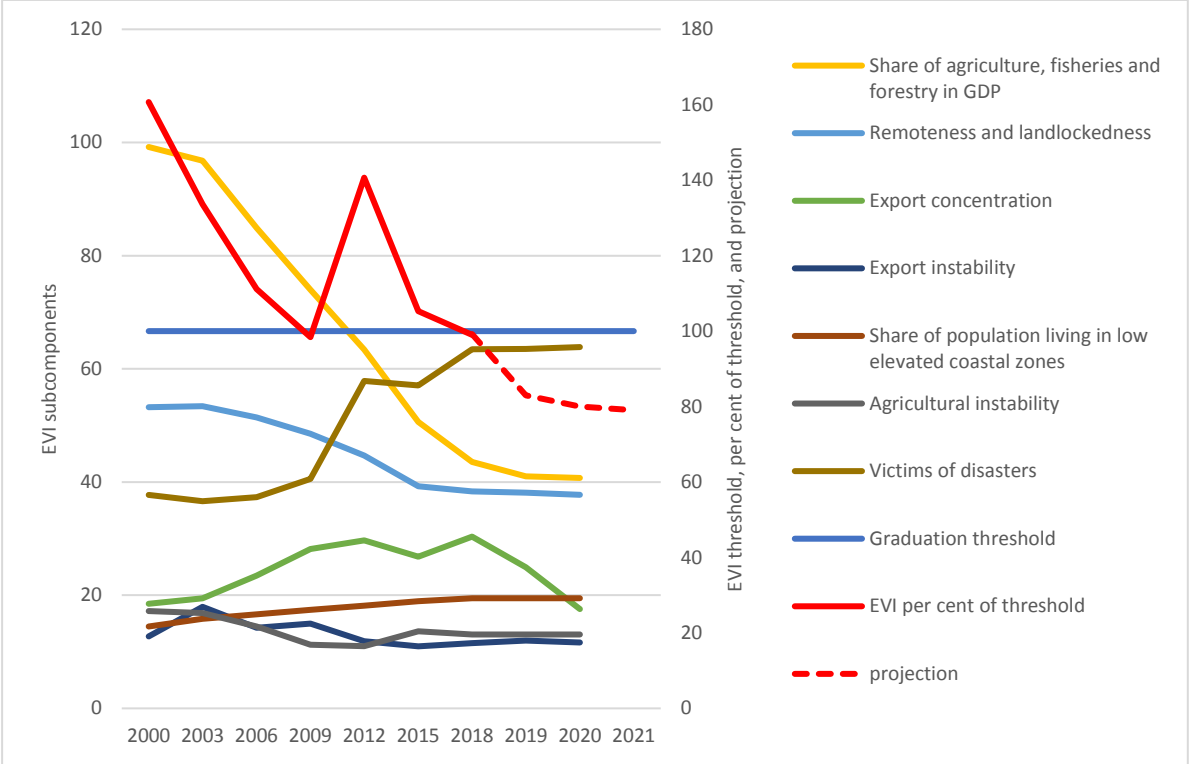
### *3.2.2 Economic and environmental vulnerability*

Prior to uncertainties brought by COVID-19, Myanmar’s economic outlook was positive with strong projections for growth in the medium term. Investment as a share of GDP is rising supported by several mega-projects, including power generation and critical infrastructure development. However, these investments tend to have a cycle, and are likely to phase out in the next few years. The country should focus on building resilience to emerging and long-term risks.

Myanmar faces economic vulnerabilities related to: (i) high reliance on natural-resource based activities and on limited destination markets for its exports, although manufacturing exports have been growing fast in recent years; (ii) the expected erosion of its preferential access to developed countries’ markets as non-LDC ASEAN countries are engaged in negotiations in different trade agreements; (iii) the loss of the trade-related support measures after the country graduates from LDC status, in particular the loss of duty-free and quota-free access to the largest markets of its manufacturing exports; and (iv) its huge investment needs in health, education and infrastructure which have large fiscal commitments that could jeopardize macroeconomic stability and debt sustainability. As shown below, the country is very prone to disasters and weather-related hazards that raise its economic vulnerability.

Myanmar first met the economic vulnerability graduation criterion in the 2009 review and again in the 2018 review. After a 25 per cent decline between 2000 and 2009 when it crossed the threshold level, Myanmar’s vulnerability index inevitably increased in the 2012 review reaching 141 per cent of the threshold, as the country healed from the devastating impact of Cyclone Nargis. The economic vulnerability index has declined rapidly since the 2015 review (Figure 17).

Figure 17: Myanmar- Economic vulnerability index and its subindices



*Note: Data at CDP review intervals; 2021 data are projections*  
*Source: UNCTAD secretariat calculations based on data from United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria [November 2020].*

The analysis by EVI components is limited to the period 2006-2018, because important modifications were introduced in the composition of this index in the 2006 review. The decline of Myanmar’s EVI in 2009 was mainly due to the decline of the remoteness component due to the growing importance in world trade of Asian countries in general, and China in particular, which situates Myanmar relatively closer to major world markets. The share of agriculture, fisheries and forestry in GDP also declined rapidly during the period. There was a slight decrease in other indicators which also contributed to the decline, for example export instability and agricultural instability. The spike in economic vulnerability in 2009-2012 was mainly driven by a sharp increase in victims of disasters and population living in low-lying coastal areas that are also particularly prone to disasters triggered by natural hazards. In addition, export concentration increased on account of the strong comeback of manufacturing and industry as economic relations with the EU and other development countries normalized. These are likely to be mitigated strongly by the expected decline in export concentration, but disasters will remain a major concern. Proactive strategies for mitigating and adapting to future risks and pursuing stronger trade linkages beyond the ASEAN market are key to keep lowering the EVI value further away from the threshold level. These should also include productivity-enhancing measures, building productive capacities and improving labour efficiency. As shown above, labour productivity has been on the rise in all sectors, with industry value added per worker growing fastest in 2000-2018. However, the country lags the major players in the ASEAN market, particularly in manufacturing and industry export capacity as a whole.



### 3.3 Planet

Myanmar's natural resources are facing threats from two fronts: (i) the unprecedented economic boom centred on natural resources depletion is putting pressure on forests and water resources; and (ii) the country's geographic location is in the path of many extreme weather events. Myanmar is one of the world's most disaster-prone countries according to several international rankings of natural disaster vulnerability. For example, in the Global Climate Risk Index (GCRI) developed by Germanwatch for examining the extent to which countries have been affected by weather-related losses, Myanmar ranks second among countries and territories most affected by extreme weather events in 1999-2018. The country experienced 14.29 deaths per 100,000 inhabitants, and \$1.6 billion losses (1 per cent of GDP) from 55 recorded events in 20 years. Puerto Rico is the most affected country by extreme weather events, followed by Myanmar and Haiti (Eckstein et al., 2019). Losses caused by disasters between 2006 and 2015 have been estimated to be around 2 per cent of GDP annually (IMF, 2020a).

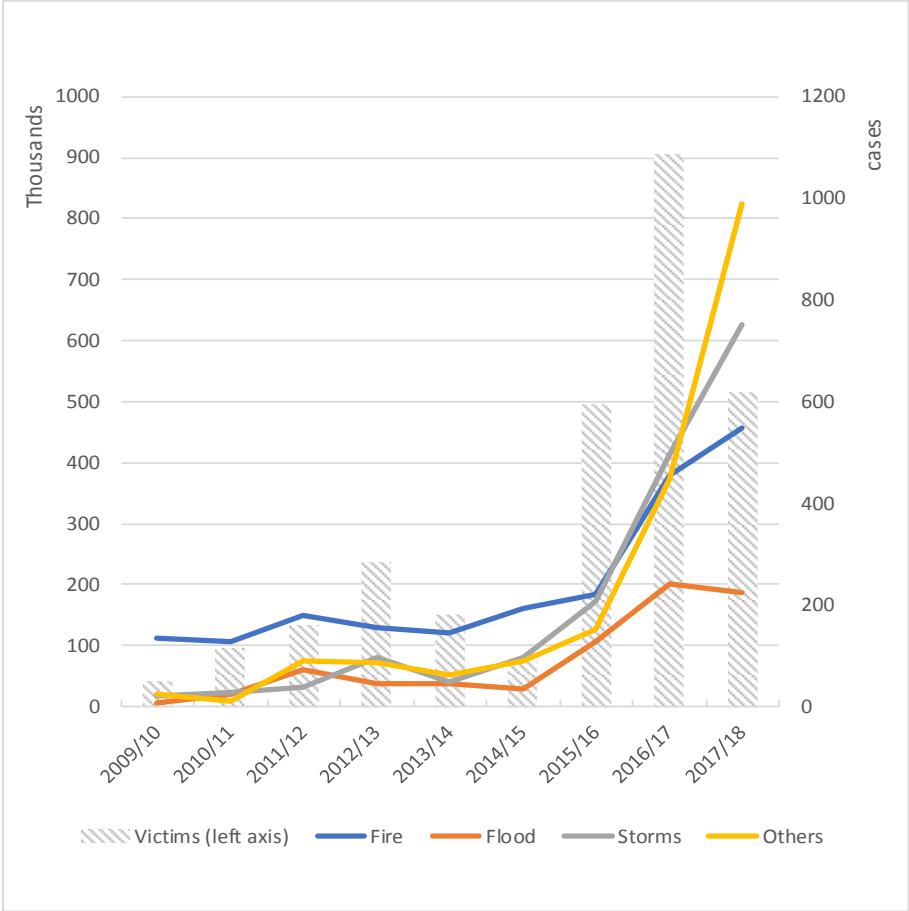
Myanmar is exposed to a range of natural hazards that have become more intense and more frequent (Figure 18). They include cyclones, tsunamis, storms, floods, landslides, earthquakes, drought and forest fires.<sup>6</sup> These hazards are accompanied by high economic and social costs, with significant impact on the poor and most vulnerable and severe damages to the economy and infrastructure.

Cyclone Nargis in 2008 remains the worst natural disaster to ever hit Myanmar. The category 3 cyclone is responsible for 140,000 people dead or missing, about 2.4 million seriously impacted and considerable damage to the agricultural sector in parts of the Ayeyarwady and Yangon divisions. Furthermore, Yangon was badly damaged. Ayeyarwady Delta, also known as the rice bowl of Myanmar, was critically affected, and infrastructure were seriously damaged both in Ayeyarwady and Yangon. Saltwater intruded into large areas of land which provoked significant reduction in productivity and in the total farmed land. The fishing industry was also severely affected, due to the loss of fishing gear (Government of Myanmar et al., 2008). Assets in the Nargis-affected areas were seriously depleted, particularly in the rural Ayeyarwady Delta (Dapice et al., 2009). The estimated total cost of damage to the economy due to Nargis is estimated at \$4 billion, which includes damage to infrastructure and other long-term socioeconomic impacts (Government of the Union of Myanmar, 2015).

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<sup>6</sup> See: UNDP, «President announces national environment and climate change policies to mark World Environment Day 2019», Press Release, June 5, 2019; <https://www.mm.undp.org/content/myanmar/en/home/presscenter/pressreleases/2019/president-announces-national-environment-and-climate-change-policies.html>, and GFDRR (Global Facility for Disaster Reduction and Recovery), «Myanmar», <https://www.gfdr.org/en/myanmar>

Figure 18: Catastrophic occurrences in Myanmar, 2009 to 2018



Source: Myanmar Department of Disaster Management

More recently, major floods in 2015 displaced 1.6 million persons and exposed multiple economic vulnerabilities (MIMU and HARP-F, 2018). Four of the five most affected States or Regions – namely Ayeyawaddy, Sagaing, Magway, and Bago – are the top four sources of agriculture output in Myanmar. The States of Rakhine and Chin the two poorest among all States and Regions were also affected by the floods and declared as natural disaster zones by the government. The government estimates that in Rakhine alone, around 210,000 acres of rice paddy were destroyed, and 20,000 livestock lost. Loss of assets was accompanied by loss of access to basic services such as clean water, sanitation, health and education (World Bank, 2015). According to the World Bank, the immediate economic impact of the 2015 floods in terms of physical assets destroyed and production losses amounted to 3.1 per cent of GDP in 2014/2015 (HAP-F and MIMU, 2018). The impact of the flooding largely explains the sharp rise in inflation, peaking at 16 per cent in October 2015, the decline of 12 per cent in exports in the first three quarters of 2015-2016 due to the agriculture supply shock, which has contributed to a growing trade deficit and exchange rate fluctuations (World Bank, 2016).

Myanmar’s Intended Nationally Determined Contributions provides a sneak view of some of the priority areas for climate adaptation and mitigation. First, the country’s large stock of standing forests gives Myanmar an advantage over other South-east Asian countries on contribution to carbon sinks. Second, the country intends to transform its energy supply by among others, increasing the electrification rate to 45 per cent by 2020/21, 60 per cent by 2025/26 and 80 per cent by 2030 – with hydroelectricity generation capacity expected to reach 9.4 Gw by 2030, and expanded use of renewable

sources for electricity supply to rural areas (Government of the Union of Myanmar, 2015). These priorities, including the ambition to increase land under forest cover, sustainable infrastructure development and other ecosystem adaptation measures would have to be supported by adequate means of implementation, including finance. For consistency, the climate-related policy interventions should be articulated in more detail and integrated into the Myanmar Sustainable Development Plan.

Floods, cyclones and droughts are becoming more intense and more frequent, causing loss of life and severe damages to the infrastructure and the economy, and their impacts are expected to increase in the future. Recognizing the importance of mitigating and adapting to environmental risks, the government has made significant progress in its disaster management policies, plans, and procedures, although the resources to implement the policy changes have been slower to develop. The Armed Forces (Army, Navy, Air Force) are a primary responder in disaster response in Myanmar, although the past decade has resulted in notable transformations in civil-military coordination in disaster response (RCG, 2017). In the aftermath of the impact the Cyclone Nargis in 2008, the Government issued in January 2009 the Standing Order on Natural Disaster Management in Myanmar that outlines the involvement of the Myanmar Armed Forces in disaster response and defines the mandate, roles and responsibilities for national level institutions in disaster management. The Standing Order was updated in 2011.

Lack of capacities at various levels has been identified as one of the most critical factors that have impeded prevention and mitigation, preparedness for effective response and recovery and reconstruction after disasters. In 2013, the Government created new authorities and plans to improve the effectiveness of disaster management at all levels. The National Natural Disaster Preparedness Central Committee (NNDPCC), under the chairmanship of the second vice-president, was established in 2013 and replaced the Myanmar Disaster Preparedness Agency. Its task is to ensure disaster preparedness and to promote coordination and quick and effective disaster relief and response activities.

Considering the importance of capacity-building for disaster risk management, the National Disaster Management Law was enacted in 2013 and the subsequent Disaster Management Rules in 2015. They stipulate that the capacities of the public shall be enhanced for building a disaster-resilient community and outline roles and responsibilities of military and civilian actors. This includes guidance on requesting assistance from the military for search and rescue operations, for security in disaster-affected areas and for delivery of assistance to victims more generally. The coordination of external support is now guided by the Myanmar Development Assistance Policy which was first launched in 2018 and updated in September 2020, with the aim of aligning development assistance with the national development framework, Myanmar Sustainable Development Plan (Government of the Union of Myanmar, 2020b). The government also approved the establishment of the Disaster Management Training Centre (DMTC) that started operating in December 2015 with the aim of building capacities for implementing disaster management activities (RCG, 2017; Government of the Union of Myanmar, 2017). As a member of ASEAN, Myanmar is part of the ASEAN Agreement on Disaster Management and Emergency Response that came into force in 2009. It is the first legally binding regional agreement aligned with the Hyogo Framework for Action.

Disaster preparedness working committees also exist in regions and states and at district, township, village level. Their role is to monitor potential and imminent disasters,

implement responses, share relevant data and provide information to the public, ensure systemic provision of food and relief items and rehabilitation materials to victims (World Bank, 2015b). In July-August 2015, massive floods caused extensive and severe damage throughout Myanmar. An investigation on the disaster response in the Bago river Basin found that “for the first time the disaster response system in Myanmar functioned also at a local level, with local agencies sharing relevant data and providing information to the public. It was evident that authorities in the Bago River Basin had learnt from the floods of 2011 and had implemented structural and non-structural measures for flood risk reduction” (Kawasaki et al., 2017, p.151).

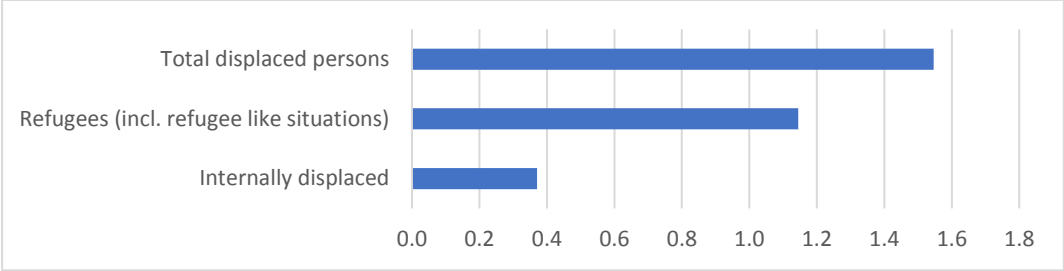
In June 2019, the Government of Myanmar launched two new policies: the National Environment Policy and Climate Change Policy that recognize the increasing threat of extreme weather and other climate change impacts to the country’s economic and social development and set out the objective of transforming Myanmar into a climate-resilient, low-carbon society that is sustainable, prosperous and inclusive and with healthy and functioning ecosystems. These two policies are a culmination of five years of work led by the Ministry of Natural Resources and Environmental Conservation with support from UNDP and the Myanmar Climate Change Alliance and funded by the European Union with technical support from UN Environment and UN-Habitat. The two new policies will allow the Government to integrate the environment across all its development planning, particularly in harmony with the recently adopted Myanmar Sustainable Development Plan 2018-2030.

### 3.4 Peace and institutional capacity

Myanmar is beset by internal violent conflicts that began shortly after the country became independent from the United Kingdom in 1948 and that have been described as one of the world's "longest-running internal conflicts" (MIMU and HARP-F, 2018). Internal violent conflicts have created territorial challenges and hindered economic development, and they continue to weaken the political transition and to affect the economy and the well-being of the population. Since 2011/2012, they mostly involved non-signatory groups to the above-mentioned Nationwide Ceasefire Agreements and resulted in the displacement of huge number of people (MIMU and HARP-F, 2018).

Displacements have devastating economic and social impacts, including the loss of revenue, the instability of access to health, education, and nutrition, which erodes the resilience of communities and household and severely affects their well-being. Peace and stability through addressing the inclusion of all minority groups living in Myanmar are necessary conditions for progress towards democracy, sustainable economic development and poverty alleviation. In 2018, the total number of displaced persons was 1.5 million and most of these were in refugee or refugee-like situations (Figure 19). Internally displaced persons were fewer (around 400,000), but because of the nature of the cause of displacement, internal displacements are usually harder on individuals than external migration.

Figure 19: Population of displaced persons, millions in 2018

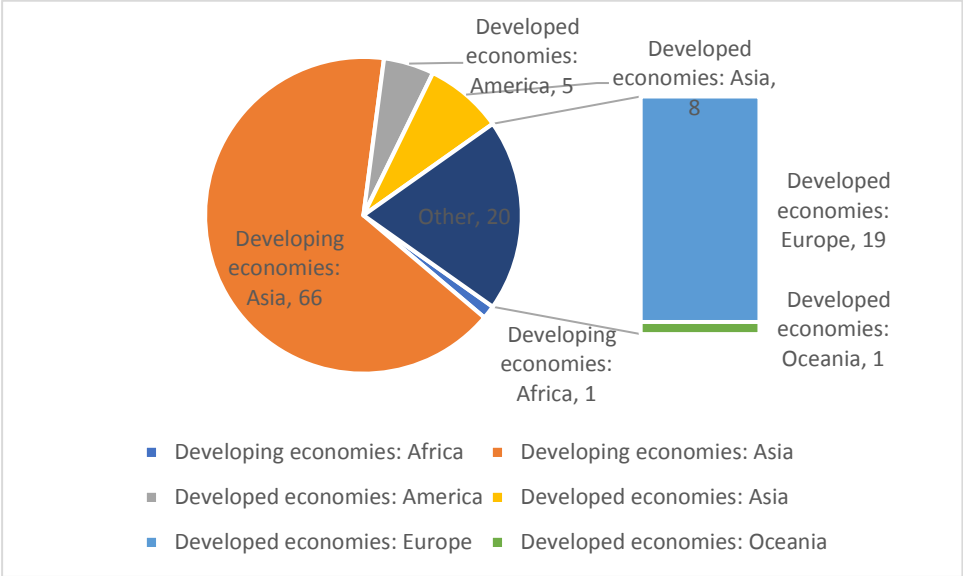


Source: UNCTAD secretariat calculations based on data from UNHCR, Refugee Populations Statistics Database [accessed April 2020]

**4. Evaluation of the consequences of the identified vulnerabilities**

The country's trade links have expanded beyond developing countries in Asia, with the share of developed countries in total exports increasing seven-fold from 4 per cent in 2010 to 28 per cent in 2018. Currently (2019), developing Asia accounts for 66 per cent of the export market, while developed economies in Europe account for 19 per cent of the exports (Figure 20).

Figure 20: Myanmar export market shares, 2019



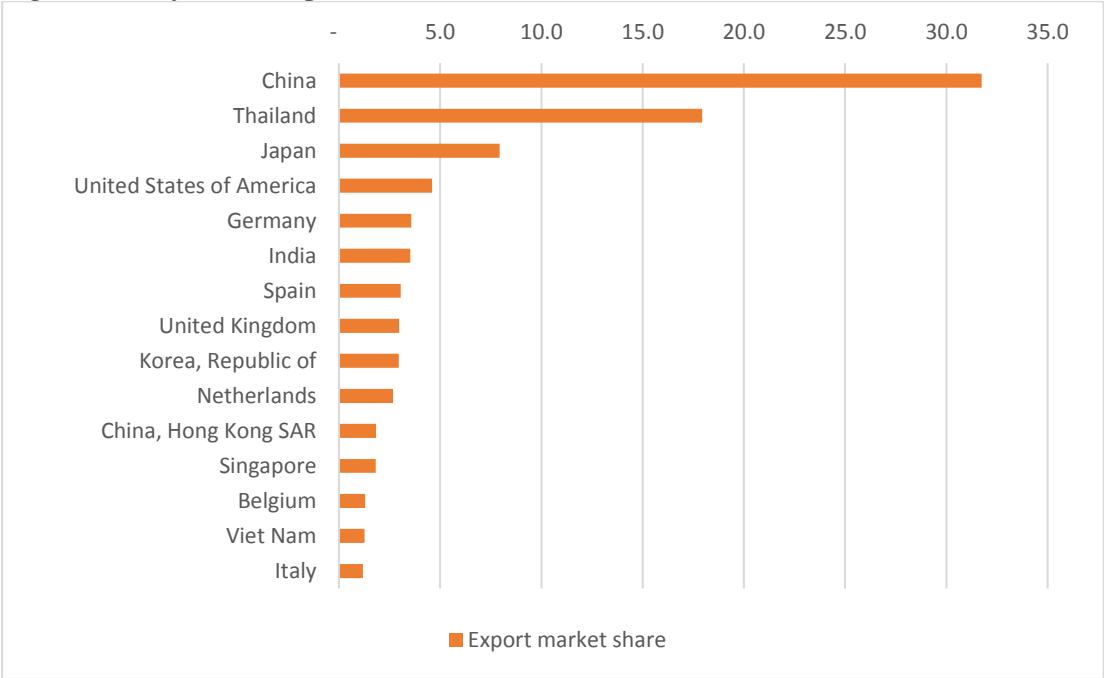
Source: UNCTAD secretariat calculations based on UNCTADStat [accessed: November 2020]

Merchandise exports grew at an annual average rate of 9 per cent in 2011-2019, with the strongest increase registered by ores and metals (39 per cent) and manufactured goods (40 per cent). Fuel exports increased by an average of 8 per cent over the period and had an erratic trajectory shifting from a robust average annual growth of 15 per cent between 2011 and 2015, to an average annual decrease of 0.3 per cent between 2016 and 2019, with the biggest annual drop of 32 per cent recorded in 2016. According to UNCTAD's UNCTADStat database, export concentration index for Myanmar rose from 0.32 in 2013 to 0.40 in 2014 as manufacturing exports increased. It has since receded to 0.25 in 2019

as exports diversified over the slowdown in commodity markets, particularly oil and other natural resources.

Export markets remain dominated by two countries - China and Thailand, which absorbed 50 per cent of Myanmar’s total merchandise exports in 2019. These two countries are the only destination of Myanmar’s natural gas exports that represented 29 per cent of the value of total merchandise exports in 2011-2018. This means that any shock affecting these two destination markets is directly transmitted to Myanmar through the trade channel. During 2011-2018, there has been important changes in the destination of exports, with a strong increase of export shares to both China - that has replaced Thailand as the first export destination since 2014 - and the QUAD countries (India, Australia, United States and Japan). While the expansion of exports to China is driven by primary commodities - including gas (that China started importing from Myanmar in 2014), sugar, rice, copper, live animals, fruits, vegetables and fishes - QUAD countries’ increasing shares in total exports is driven by manufactured goods. Between 2011 and 2019, the share of QUAD in total exports increased marginally from 15 per cent to 16 per cent, mainly driven by the United States of America (from 0.1 per cent to 5 per cent) and Japan (4 to 8 per cent). In 2019, top 15 export destinations included a number of non-ASEAN members, including the EU and the United States of America (Figure 21).

Figure 21: Myanmar export destination (value shares), 2019



Source: UNCTAD secretariat calculations based on UNCTADStat

Myanmar enjoys trade preferences from Australia, Canada, the EU, Japan, Norway and South Korea. In addition, it benefits from duty-free access within ASEAN and from the trade preferences under the FTAs concluded by ASEAN with the five Asia Pacific countries under RCEP. The duty-free access provided by preferential trading arrangements has been one of the key elements explaining the rapid growth of its manufactured exports, especially for products where MFN duties are high. In the EU, for example, the average MFN import duty on garments is 12 per cent, while the MFN duties on shoes range between 3.5 per cent and 17 per cent depending on the tariff line considered. Non-LDC developing countries have a 20-per-cent cut of MFN rate for

garments under the EU GSP, meaning that the preference margin for LDCs compared to non-LDCs is 9.6 per cent. These differences in import duties can have significant impacts on profit margins, and thus provide incentive to export-oriented investment in those sectors where the preference margin is high (UNCTAD, 2019).

About 76 per cent of Myanmar's exports to Australia, India, Japan and the United States of America (QUAD) are manufactured goods, of which 49 per cent are textile fibres, yarn, fabrics and clothing (UNCTADStat). Almost all exports from Myanmar to QUAD countries may lose preferential access after graduating from LDCs status and achieving its smooth transition period. The challenge of progressive preference erosion may be mitigated by the recently concluded Regional Comprehensive Economic Partnership (RCEP) between the 10 ASEAN member states and China, Japan, South Korea, Australia and New Zealand. For Myanmar, RCEP countries represent 67 per cent of its merchandise export market in 2019, and it absorbed 39 per cent of its manufactured exports, 80 per cent of agricultural raw materials exports, 85 percent of ores, metals, precious stones and non-monetary gold exports, and 99.7 per cent of fuels exports (Table 3). The RCEP agreement covers trade in goods but excludes some services and agriculture. However, it has provisions for temporary movement of natural persons, and a host of specific provisions on investment, intellectual property, electronic commerce, competition, and small and medium enterprises, among others (ASEAN, 2020). The RCEP harmonizes the Free Trade Agreements between the ASEAN countries and the five countries, eliminating the need for separate trade agreements among the countries and creating room for further liberalization of trade in areas not currently covered by the agreement.

It is also important to note that the trade arrangements with the EU will have an impact on the ASEAN cumulation provision, which can affect Myanmar insertion in regional value chains. This is because "once the FTAs with the EU are ratified, the ASEAN countries will no longer be eligible under the GSP after a transition period of two years and consequently their inputs may no longer be used by Myanmar under ASEAN cumulation (on the other hand) these ASEAN countries will be progressively able to cumulate among themselves while Myanmar and other ASEAN LDCs will not be able to cumulate with them". (UNCTAD, 2019b, p.20). However, the European market growth has been strong, particularly for manufactures, including textiles fibres, yarn, fabrics and clothing; as well as electronics excluding parts and components (Table 3). Thus, with the uncertainty over the expected EBA withdrawal, the diversification of export partners is a clear risk diversification strategy for the foreseeable future, but there is scope for the exports to Europe to compete strongly particularly in manufactures.

Table 3: Myanmar exports to countries in the RCEP, \*value or share of total export of the product

Year	Product	Australia	China	Japan	Korea, Republic of	New Zealand	ASEAN (Association of Southeast Asian Nations)	European Union (2020)
<b>2000</b>	<b>*All merchandise exports (million US dollars)</b>	<b>7.7</b>	<b>104.3</b>	<b>99.8</b>	<b>19.0</b>	<b>1.0</b>	<b>390.5</b>	<b>206.7</b>
<b>2011</b>	<b>*All merchandise exports (million US dollars)</b>	<b>6.2</b>	<b>1515.3</b>	<b>310.0</b>	<b>207.0</b>	<b>0.3</b>	<b>3961.2</b>	<b>90.3</b>
<b>2019</b>	<b>*All merchandise exports (million US dollars)</b>	<b>28.1</b>	<b>5712.6</b>	<b>1428.5</b>	<b>530.6</b>	<b>3.5</b>	<b>4282.0</b>	<b>2795.3</b>
2019	<i>Agricultural raw materials (SITC 2 less 22, 27 and 28)</i>	0.1	55.6	2.64	3.1	0.0	19.1	3.0
2019	<i>Fuels (SITC 3)</i>		43.5	0.02			56.2	
2019	<i>Manufactured goods (SITC 5 to 8 less 667 and 68)</i>	0.3	6.3	18.55	6.5	0.0	6.8	36.6
2019	<i>Machinery and transport equipment (SITC 7)</i>	0.2	4.3	9.92	1.4		45.6	3.7
2019	<i>Electronic excluding parts and components (SITC 751 + 752 + 761 + 762 + 763 + 775)</i>	0.3	1.9	1.10	0.0		2.9	12.3
2019	<i>Parts and components for electrical and electronic goods (SITC 759 + 764 + 772 + 776)</i>	0.8	12.8	36.05	3.6		19.4	3.2
2019	<i>Other machinery and transport equipment (SITC 7 - (751 + 752 + 761 + 762 + 763 + 775 + 759 + 764 + 772 + 776))</i>	0.0	3.4	7.55	1.3		56.0	2.4
2019	<i>Iron and steel (SITC 67)</i>	0.0	98.0	1.28	0.0		0.3	0.0
2019	<i>Textile fibres, yarn, fabrics and clothing (SITC 26 + 65 + 84)</i>	0.2	1.9	22.01	7.6	0.0	2.8	46.2
2019	<i>Primary commodities, precious stones and non-monetary gold, excluding fuels (SITC 0 + 1 + 2 + 4 + 68 + 667+ 971)</i>	0.1	52.1	1.47	1.0	0.0	20.8	2.5
2019	<i>Ores, metals, precious stones and non-monetary gold (SITC 27 + 28 + 68 + 667 + 971)</i>	0.0	64.3	0.70	0.8		19.3	0.1

Source: UNCTAD calculations based on UNCTADStat [accessed November 2020]

#### 4.1 Trade diagnostics

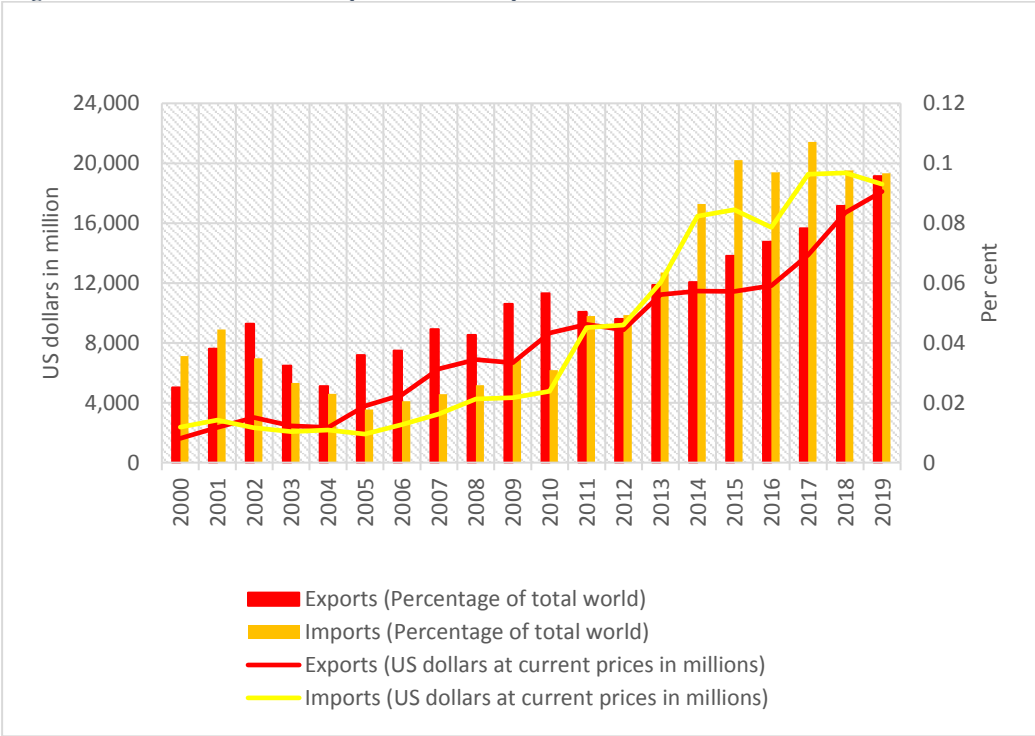
According to World Integrated Trade Solution (WITS), the Country Policy and Institutional Assessment (CPIA) trade rating for Myanmar is 3.5, a medium value for an index that ranges between 1 (lowest) and 6 (highest). The country is ranked 165<sup>th</sup> (of 189 countries) in the World



for Ease of Doing Business and 168<sup>th</sup> for Trading Across Borders. Myanmar exported 1,708 products classified at the 6-digit level of the Harmonized System (SITC Revision 2) to 138 country partners in the world and imported 3,876 products from 183 country partners in 2018. The Hirschman Herfindahl Market concentration index that measures the dispersion of trade value across an exporter’s partners averaged 0.14 for Myanmar between 2014 and 2018, a value closer to zero (perfectly diversified trade portfolio) than one (exports and imports that are concentrated in a very few markets). The Myanmar Index of export market penetration between 2014 and 2018 was 4.69. The index measures the extent of Myanmar’s reach in proven export markets, and it is calculated as the number of countries to which the reporter exports a particular product divided by the number of countries that report importing the product that year.

Myanmar had seven trade agreements in 2015, and a merchandise trade balance deficit of \$496.6 million in 2019. Imports have been growing faster than exports since 2012, but the previous decade (2002-2011) saw the country achieving a positive trade balance. Figure 22 shows the evolution of exports and imports of merchandise in Myanmar from 2000 to 2019. Over the past 20 years, Myanmar has seen its exports and imports increased tenfold. Merchandise exports have grown from \$1.6 billion in 2000 to \$18.1 billion in 2019, an average annual increase of 13.5 per cent, while imports have increased from \$2.4 billion to \$ 18.6 billion, an annual average increase of 11.5 per cent. Myanmar’s share of world trade is very low, at most 0.1 per cent, or one thousandth of world trade. However, the share has grown from 2000 to 2019. In 2000, the export and import percentages of total world were 0.025 per cent and 0.36 per cent respectively.

Figure 22: Merchandise exports and imports, 2000-2019

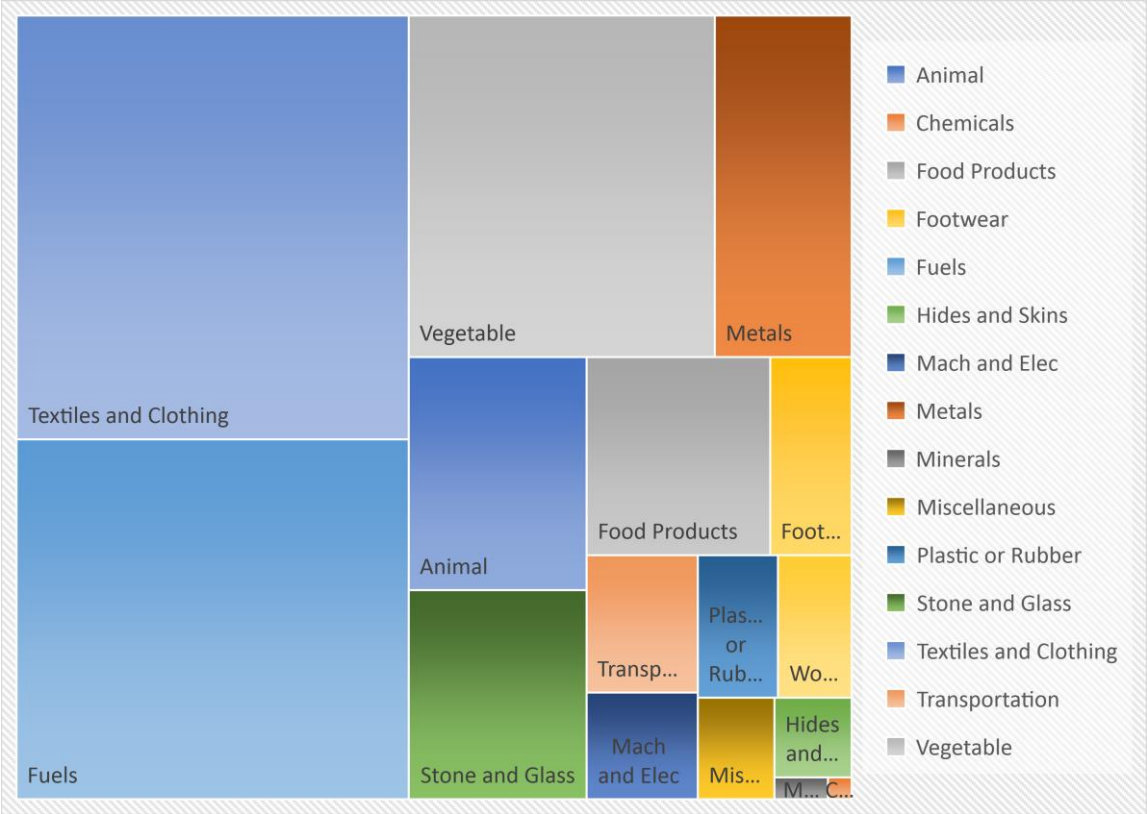


Source: UNCTAD calculations based on UNCTADstat

The 1708 products that Myanmar exported in 2018 can be divided into 16 product groups as illustrated in Figure 23. In 2018, the textiles and clothing represented more than a quarter of Myanmar exports, while fuels represented about a fifth of its exports. The country exported \$4.2 billion of textiles and clothing and \$3.6 billion of fuels in 2018. Vegetables accounted for

about 16 per cent of Myanmar exports in 2018 with a value of \$2.7 billion. These 3 products accounted for more than 60 per cent of Myanmar’s merchandise exports. Animals, food products, metals and stone and glass were all above 5 per cent of exports in 2018. The other nine product groups combined, namely Chemicals, Footwear, Hides and Skins, Machinery and Electric Products, Minerals, Miscellaneous, Plastic or Rubber, Transportation and Wood, only accounted for 12.3 per cent of total exports.

Figure 23: Share of exports by commodity group



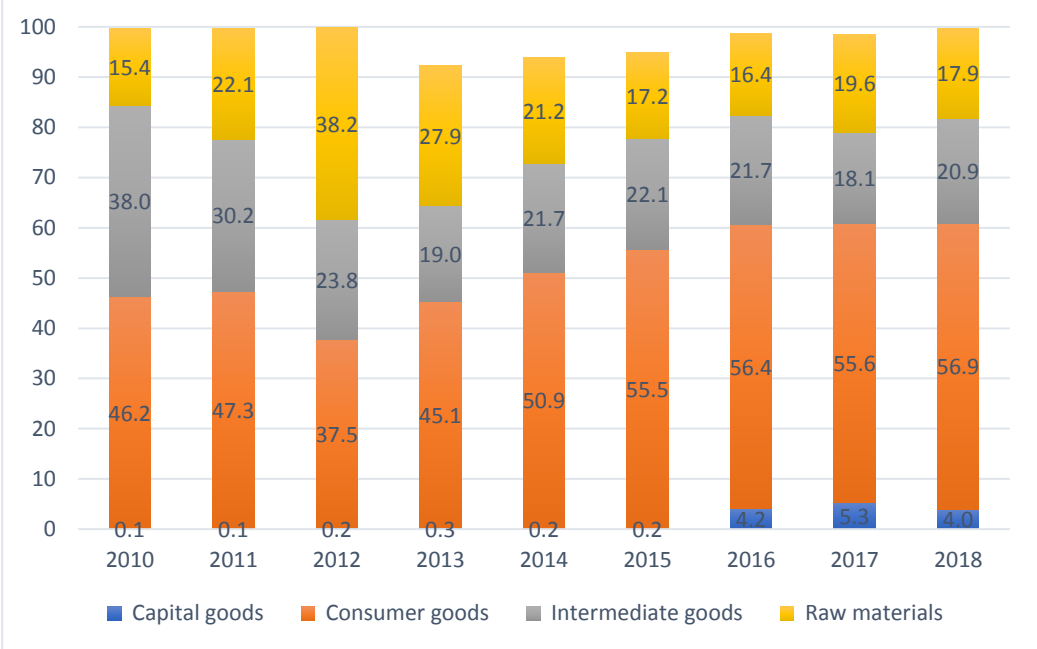
Source: UNCTAD calculations based on data from World Integrated Trade Solutions (WITS)

The export and import products can also be classified into four groups according to the stage of processing and their final use: capital goods, consumer goods, intermediate goods and raw materials. Whether it is imports or exports, consumer goods are the most traded in Myanmar. In 2018, the consumer goods exports accounted for 57 per cent of exports. In value terms, the country exported \$ 9.5 billion of consumer goods and imported \$ 8.3 billion of consumer goods. As for raw materials, constituting 18 per cent of exports in 2018, they exceeded corresponding imports since the country exported almost \$3billion while importing only \$565 million of raw materials. Myanmar however was a net importer of capital goods and intermediate goods. In fact, the value of exported intermediate goods was \$3.5 billion while imports amounted to \$ 5.8 billion in 2018. Capital goods imports were valued at \$4.6 billion while only \$668 million of capital goods are exported in the same year.

In terms of the evolution of exports share by stage of processing, the proportions vary over time as Myanmar went through various stages of development. However, capital goods are still the least exported goods abroad. Although the proportion is very low, it has increased since 2010, rising from less than 0.1 per cent to 4 per cent in 2018 (Figure 24). Consumer goods have always had the highest share in exports since 2010 except in 2012 where they were slightly less than raw materials. 2012 is the only year where the share of consumer goods was below 45 per cent

(37.5 per cent). Since 2014, more than half of exports have been composed of consumer goods. From 2012 to 2018, the share of intermediate goods in total exports was around 20 per cent. The share of raw materials in exports has been slightly lower than the share of intermediate goods in recent years.

Figure 24: Export product share by stage of processing (per cent of total exports)



Source: UNCTAD secretariat calculations based on data from World Integrated Trade Solutions (WITS)

A value chain-based analysis shows that Myanmar is weakly involved in the global market with a global value chain share of 35 per cent in 2015 (Table 4). Exports are also based on very weak backward participation of other sectors. A similar involvement is also found for foreign value added in exports, implying a concentration of domestic content in exports (agricultural products or finished products). This shows that the value added by importer countries is very low. Only the backward participation of private households’ sector is above to 1 per cent (1.2 per cent). Thus, the global value chain consists mainly of forward participation, which corresponds to Myanmar domestic value added embedded in its intermediate exports used by the direct importer country to produce exports or ultimately absorbed by other economies.

Table 4: Decomposition of exports in domestic values and foreign values added

	Millions of \$US	per cent of exports
Gross exports (GEXP)*	5210.69	100
Domestic content (DC)	5202.34	99.84
Domestic Value-Added (DVA)	5202.34	99.84
VAX -> DVA absorbed abroad	5202.33	99.84
Reflection	0.01	0
Domestic double counting	0	0
Foreign content (FC)	8.35	0.16
Foreign Value-Added (FVA)	8.35	0.16
Foreign double counting	0	0
GVC-related trade (GVC)	1822.14	34.97
GVC-backward (GVCB)	8.35	0.16

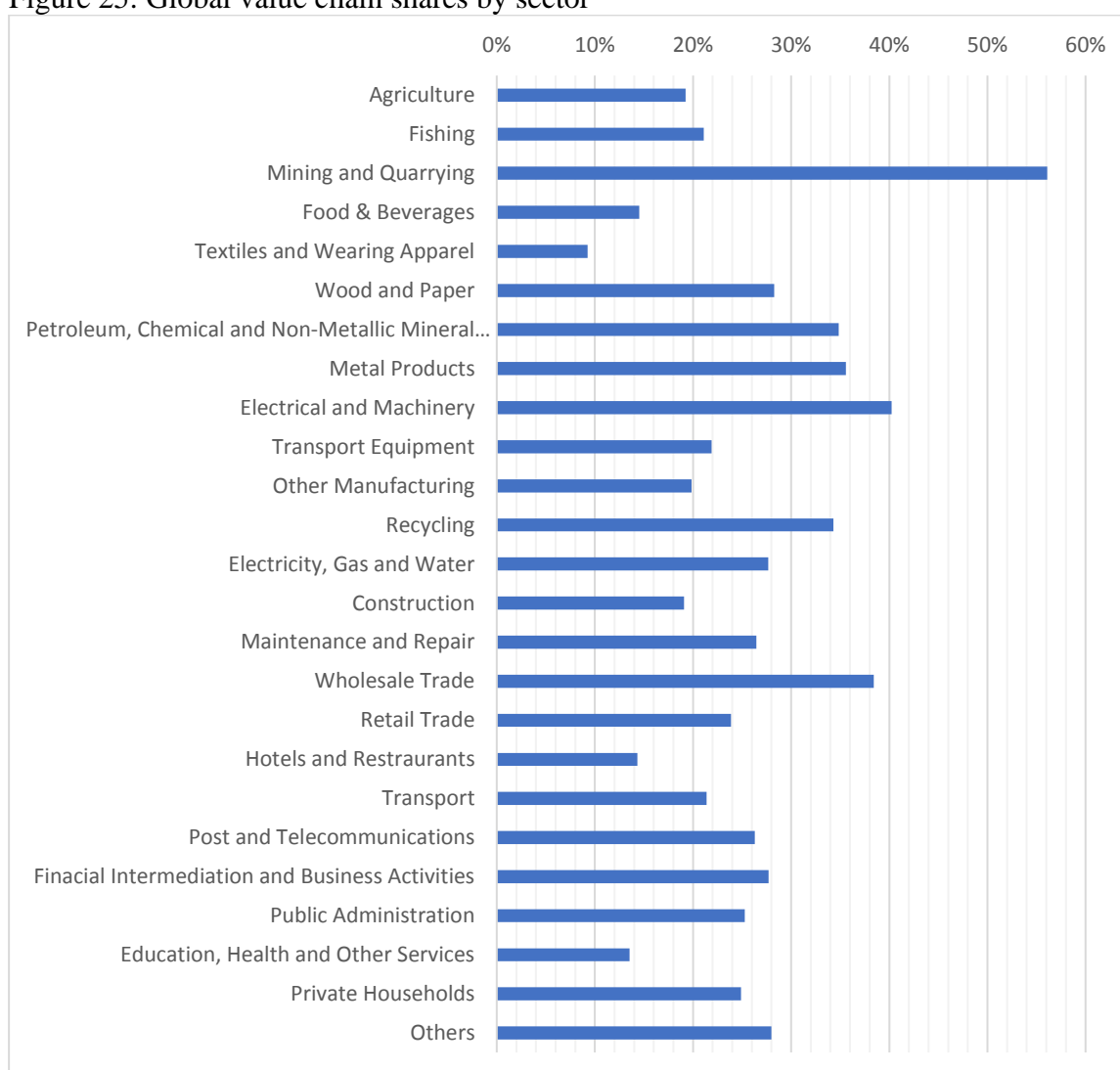
GVC-forward (GVCF)	1813.79	34.81
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*Note: The gross exports in Input-Output Table are often smaller than the observed exports, because this export takes account only the first exportation of the products.*

*Source: UNCTAD secretariat calculations based on data from UNCTAD Eora*

The Myanmar domestic value in the global value chain is dominated by mining and quarrying with 56 per cent, followed by electrical and machinery with 40 per cent and wholesale trade with 38 per cent (Figure 25). Metal products, and petroleum, chemical and non-metallic mineral products each have a global value chain share of 35 per cent. The lowest global value chain share is in textiles and wearing apparel with only 9 per cent. It should be noted that the data used comes from the Eora database and is available only up to 2015. The change in the structure of the Myanmar's export market shares and export basket may therefore have some implications for the conclusions from this analysis.

Figure 25: Global value chain shares by sector

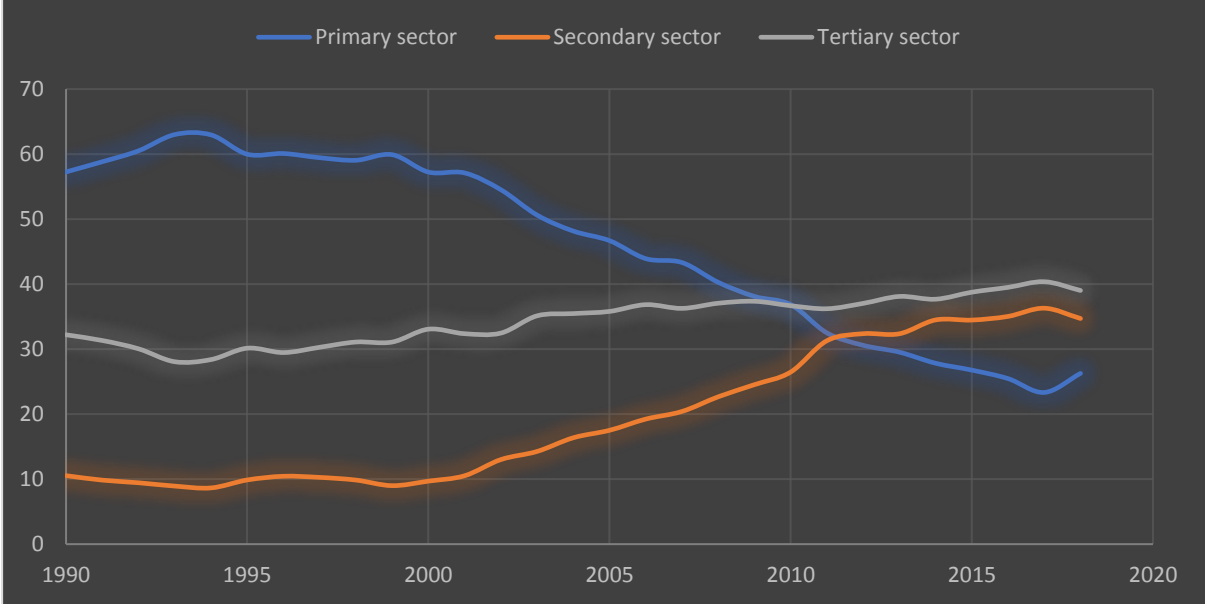


*Source: UNCTAD calculations based on data from UNCTAD Eora*

Myanmar is a country dominated by agricultural activities. Until 2003, the gross value added by agriculture, hunting, forestry and fishing had always been over than 50 per cent of the total value added. During the same period, the contribution of the industrial sector in the GDP was less than 15 per cent. However, the country rates industrialization among its priorities. The

share of gross value added by industrial sector is increasing and it reached 35 per cent in 2018 as shown in Figure 26. The contribution of primary sector in Myanmar economy has been halved from 2000 to 2018.

Figure 26: Gross value added by sector (per cent of GVA, current prices)



Source: UNCTAD secretariat calculations based on UNCTAD Eora database

The country faces three main challenges on its current industrial development path according to the United Nations Industrial Development Organization and Myanmar Ministry of Industry in Myanmar Summary of Industrial Development Strategy 2017: the low diversification of its industrial structure, weakness of its business-enabling infrastructure, and a poor institutional policy framework as well as a non-existing governance mechanism. The country wants to develop industrialization to sustain the agriculture development. One of the four economic policies of the State is “Sustaining agriculture development towards industrialization and all-round development”. While the vision of the State is “to establish a new peaceful and modern developed democratic nation”, the vision of industrial policy is “to establish a new modern industrial nation” according to the Industry Policy report of the Government. The Industrial policy of Myanmar is structured around six objectives and eleven plans. Establishment of Rural Industries is part of the priorities. Industrialization is also part of the forward-looking national priorities of Myanmar.

#### 4.2 Labour productivity and structural change

The slowdown in Myanmar’s economic performance in 2011-2020 points to several constraints that pose risks to its economy. The most obvious of these risks is the declining labour productivity which is indicative of the limits that the country’s growth path may not exceed without a fundamental shift. The quality of the labour force is firmly at the centre of the decline in growth, although other factors interacting with labour productivity, such as the weak interlinkages created by the budding manufacturing and natural resources sectors, and the low growth of the rural economy. The quality of the labour force in Myanmar is low, as the majority (66 per cent in 2019) only have basic education consisting primary school or lower secondary school education. In the rural areas (mostly in agriculture), the problem of child labour has been

a recurring issue, linked to the higher poverty levels in the rural areas and the large number of school age children that drop out from school.

Although Myanmar's reported unemployment rate is low (less than 1.6 per cent in 2019), the rate at which formal employment jobs are being created is lower than the growth rate of the working age population. Based on these differences, there were roughly 4 formal jobs created for every 10 potential job seekers in 2011-2020, which is a very low for an economy of its size. The informal economy is massive, estimated to be larger than the formal economy, employing 4 out of 5 workers (De et al., 2020); and in a sample of 88 developing countries, Myanmar's informal economy was only smaller to 6 other countries (Amin, 2016). Informality breeds vulnerable employment and poverty, to the extent that Myanmar's competitive wage structure compared to its neighbouring China and Thailand may be a reflection of the penalty that workers are paying for being in the informal sector. Further, the declining labour productivity could be the equivalent in returns for the compensation of workers, whose skills level and quality are in decline.

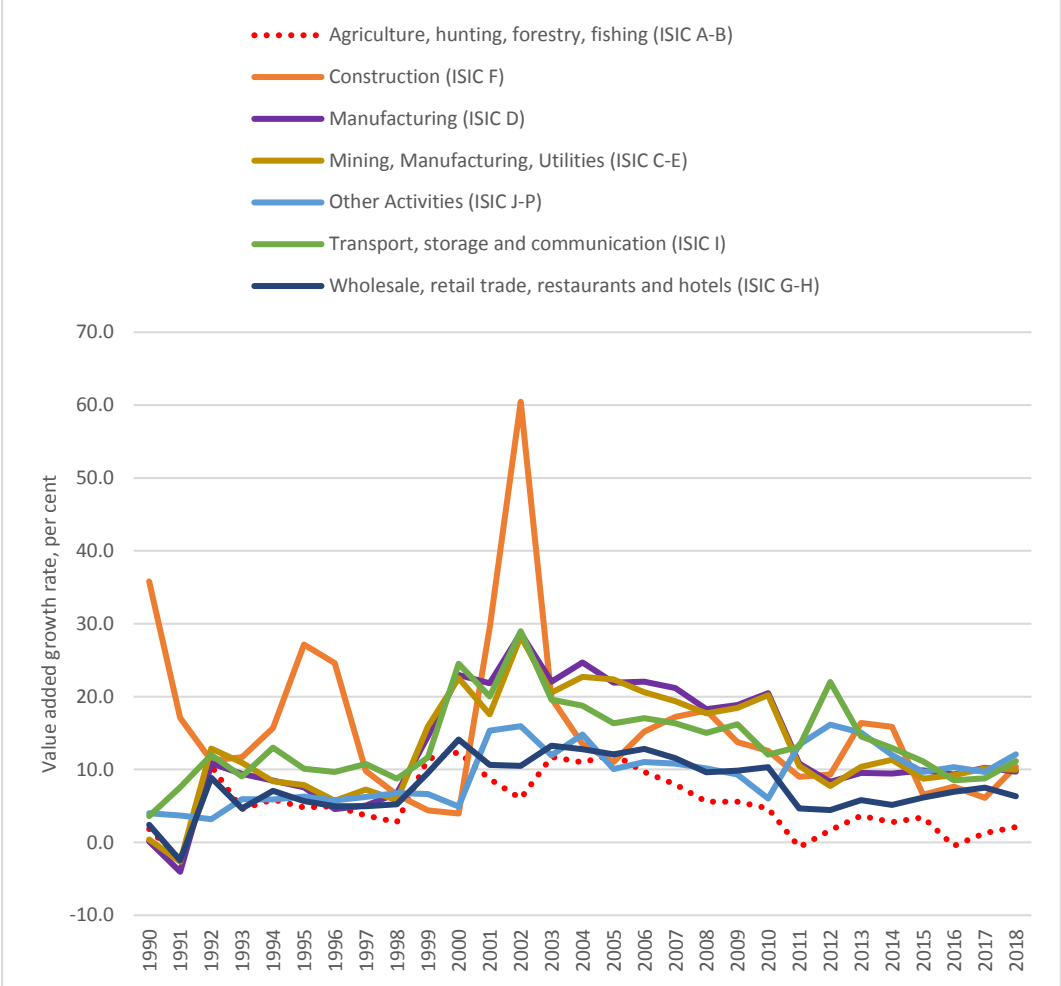
The above suggests a critical gap in human capital development. Improved government investment in education particularly in the rural areas may assist the country to raise the quality of the human capital. Policies such as full liberalization and allowing private investment in the education sector may also help the country to meet the growing needs for skills in various sectors of the economy. However, there is a danger that such investments will be concentrated in the major cities and urban areas, hence, the interventions aimed at improving teacher trainings for public schools in rural areas, improving the quality of results and building inclusive education systems are critical.

Myanmar has undergone various phases of economic reforms which have changed the growth patterns of several economic activities (Figure 27). These changes give hope for structural transformation with the more productive industry and services sectors expected to attract labour from agriculture. There has been such a shift particularly from agriculture into services, but the manufacturing sector has been rather lacklustre both in terms of growth and job creation. The most volatile phase was at the beginning of 2001 and again in 2011, when the normalization of international relations led to unprecedented growth in many sectors including tourism. The growth spurt has passed, and a decline by 30 per cent of foreign tourism in the Southern Shan state in 2018 was attributed to the crisis in Rakhine State (ILO, 2019). Although domestic tourism is up by 25 percent, the recovery of the tourism sector in the context of the COVID-19 crisis and the security environment will be difficult. Further, sectors that relied on a vibrant tourism sector have also been affected, including agriculture, transport, and other services.

One of the problems with manufacturing jobs is their geographic delimitation- for example, three quarters of the jobs in the garment, textile and footwear are concentrated in just three states, Yangon, Mandalay and Sagaing (Huynh, 2016). Labour productivity challenges can be overcome by among others, on the job training, vocational training, and improvement in the education sector. However, structural impediments that determine industrial location and growth in the industrial sector could deepen an uneven growth across the country. The special economic zoning for example, encourages this enclave type of development which has its own socioeconomic and environmental challenges. For instance, most businesses prefer Yangon city due to proximity to major maritime export terminal, the World Port Terminal (AWPT), and the Myanmar International Terminals Thilawa (MITT). Historically, Yangon also served as the host for industrial production, but there are smaller industries in Mandalay and others springing up on the Myanmar-China highway and border region (Flintrop, 2020), and the Myanmar-

Thailand border region (Kudo, 2007). If successful, the new economic zones could diversify the manufacturing base and help create the interlinkages with the periphery states, as well as facilitate growth in agriculture and business services. For example, the economic cooperation zones (in the provinces of Kachin and Shan, in Myanmar) in the Sino-Myanmar border with China could strengthen trade and facilitate productivity growth in agriculture.

Figure 27: Growth rate (per cent) by economic activity, 1990-2018



Source: UNCTAD secretariat calculations based on UNdata [accessed: November 2020]

The impact of large-scale economic investments is almost instantaneous on construction, transport and logistics, and other services. The concern however is the low response of the manufacturing during the 2011-2019 phase, and the low agricultural growth rate generally, and particularly after the growth spurt of 2011 (Figure 27). The low level of labour productivity, skills shortage and the uneven spatial development pattern have stalled Myanmar’s progress towards structural economic transformation. The spectacular growth of 2001-2010, and 2011-2014 is unlikely to be replicated as it aligns with periods during which the global economy was conducive for the reforms. The economy has now weakened under the weight of its own structural limitations, and largely because of low labour productivity and internal imbalances. Myanmar can build on the steady economic growth by strengthening its technical and vocational education and training, as well as investing in education with a long-term vision for improving human capital, and social development for the coming decades.



## 5. Building resilience and policy options

For Myanmar, graduation from the LDC category can be expected unless circumstances change drastically. In all likelihood, the same economic vulnerabilities and growth patterns will continue to prevail. However, the momentum and the postgraduation performance will depend largely on strong human capital development. The economic foundation is strong, although structural transformation and economic reforms are incomplete. The rapid structural shift leaning towards industrialization and services is an offshoot of the reforms undertaken since the 1990s and early 2000s, as well as the benefits of the resumption of normal economic relations after 2011.

Industrial sector growth has been strong but without a concurrent employment creation by the sector. Although agriculture has lost ground compared to services and industry, it continues to dominate employment. Its productivity is however extremely low compared with other countries in the region. The trade diversification which has been progressive after 2011 is a positive outcome of this later drive. The export destinations should be diversified further, and the export basket shielded by effective trade and industrial strategies aiming at overcoming the challenges posed by the expected erosion or the loss of trade preferences. The graduation momentum and resilience of the economy will require a coherent policy focus on building the productive capacities and improving the competitiveness of Myanmar.

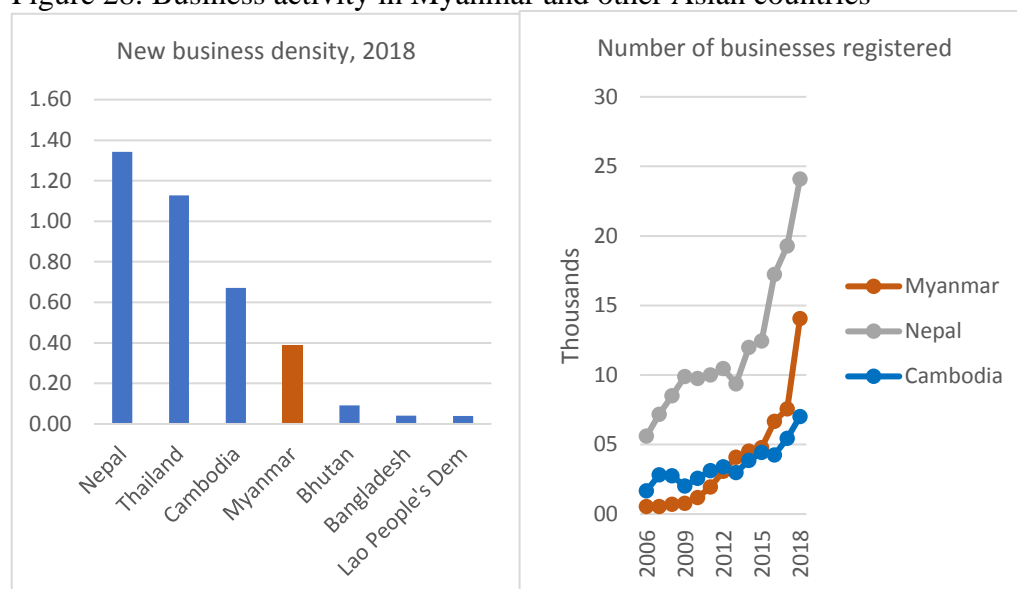
### *a. Private sector and enterprise development*

The private sector is an engine of growth and development. An enabling business environment is a prerequisite for robust private sector growth and job creation. Transparent and simple regulatory and legal framework, efficient public administration, availability of financial services, skilled and educated workforce, and good infrastructure are crucial for reducing the obstacles to economic activities and improving the efficiency and competitiveness of enterprises. It is thus important to look at the state of enterprises and private sector and understand which obstacles limit their growth.

Private sector growth has been critical to reducing household poverty, particularly among households that engage in non-farm enterprises. The number of those enterprises is estimated at over 5.4 million, or almost 1 such enterprise for every 2 households. The services sector accounts for 60 per cent, followed by the manufacturing sector, which accounts for 26 per cent. However, the competitiveness of small business in Myanmar is very weak compared to other countries within the region. Nevertheless, business growth opportunities are relatively well exploited in Myanmar but the number of new businesses registered in a calendar year (per 1000) are low compared with Thailand, Nepal and Cambodia (Figure 28). Myanmar registered an average of new 3,900 businesses per year in 2006-2018, while Nepal and Thailand registered an average of 12,000, and 39,000 businesses per year in 2006-2018, respectively.



Figure 28: Business activity in Myanmar and other Asian countries



Source: UNCTAD secretariat calculations based on World Bank, World Development Indicators database [accessed November 2020]

Despite substantial progress achieved over the past decade, the lack of reliable electricity supply is constraining economic development in Myanmar. Myanmar still lags significantly behind regional neighbours in all dimensions related to electricity infrastructure. 95 per cent of the surveyed enterprises in Myanmar reported power outages (57 per cent in East Asia and the Pacific), with an average of 11 power outages in a typical month (4.2 in the region), and 52 per cent resort to electric generator (35 per cent in the region).

Another constraint to competitive growth is labour productivity, Overall labour productivity in Myanmar remains very low, despite progress achieved in recent years. Myanmar should accelerate the pace of human capital development to impede low skills level becoming a major obstacle to its economic progress. About 30 per cent of production workers in Myanmar are low skilled (compared to 20 percent in developing East Asia and Pacific countries), and 4 in 10 hiring employers find that the workforce is inadequately educated (Cunningham et. al. 2018).

#### *b. Mitigating and adapting to environmental shocks*

Myanmar will remain vulnerable to extreme weather events and climate change. An emphasis on disaster risk reduction is critical after the experience with Cyclone Nargis, and the recent devastating floods. Building resilience to disasters requires foresight and strong financial muscle to address emerging and long-term needs. The climate action communicated in the initial Nationally Determined Contributions should be revised in line with the ambition to build a resilient economy that is climate-proofed. The danger of not comprehensively addressing climate change within the development agenda is that the adaptation and mitigation programmes do not add value to the structural transformation objectives of the national development programme and therefore do not get the necessary funding in the national budget or from development partners.

### *c. Conclusion*

Myanmar has made significant progress during 2011–2020, which has enabled it to meet all three graduation criteria. However, there are economic, environmental, social and political vulnerabilities that are not the focus of the LDC criteria, but which may have implications for Myanmar’s graduation, and its post-graduation development. Disasters have been highlighted as a constant threat, but there are other vulnerabilities arising from social conditions in the country. Despite significant advances in health, education and poverty reduction, its population still faces significant obstacles in securing good access to economic security, proper healthcare and education. These critical social priorities will continue piling fiscal pressure on the economy and should be considered in the context of wider needs for developing the human capital. Internal conflicts have been a major challenge for growth and development in Myanmar. Displacements provoked by conflicts have devastating economic and social impacts, including loss of revenue and instability of access to health, education, and nutrition, which erodes the resilience of communities and households and severely affects their wellbeing. Domestic governance situation and its interaction with geopolitical as well as regional dynamics could have serious repercussions for investment and trade with non-ASEAN countries, and may limit growth in the manufacturing sector which relies on favourable trade preferences.

The recently concluded Regional Comprehensive Economic Partnership (RCEP) agreement between 10 ASEAN members and five other countries, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CP-TPP), and the EU-ASEAN free trade agreements create important market for exports growth. The concern for Myanmar is the potential loss of trade-related support measures to the largest markets for its manufacturing exports due to graduation from LDC status. However, the streamlined RCEP FTA may offer better returns for growth, and considering that the EU has an FTA with Japan, and has been negotiating FTAs with Thailand and Viet Nam (UNCTAD, 2019c), the new trade agreement among the Asia–Pacific countries reinforces the need for a harmonized negotiation with the EU. The immediate attention should be on improving the competitiveness of the economy through among others, building the productive capacities of the country, improving labour productivity, enhancing social development and strengthening national capacities to mitigate and adapt to environmental shocks.

The business start-up environment in Myanmar lacks dynamism compared to its neighbours, and this could reflect the past policies of state control in key sectors. As reforms continue, there is a need to focus on targeted business development with private sector led development as a model for unshackling the economy from its past. There is also the need for an improvement of the business environment to unleash the potential of the private sector for trade and development. This will require lifting binding constraints faced by enterprises in Myanmar, with the most cited obstacles in surveys of enterprises being access to finance, inadequately educated workforce, access to land, and access to reliable electricity supply.

Finally, the momentum to graduate with all three criteria is a positive reflection of the efforts of the past to stick to policy reforms, and the vindication of the support of regional neighbours in the most difficult of circumstances. The domestic environment is now a critical focus for unleashing the full productive potential of the country, in line with the growing productive capacities that the country has already demonstrated its ability to harness, and utilize, but also

its growing population whose competitive advantage is its youthfulness. The future development trajectory of Myanmar is an exciting prospect and should be the focus of all development partners to ensure that the country achieves its potential.

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## **Annex: Strategic considerations for a smooth graduation with momentum**

Myanmar's Vulnerability Profile has highlighted the progress achieved during decades of policy reforms under stringent international sanctions. The return to normalcy has contributed to the acceleration of progress towards graduation from the LDC category. Graduation is a milestone in the development process, but it also marks the onset of a new set of challenges. When a country officially graduates from the LDC category, it enters into a transition period characterized by a gradual phasing out of special LDC treatment, and eventually, withdrawal of international support measures and other concessions. It is critical for eligible countries to formulate and implement smooth transition strategies whose overall aim is to prepare for the transition and the post-graduation phases.

The specific objectives of the transition strategy would, among others, include:

- i) Guide the transition process through appropriately defined plans to make the best possible use of the LDC specific support measures while they are accessible;
- ii) Comprehensively prepare for the post-graduation period in line with the sustainable development plans of the country;
- iii) Identify the challenges and opportunities and respond to the lingering vulnerabilities highlighted in this Vulnerability Profile and other country diagnostics; and
- iv) Mobilize international support for the transition phase and the post-graduation period, including bilateral and multilateral partnerships, public-private sector partnerships, and civil society participation.

Myanmar's lingering vulnerabilities include falling labour productivity, rising informality, and low job creation by the formal sector. The country should prioritize productive capacities, particularly human capital, energy for productive uses, transport infrastructure and services, business interlinkages, and ICT. Investment in industrial capacity and structural diversification of the economy should also be strengthened. Because of these vulnerabilities, the following issues are paramount and may require immediate action:

- i) Extension of the transition phase, and access to preferential LDC treatment and international support measures, in view of the Covid-19 impact on Myanmar's trade and development in other sectors of the country;
- ii) Renegotiate bilateral trade agreements, and new international support measures from international partners; and
- iii) Mobilize adequate domestic resources to cover the rising demand for public investment and public services.