



Position Paper 2020

Presented by



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1. Background of The Myanmar Garment Manufacturers Association

The Myanmar Garment Manufacturers Association is committed to change our factory members by providing valuable technical training services and supporting them in finding business opportunities. Together, our member factories provide jobs and livelihoods for approximately 450,000 workers. We are proud to be an anchor of support for an industry on whom so many families depend. With the best sectorial knowledge available, our association is well-positioned to provide expert advice regarding your business development plans. In 2015 and 2016, MGMA is working to introduce new services so that we can engage with our members in new & productive ways. In addition to improving our research and publications unit, we have introduced business-to-business networking events and a more robust business matchmaking service.



2. The Situation of Myanmar Garment Industry

The export value of garments of Myanmar Garment Industry increased from USD 0.9 billions in 2012 to USD 5.2 billion in 2019.

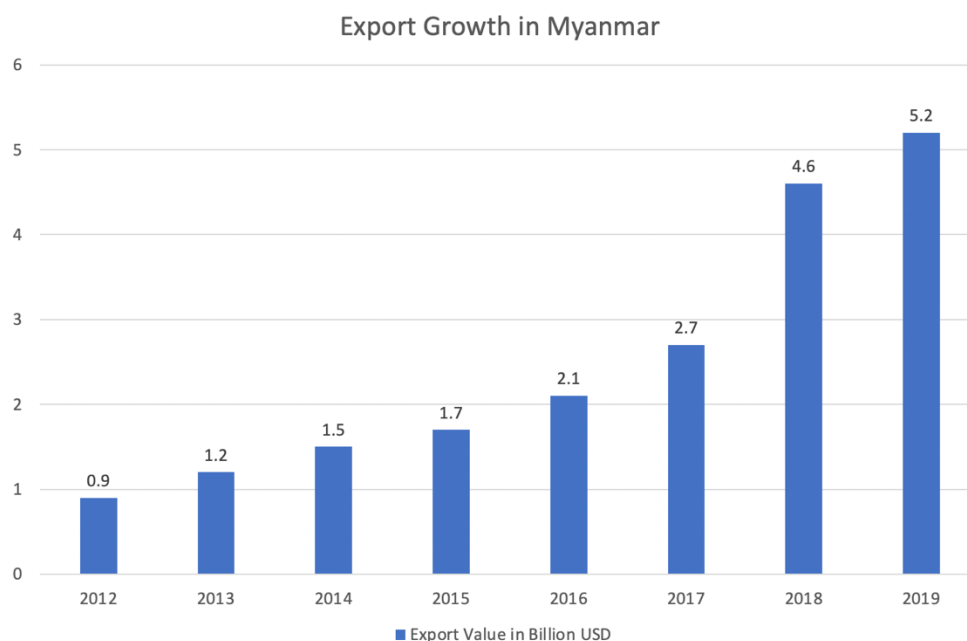


Figure 1. Export Value in Myanmar

Myanmar is highly dependent on imports of raw materials. Among Myanmar's garment exporters, large factories are either wholly foreign-owned or operating through joint venture (JV) agreements between local and foreign companies. While bulk of the exports were directed to China, South Korea or Japan and other Asian countries in the past, from 2016 to 2019, European countries accounted for over 45% of total garment exports from Myanmar. Currently most of exports are directed to Japan, EU countries, and China.

Apparel Exported By Myanmar
(From 2016 to 2019)

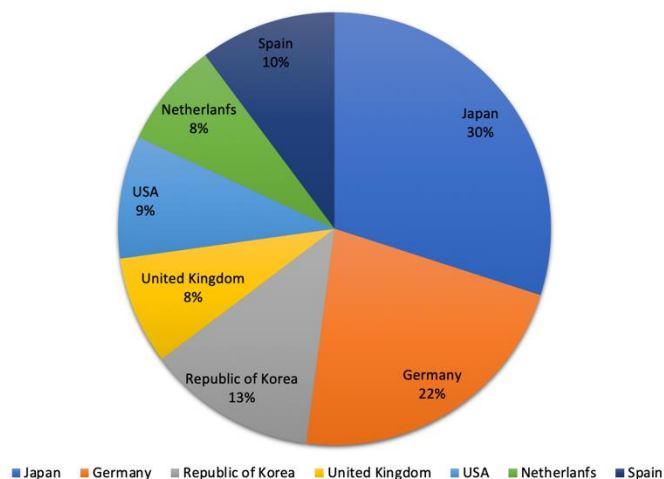


Figure 2. Apparel Exported by Myanmar by year

The garment manufacturing industry in Myanmar is dominated by export-oriented factories, all operating under the Cut-Make-Pack (CMP) system with the bulk of raw materials being imported. The numbers of factories increase within 2012 – 2019. In 2007, there were only 154 factories but it increases to 720 factories in 2020. During COVID, 114 factories are either closed or temporarily closed. So, only 606 factories are operating at the moment and 90% of which primarily focus on the export market. With increasing demand from export destinations as well as a large domestic population, manufacturers in Myanmar have the option to cater to both local and export markets.

These export-oriented factories often accept local orders during the low seasons of January and February as well as September and October when there is relatively lower export demand.

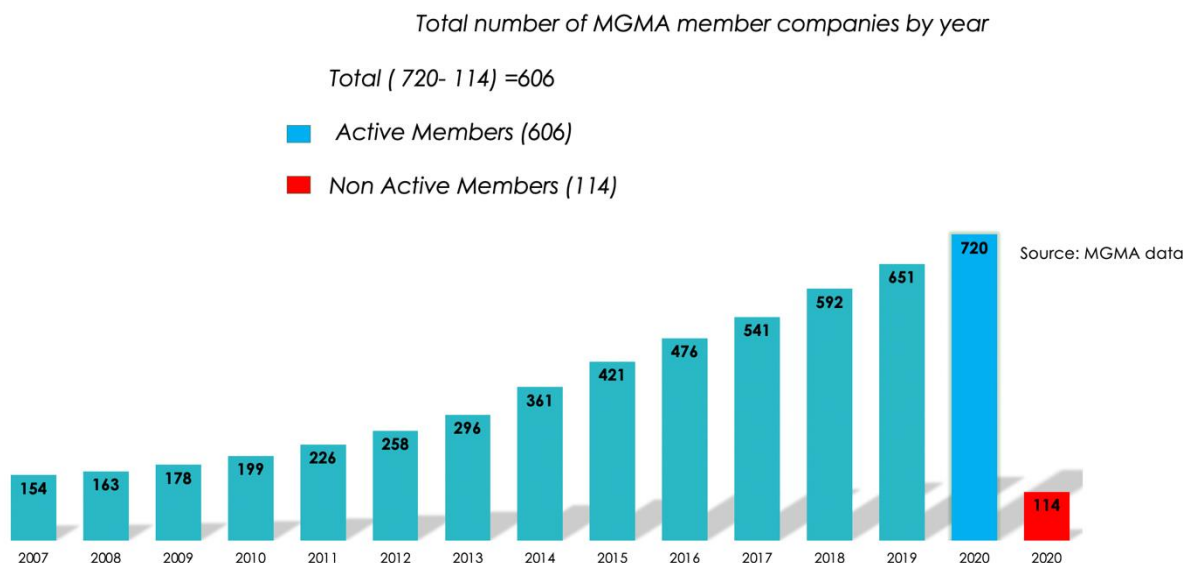


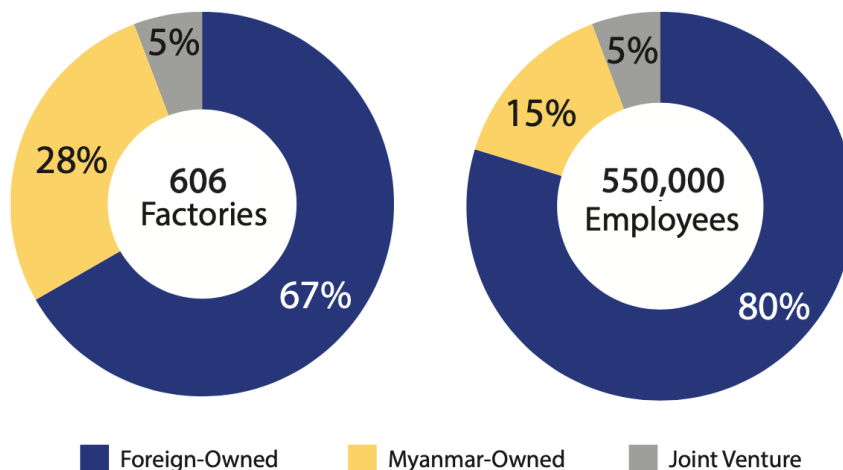
Figure 3. Total Number of MGMA Member Companies by Year

Nearly all of the orders with manufacturers in Myanmar are carried out on a Cut-Make-Pack (CMP) contract, which offers limited profit margins for the manufacturers as they do not provide value-added services of designing, supplying all raw materials, storing them in their own warehouses, or shipping the finished products. As a result, manufacturers are heavily restricted in their financial capability to move towards a Free-On-Board (FOB), Own-Design-Manufacturing (ODM) or Own-Business-Manufacturing (OBM) type of contracts with more control over the value chain and higher profitability.

The majority of garment factories in Myanmar are either foreign-owned or branch offices of factories in China, Taiwan, Japan and South Korea. Out of the total 606 factories, 355 factories are estimated to be foreign owned.

Of 606 factories in Myanmar, only 28 factories employ more than 2,000 people as of August 2019. While the number of factories has increased rapidly, small-sized factories with fewer than 500 employees account for almost 42% of the total facilities in Myanmar. There are over 45,000 employees working at 606 factories. 80% of those are working at foreign-owned factories, 15% are working at Myanmar-owned factories, and 5% are working at Joint Venture.

Number of Factories and Employees by Investment Type

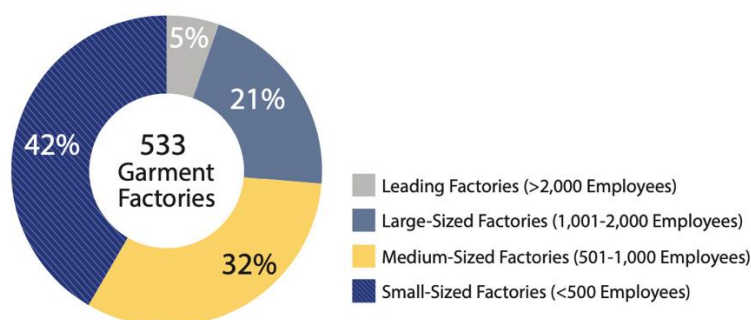


Source: Myanmar Garment Manufacturers Association, 2020

Figure 4 – Numbers of Factories and Employees by Investment Type

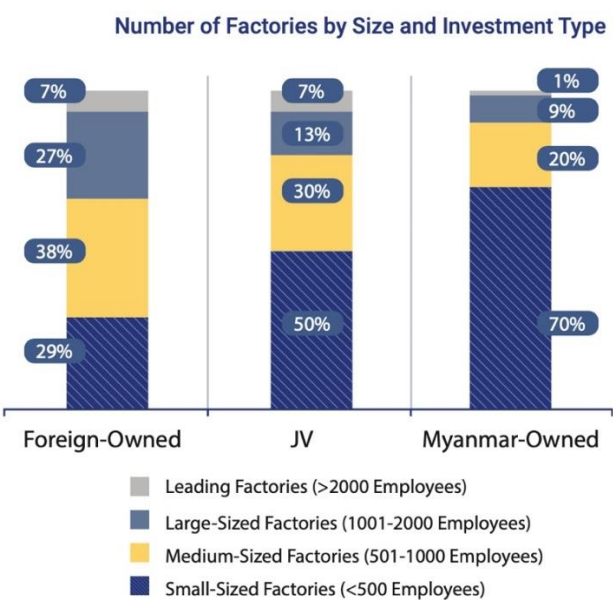
In Myanmar, 5% of factories employ over 2,000 people, 21% employ between 1,001 and 2,000 people, 32% employ between 501 and 1,000 people, and 42% employ below 500 people.

Types of Garment Factories based on Number of Employees



Source: Myanmar Garment Manufacturers Association, 2020

Figure 5. Types of Garment Factories by Number of Employees



Source: Myanmar Garment Manufacturers Association, 2019

Figure 6 – Number of Factories by Size and Investment Type

3. During the Covid 19 period, analyzing the situation and activities in Vietnam, Bangladesh and Myanmar

3 (a). The situation and activities of Vietnam Garment Industry during the Covid 19 period

- The textile and garment export value dropped because export orders have been cancelled. In such a situation, many enterprises have shifted to producing cloth face masks to meet domestic demand and exports.
- The Vietnamese government is planning to issue a variety of incentives to mitigate the economic impact of the Covid-19 outbreak. Recently, the Prime Minister issued Directive 11 on measures to help businesses affected by the pandemic. The incentives will include providing tax breaks, delaying tax payments, and land-use fees for businesses.
- Vietnam's central bank, the State Bank of Vietnam (SVB), has already cut interest rates from February, 2020. Further, the SVB has asked commercial banks in the country to lower interest rates.
- During Phase 2 of Covid-19, the Vietnam Textile and Garment Association (VITAS) recommends proposal to exempt social insurance and union fees in 2020 for both employers and employees and to postpone the payment of CIT in 2019 among businesses, and postpone the payment of VAT of all kinds for 2020. VITAS also cooperated with MOIT, Trade Office in the United States and the Delegation of the European Union in Vietnam to submit the petition to the US Department of State and representatives of the European Union to verify the inaccurate information that 'the US and EU markets officially discontinued importing Vietnamese textiles and garments' to prevent enterprises from worrying.
- The Vietnam Textile and Garment Association (VITAS) joint statement on responsible purchasing practices amid the Covid-19 crisis: VITAS, working with other textile and garment business associations from six producing and export countries including China, Bangladesh, Pakistan, Cambodia, Myanmar will release one joint statement on Responsible Purchasing Practices amid the Covid-19 Crisis to call on global brand companies, retailers and traders to (i) consider all potential impacts on workers, small businesses in the supply chain when taking significant purchasing decisions; (ii) honour the terms of purchasing contracts, fulfil obligations therein, and not re-negotiate price or payment terms; (iii) take deliveries or shipments, and proceed with payment as agreed upon for goods already produced and

currently in production with materials ready, and not cancel orders which are already in production.

- Vietnam Chamber of Commerce and Industry (VCCI) advises the government to provide support packages for enterprises to pay workers for job termination or temporary leave due to factory disruption a result of the epidemic, and severance pay.
- VCCI also claims that the government should provide specific guidance on cases where a worker with a labour contract has to suspend the work or take unpaid leave due to the epidemic; review policies on flexible working time during the epidemic; allow workers and employers to agree on the wage which is lower than the regional minimum wage during the epidemic time, on reduction of worked hours with corresponding payment.

3 (b). The situation and activities of Bangladesh Garment Industry during the Covid 19 period

- Bangladesh announced a bailout/stimulus package of 530 million EUR for export-oriented industries to mitigate the impact of the coronavirus on the country's economy. HSBC Bangladesh announced a set of measures to help its textile and garments clients tide over the economic fallout from the coronavirus pandemic.
- The bank will provide special short-term loans of up to one year, with principal moratorium for four months. During the moratorium period, clients will not be required to pay any instalments, and the lender will also not seek any amount of repayment from them.
- The Bangladesh Bank has asked banks to extend similar support to businesses.
- The Bangladesh government sought \$1 billion in support from the International Monetary Fund and the World Bank
- The Centre for Policy Dialogue (CPD) in Bangladesh advocated that suppliers should discuss with their brands/retailers about possible cooperation in order to share revenue losses incurred for cancellation/deferment/withdrawal of orders, scope to share the losses of business enterprises (partially/fully) with buyers/brands/retailers, to reschedule loans on case by case basis for exporters.
- Bangladesh Bank can provide guidelines to commercial banks in view of this to address loan repayment difficulties.
- BGMEA President Dr. Rubana Huq has also written to the German Federal Minister for Economic Cooperation and Development Dr. Gerd Müller, urging him to kindly immediately call for all their brands sourcing from Bangladesh to not cancel or hold any shipments up.
- Famous brands came forward with assurances to help garment suppliers by taking the shipment of goods that have already been manufactured or ordered but these brands have decided to temporarily suspend placing new orders.

3 (c). The situation and activities of Myanmar Garment Industry during the Covid 19 period

- Since the start of COVID-19 in Myanmar, Myanmar Garment Manufacturers Association has been working with the Ministry of Planning and Finance, Ministry of Labor, Immigration, and Population, UMFCCI, Myanmar Garment Manufacturers Association, Korea Garment Association in Myanmar, Chinese Textile & Garment Association in Myanmar to find ways to solve the shortage of raw materials and the upcoming challenge, to postpone minimum wage increasement, to help factories financially, to compensate, to help to get quickly when raw materials arrive, to help workers regarding social welfare. Myanmar Garment Industry has also taken the following steps to support the garment sector.
- Agreement with DHL to decrease 25% of goods and documents delivery
- Helped members quickly apply loans from government for Covid-affected businesses
- Decreased service fees of Myanmar Garment Manufacture Association
- Myanmar Garment Manufacture Association donated 10 millions MMK for COVID-19 Control and Emergency Response Committee Fund
- Participation in European Union's EU Myan Ku (Myanmar) Fund by managed by UNOPS and implemented by SMART Textile & Garments
- Dissemination of information to prepare while the Ministry of Labour, Immigration and Population inspecting factories and workplaces, and dissemination of information in a timely manner.
- Necessary information to get subsidy and welfare benefits for garment workers during COVID-19 were released in real time.

4. Challenges which Myanmar Garment Industry faces during Covid-19

- As Myanmar has many challenges because it is in the middle of supply chain. There are struggles such as difficult to get raw materials; decreased or delayed orders and late or non-receipt of payments. Also some well-known brands canceled orders and some companies went bankrupt. According to a survey conducted by the Myanmar Garment Industry Survey, most of the factories get orders only until July and they struggle starting September. It is assumed that only 30% of factories continue to receive orders.
- As there are many holidays in Myanmar and overtime pay is about twice the normal wage, foreign investors have difficulties to invest here.
- Currently, there are many challenges in the garment industry. Although it is very difficult to predict future prospects, there is more understanding between employers and employees, and it has become quite strong at the association level. But we still need government's help to negotiate and there are still struggles to build trust.
- Laws should be developed, practical and easy to follow.
- During Covid-19, orders are cancelled so that job opportunities become rare. Many employees were fired because of withdrawal of foreign investments.

5. Suggestion to the government to solve the challenges and follow-ups

- Over 45,000 employees became unemployed because factories are either closed or temporarily closed during Covid-19. We would like to submit our suggestions in order to relieve loss of both garment industry and employees during and post Covid-19.
- When calculating employees' wages, No Work No Pay system needs to be enforced. Only when this system is enforced, business owners would be well-handled productivity of their employees and can increase supply chain of the whole industry. Most of factories in Myanmar are working with CMP contract. So, if supply chain is affected, work flow may be stopped and there will be loss.
- Raw material shortage due to Covid-19 and many holidays have forced investors out of the market and it affects workers and the national economy. To prevent these from happening, the should be enforced. Only then, similar issues can be resolved by law. If it is not controlled by law properly, investors are likely to leave and there could be losses for the local economy.
- As factories cannot be operated during Covid-19, not only employers but also employees are affected. Employees faced the situations such as not being paid, being fired. Employers and employees would like to discuss more and work together with greater understanding to get the garment industry back on track.
- Due to delay announcements and sudden directives from government, the operations were affected and it is also difficult to work due to less preparation time.
- During the Covid-19 period, both money and work force are needed in order to restart the entire garment industry. We would like the government to suspend minimum wage increasement to keep running businesses. In addition, a tax exemption period should be set up to allow businesses to operate normally during the crisis, and the tax exemption may help to address the current challenges.
- Raising the minimum wage could be a challenge for businesses as they struggle to stay afloat due to Covid. When minimum wage was raised from 3,600 MMK to 4,800 MMK on May

14, 2018, the dollar exchange rate rose to 1,342 kyat per dollar so that business could keep operating. If the minimum wage is raised to 4,800 MMK in the present but dollar rate is not raised, business owners may face many challenges. Therefore, we would like to ask you to reconsider about raising minimum wage because businesses are struggling during Covid-19.

- <https://www.myanmargarments.org>
- <https://www.facebook.com/mgma.myanmar/>
- <https://eurocham-myanmar.org/publications>
- <https://www.fairwear.org/covid-19-dossier/worker-engagement-and-monitoring/country-specific-guidance/vietnam/>
- <https://www.fairwear.org/covid-19-dossier/worker-engagement-and-monitoring/country-specific-guidance/bangladesh/>