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Vulnerability Profile

MYANMAR

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Main text

The term "dollars" ($) refers to United States dollars unless otherwise specified.

The term "billion" signifies 1,000 million.

Annual rates of growth and changes refer to compound rates.

Exports are valued "free on board" and imports, on a "cost, insurance, freight" basis, unless otherwise specified.

Use of a dash (–) between dates representing years, e.g. 1981–1990, signifies the full period involved, including the initial and final years. A slash (/) between two years, e.g. 1991/92, signifies a fiscal or crop year.

Throughout the report, the term "least developed country" refers to a country included in the United Nations list of least developed countries.

The terms "country" and "economy", as appropriate, also refer to territories or areas.

Tables

Two dots (..) indicate that the data are not available or are not separately reported.

One dot (.) indicates that the data are not applicable.

A dash (–) indicates that the amount is nil or negligible.

Details and percentages do not necessarily add up to totals, because of rounding.

Abbreviations

ASEAN	Association of Southeast Asian Nations
CDP	Committee for Development Policy
COVID-19	coronavirus disease of 2019
EVI	economic and environmental vulnerability index
FAO	foreign direct investment
FDI	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
GNI	gross national income
HAI	human assets index
ICT	information and communications technology
IMF	International Monetary Fund
LDC	least developed country
PCI	productive capacities index
QUAD	Quadrilateral Security Dialogue
RCEP	Regional Comprehensive Economic Partnership

Contents

Figures

Tables

Box

Executive summary

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

Areas of vulnerability

Myanmar has implemented a series of major policy reforms over the decades, partly in response to economic and political sanctions. The gradual lifting of sanctions and the opening up of the political space has helped to attract foreign investment and the restoration of trade preferences has boosted exports. The gross domestic product (GDP) growth rate in 2016–2018 was strong, hovering at just below 7 per cent annually. However, the growth pattern, particularly since 2011, has enhanced the divergence in productivity between the agricultural, manufacturing and services sectors. The potential of the country to sustain growth is limited by the quality of jobs that are being created in the different economic sectors, with manufacturing failing to stimulate significant job creation despite its leading role in production. As a result, export growth has not translated into improved living standards for the majority of the population.

The strategic trading partners of Myanmar include neighbouring countries Bangladesh, China, India, the Lao People's Democratic Republic, and Thailand, as well as Japan and other member States of the Association of Southeast Asian Nations (ASEAN). Exports to ASEAN partners grew from $390 million in 2000 to $4 billion in 2019 (24 per cent of the total). 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) and imports from China grew from $964 million to $6.4 billion in 2010–2019. Trade with the European Union increased from $119 million in 2010 ($58 million in exports from Myanmar to the European Union) to $3.6 billion in 2019 ($2.8 billion in exports from Myanmar to the European Union). ASEAN member countries, in particular Thailand, have historically been allies of Myanmar and have continued to provide the country with an economic cushion even during the uncertainties brought about by the coronavirus disease of 2019 (COVID-19) pandemic.

The growth outlook in 2020 remained positive but weak as the global economy continued to face headwinds due to the pandemic. Trade deteriorated because of supply chain constraints and shrinking international demand, while geopolitical risks increased largely on account of the trade ramifications of escalations in tariffs between China and the United States of America. Market volatility, in particular of fuel-related commodities and agricultural raw materials, is the main concern for Myanmar. However, Myanmar should also consider the increased risk of concentration in digitalized supply chains. Concerns over global value chain expansion and the concentration of value added in high-technology industries that overlap with geopolitical and technology supremacy issues may not currently be relevant in Myanmar. However, the growth of low-technology industries in Myanmar may be significantly constrained by the tendency of technology leaders to overly consolidate, in particular in the technology-heavy segments of global value chains.

Implications of vulnerabilities

I. Social development has improved but there are challenges

The population of Myanmar is 54.4 million and is projected to reach 65.8 million by 2050. Slightly over one fourth of the population (25.5 per cent) is in the 0–14 bracket and over two thirds (68.3 per cent) are in the 15–65 age bracket. The human assets index (HAI), which measures the contribution of education and health to human capital development, shows that Myanmar has been performing better than the threshold in all CDP triennial reviews. There has been a steady improvement in the gross secondary school enrolment ratio, from 30 to 64 per cent in 2000–2020. As a result of widespread poverty, in both rural and urban households, school dropout rates are high during the transition from primary to lower secondary school and from lower

to upper secondary school. About 24 per cent of adolescents (of lower secondary school age) were out of school in 2017 and, nationally, one in four children does not complete primary school, with the dropout rate even higher in poor communities. Fewer than one in three students completes upper secondary school. In health, Myanmar has made significant progress in all three of the health indicators of HAI, namely, the under-five mortality rate, the maternal mortality ratio, and the prevalence of stunting. The under-five mortality rate declined from 94 per 1,000 live births in 2000 to 46 in 2020 and maternal mortality declined from 340 per 10,000 in 2000 to 289 in 2010 and 250 in 2020. The prevalence of stunting among children under five declined from 35.1 per cent in 2010 to 26.7 per cent in 2018 and the prevalence of undernourishment also declined, from about 37.7 per cent in 2000–2002 to 14.1 per cent in 2017–2019. The Government increased current expenditure on health from $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), yet the public health system needs a boost to meet the increasing pressure for services and attain the goal of universal health coverage (Sustainable Development Goal 3.8).

II. Economic and environmental vulnerabilities remain

Myanmar first met the economic vulnerability graduation criterion in 2009 and again in 2018. After a 25 per cent decline in 2000–2009, when it crossed the threshold, the economic vulnerability index (EVI) of Myanmar increased in 2012, reaching 141 per cent of the threshold (using an inverted scale) as the country recovered from the impacts of Cyclone Nargis in 2008. EVI has declined rapidly since 2015. Myanmar faces economic vulnerabilities related to the following: a high level of reliance on natural-resource based activities and on limited destination markets for exports, although manufacturing exports have been growing quickly in recent years; the expected erosion of preferential access to developed country markets; the loss of trade-related support measures following graduation from the LDC category, in particular the loss of duty-free, quota-free access to the largest markets for manufacturing exports; and the significant investment needs in education, health and infrastructure, which require large fiscal commitments that could jeopardize macroeconomic stability and debt sustainability. The country is ranked second on the global climate risk index of countries most affected by extreme weather events (climate change risk) and weather-related hazards increase its economic vulnerability. In addition, violence, and weak institutional capacity hinder development. The absence of violence (peace) and strong institutions favour structural transformation, but weak political integration and displacements put a strain on social development.

III. A delicate balance is needed to navigate regional dynamics

The trade links of Myanmar have expanded beyond developing countries in Asia. In 2019, developing Asia accounted for 66 per cent of exports and developed economies in Europe accounted for 19 per cent. China and Thailand absorbed 50 per cent of total merchandise exports from Myanmar in 2019. These two countries are the only destinations for 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 benefits from trade preferences from Australia, Canada, Japan, Norway, the Republic of Korea, and the European Union. In addition, it benefits from duty-free access within ASEAN and from trade preferences under the free trade agreement concluded by ASEAN with five countries in Asia and the Pacific, namely, Australia, China, Japan, New Zealand, and the Republic of Korea, under the Regional Comprehensive Economic Partnership (RCEP). The duty-free access provided through preferential trading arrangements has been one of the key elements in the rapid growth of manufactured exports from Myanmar, in particular for products for which most-favoured nation duties are high. The challenge of progressive preference erosion may be mitigated by RCEP. In 2019, RCEP countries represented 67 per cent of the merchandise export market of Myanmar, absorbing 39 per cent of its manufactured exports, 80 per cent of its agricultural raw material exports, 85 per cent of its ore, metal, precious stones and non-monetary gold exports and 99.7 per cent of its fuel exports. RCEP harmonizes the free trade agreements between ASEAN member countries and the five other countries, eliminating the need for separate trade agreements between them. Therefore, the diversification of export partners is a clear risk diversification strategy for the foreseeable future. Moreover, there is still scope for growth in manufactured exports to the European Union.

IV. Declining labour productivity slows structural change

The total labour force grew from 22 million in 2000 to 25 million in 2018 and in the same period the population in the 15–64 age bracket grew to 36 million, an increase of 7 million. In 2017, the poverty rate was 25 per cent and 1.4 per cent of the population lived in extreme poverty. The agricultural sector, with low productivity levels, employs half of the labour force, while the fast-growing industrial sector (16 per cent of total employment) has not created as many jobs as the moderately productive services sector (34 per cent).

The slowdown in economic performance in 2011–2020 compared with in the previous decade points to structural constraints that pose risks to the economy of Myanmar. The most obvious of these risks is declining labour productivity, indicative of the limits of the growth path that the country 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 resource sectors and the low level of growth in 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 of primary school or lower secondary school. In rural areas, where employment is concentrated in agriculture, the problem of child labour has been a recurring issue, linked to the higher levels of poverty and the large number of school-age children that drop out.

Skills shortages and the uneven spatial development pattern have stalled progress towards structural transformation in Myanmar. The significant growth in 2001–2010 and 2011–2014 is unlikely to be replicated as it aligned with periods in which the global economy was conducive to the reforms undertaken. The national economy has weakened under the weight of structural limitations, in particular low labour productivity levels and internal imbalances. Myanmar can build on the success of previous reforms by strengthening technical and vocational education and training, as well as investing in education with a long-term vision for improving human capital and social development in 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 increase the quality of human capital. Policies such as liberalization and allowing private investment in the education sector may also help meet the growing need for skills in various sectors of the economy. However, there is a concern that such investments will be concentrated in major cities and urban areas. Therefore, interventions aimed at improving the training of teachers for public schools in rural areas, increasing the quality of results and building inclusive education systems, are critical.

The way forward

The momentum to graduate with all three criteria met is a positive reflection of efforts made in the past to adhere to policy reforms and of the importance of regional partnerships. The domestic environment is a critical focus area with regard to unleashing the full productive potential of Myanmar, in line with the growing productive capacities that the country has already demonstrated an ability to harness and utilize, as well as the growing population, whose competitive advantage is in its youth. 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

This report presents the vulnerability profile of Myanmar, as mandated in General Assembly resolution 59/209 of 20 December 2004, which stated that "after a country has fulfilled the criteria for graduation for the first time, UNCTAD is mandated to prepare a vulnerability profile on the identified country to be considered by the Committee for Development Policy (CDP) at its following triennial review" (paragraph 3 (b)). The report aims to assist qualifying LDCs to increase their chances of achieving structural social and economic progress towards and beyond graduation from the LDC category. For UNCTAD, this involves the provision of country-specific analytical material on the implications of graduation; vulnerability assessments and resilience-building; relevant advisory services for policymakers; and assistance to qualifying countries and LDCs in general in preparing for the global landscape they will enter after graduation.

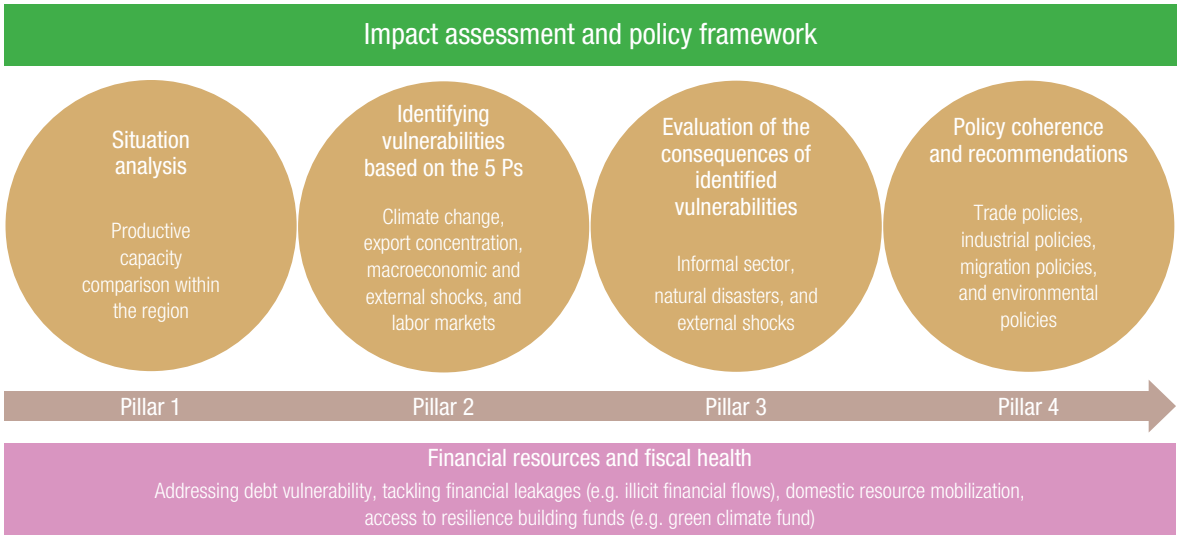
Myanmar first met the graduation criteria at the triennial review in 2018. The country met all three graduation thresholds, namely, income per capita, human assets and economic vulnerability. The decision will be assessed at the next review in 2021, with graduation likely to take place in 2024 (United Nations, 2018). In 2011–2020, Myanmar reduced its economic and environmental vulnerability index (EVI) score by an average of 1.9 per cent annually and, with its strong social and economic development performance, is well placed to graduate based on having met all three criteria.

This achievement follows political reforms launched in the early 2000s, during which Myanmar committed to removing political and economic barriers limiting economic integration into the global economy. Domestic economic reforms date back to 1988, when the country launched transformation policies to revive an underperforming economy, but it took several years to begin implementing political rights reforms that led to the lifting of sanctions and the opening up 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 social, economic and vulnerability indicators. It is important to recognize that the policy efforts and the fundamentals put in place during the sanctions were conducive to building momentum in 2011–2020.

The transformation will likely be incomplete even after graduation. Myanmar still faces various challenges and vulnerabilities that hinder social and economic development. The aim of this vulnerability profile is to track the progress of Myanmar towards graduation and to enrich understanding of all the major constraints to development. The analysis is structured on the following four pillars: situation analysis; identification of areas of vulnerability based on the five Ps under the 2030 Agenda for Sustainable Development (people, planet, prosperity, peace, partnership); evaluation of effects of the vulnerabilities; and policy coherence and recommendations (figure 1). The first two pillars entail a largely descriptive and backward focus and the other two pillars, a more forward-looking approach.

Figure 1

Vulnerability profile conceptual framework



Source: UNCTAD secretariat's conceptualization of the vulnerability profile assessment.

The report is structured as follows. Section 2 presents a situation analysis of the path to graduation, providing a background to the development progress of Myanmar; detailing the regional dynamics and geopolitical issues faced by the country; discussing the competitiveness of Myanmar given its role in ASEAN; and assessing the productive capacities of Myanmar in comparison with other LDCs and countries in South-East Asia and nearby regions. Section 3 addresses areas of vulnerability, including people, the economy, and the environment, analysing the progress of Myanmar in meeting the graduation criteria, identifying the components that make up each criterion and evaluating their contribution to the progress achieved, which permits the identification of areas in which improvement has been made and in which challenges remain, as well as highlighting additional sources of vulnerability not captured by the three criteria. Section 4 analyses the impacts of the identified vulnerabilities on prospects for building a resilient and sustainable economy in Myanmar. Finally, the concluding section provides some policy options based on the main findings.

2. Situation analysis

The fast-paced progression of Myanmar towards graduation from the LDC category is a result of several related factors that have had a positive influence on the country's development trajectory.

First, the country has a wealth of assets and advantages that provide significant potential for a multipronged development strategy, drawing on agriculture, fisheries, forestry, mining, oil and gas, manufacturing, and services. Myanmar has significant land and forests, 1,930 km of coastline and abundant water resources, including five major rivers. It is rich in gems, precious minerals, and natural gas. The country has a large population, with a growing working-age population (aged 15–64) that represents an attractive workforce for investors seeking regional manufacturing facilities outside of China, especially as wages have increased in the latter (McKinsey Global Institute, 2013; World Bank and Enhanced Integrated Framework, 2016). Other factors include rapid productivity growth buoyed by continual reforms aimed at correcting the gaps left during the sanctions.

Second, Myanmar undertook major policy reforms over several decades, some of which were in response to sanctions and others, 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 in negative growth rates for three years in a row with a record -11 per cent 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 the industrial, commercial, and foreign trade sectors contributed to economic growth (Kubo, 2013; World Bank, 1995). At various stages in the reforms, the procurement and distribution of agricultural commodities by the Government contributed to keeping inflation in check. The creation of new private firms and the liberalization of the domestic marketing of agricultural commodities were positive for agricultural growth. However, State control in designated sectors, including teakwood, petroleum and natural gas and minerals, precious stones and pearls repressed investment growth in these sectors (Kubo, 2013). Economic growth picked up in 1991–2000, with the annual average growth rate of real GDP accelerating to 6.7 per cent as the private sector extended activities to sectors previously dominated by State-owned enterprises (figure 2). The progressive liberalization of the agricultural sector, which represented 58 per cent of GDP in 1990, and the adoption of rice double cropping led to a strong increase in 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 exports from $316 million in 1990 to $2.1 billion in 2000.

Third, certain positive events coincided with reforms in Myanmar and helped it more rapidly ascend on an economic growth path. The fastest growth was experienced in 2001–2010, 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). In 1995–2000, the leading two export earners were agricultural raw materials and manufactured goods, which represented 34 and 28 per cent of total merchandise exports, respectively (UNCTADstat database). Manufacturing became the leading export earner in 1999, driven by FDI in the export-oriented garment industry, reaching 47 per cent of total merchandise exports in 2000. Fuel exports grew rapidly in 2001–2015 and were the leading exports in 2014 and 2015, before manufacturing came back stronger on the back of weak commodity prices that affected all oil exporters globally.

Figure 2

Gross domestic product and gross domestic product per capita annual average growth rates
(Percentage)

Source: UNCTAD calculations, based on data from the UNCTADstat database.

Fourth, the economy 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 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 in 2012–2018, despite the decline in commodity prices, spurred by a strong recovery in manufacturing exports. The share of the latter in total exports rose from 7 per cent in 2011 to 38 per cent in 2018, with the strongest increase in non-textile manufacturing, from 7 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. The best period for textiles, yarn and related products was 1997–2004, when their 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 recovered strongly, as its share in manufactured goods rose to 5 per cent in 2015–2018. At the start, the economic reforms were successful in boosting growth, attracting FDI and increasing exports, yet an increase in conflicts that resulted in a high level of political instability led to the adoption of sanctions beginning in 2003. The sanctions impacted tourism, FDI, multilateral aid and bilateral aid from developed countries, but total exports continued to grow, increasingly to other countries in Asia, in particular, Thailand (Ajmani et al., 2018). Exports grew at an annual average rate of 17 per cent in 2001–2010, driven by a sharp increase in gas exports, at an annual average rate of 31 per cent, from the Yadana and Yetagun gas fields, which continued to attract FDI during the period of sanctions. Exports of garments mainly destined to developed countries continued to grow until 2007, before declining in 2008. Exports of wood and vegetables also increased, driven by demand from other countries in Asia.

Finally, the Government launched a political process in the early 2000s aimed at gradual political opening, greater economic liberalization, and the resolution of domestic conflicts. Elections held in 2010 opened the political space and

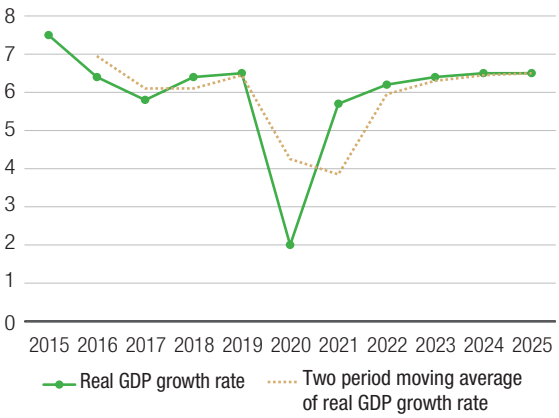
ceasefire agreements were signed in 2011–2012 with several groups (Lall, 2012). In 2012, a new foreign investment law was passed that fostered a more investor-friendly climate. In 2012–2013, developed countries lifted most sanctions and the European Union reinstated the Everything but Arms duty-free, quota-free access to its market under the Generalized Scheme of Preferences, which had been withdrawn in 1997. Myanmar cleared its arrears to the Asian Development Bank and the World Bank using a bridge loan from Japan and secured significant debt relief by creditor countries under the Paris Club of Industrial Country Creditors, clearing the way for aid donors to support the reforms of the Government. Total debt relief amounted to $6 billion. In 2016, the United States restored the LDC-specific Generalized Scheme of Preferences for Myanmar, granting duty-free access for approximately 5,000 products. According to the latest available data from the Organization for Economic Cooperation and Development, net official development assistance received by Myanmar in real terms (at constant prices) rose from an annual average of $163 million in 2002–2010 to $1.6 billion in 2011–2019.[1]

Entering the last quarter of 2020, the growth outlook remained positive but weak as the global economy continued to face headwinds due to the pandemic. The International Monetary Fund (IMF) projected that real GDP growth would slow to around 2 per cent in 2020 as the effects of the pandemic spread in South-East Asia (figure 3). It further projected that the economy might be back up to trend quickly in 2–3 years, which is significant considering the strong ties of Myanmar to the economies of China, Thailand, and East Asia. The United Nations projected that the pandemic would shrink the world economy by 3.2 per cent in 2020 and, in the baseline projection, developing countries would see their economies shrink by 5 per cent in 2020 (United Nations, 2020a). Strong domestic demand might have helped Myanmar weather the turbulent economic outlook despite internal economic adjustments entering the last quarter of 2020. Private consumption averaged 56 per cent in 2011–2018, a slowdown in comparison with the previous decade, in which it topped 78 per cent. Gross fixed capital formation 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 drives as the economy opened up. Inflation has generally been 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 and 7 per cent, respectively.

Figure 3

Real gross domestic product growth rate

(Percentage)



Source: UNCTAD calculations, based on IMF (2020b).

2.1 Regional dynamics and geopolitical issues

Myanmar has an advantage in sharing borders with fast-growing markets, including China and India, that account for 40 per cent of the global population. The country 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 a part of this process. The expected China-Myanmar economic corridor linking China to the Indian Ocean envisages several large infrastructure projects. India and Myanmar are cooperating on enhancing land connectivity between the two countries and official development assistance from Japan is also financing regional connectivity projects (IMF, 2020a).

The geopolitical players of strategic importance for Myanmar include neighbouring countries and key trading partners, in particular China, India, Japan, and ASEAN member countries. The strategic location of Myanmar attracts interest from partners for its land and sea links connecting East Asia, South Asia, and South-East Asia. With political stability backed by social and economic development, Myanmar could emerge as a key player in the ASEAN and global economies. Improvements in the political situation have increased the space for investment and private sector growth. However, long-standing

[1] See the OECD Creditor Reporting System (CRS) database: https://stats.oecd.org/Index.aspx?DataSetCode=crs1#.

political tensions, cross-border issues concerning refugees and internally displaced persons and the continued involvement of the military in political and civilian affairs pose risks to the country's economic development (Grundy-Warr and Lin, 2020). Although multiparty general elections were held in 2020, there is a need to increase the pace of reforms, including constitutional reforms, to consolidate the democratic gains, promote unity and encourage private sector growth and industrialization (Parameswaran, 2020).

Among neighbouring countries, China is the main trading partner of Myanmar. Exports to China grew from $260 million (3 per cent of the total) to $5.7 billion (32 per cent) in 2010–2019 and imports from China grew from $964 million to $6.4 billion in 2010–2019. Economic cooperation between China and Myanmar is promoted as a win-win strategic engagement that allows both countries to increase their economic footprint in the other country and in the region. It was expected that the energy cooperation project launched in 2009 would increase supply of refined oil products to Myanmar and that China would benefit from the strategic link to the Indian Ocean and the Andaman Sea. The project brings development to the provinces of Yunnan and Sichuan in China and builds on the regional economic cooperation vision of ASEAN to develop the trans-ASEAN gas pipeline, linking up to 80 per cent of the region's natural gas supplies to ensure greater energy security and sustainability (Hong, 2011). The China and Myanmar oil and gas pipeline was completed in 2013 and gas exports commenced that year (Yonghong and Hongchao, 2014). In future, these economic cooperation projects with China are expected to raise the profile of investment and trade between the two countries and could boost the manufacturing and natural resources exports of Myanmar. The China-Myanmar economic corridor is one of the pillars of the Belt and Road initiative of China which could spur significant investments in Myanmar. Among the proposed projects are the following: a China and Myanmar highspeed railway connection and its various configurations; a China and Myanmar electricity grid interconnection; special economic and industrial zones; and, if approved, a Kunming–Yangon Ayeyarwady River portage passage (*The Irrawaddy*, 2019). The latter could increase the volume of trade between the two countries and potentially increase the trade of Myanmar beyond the two countries.

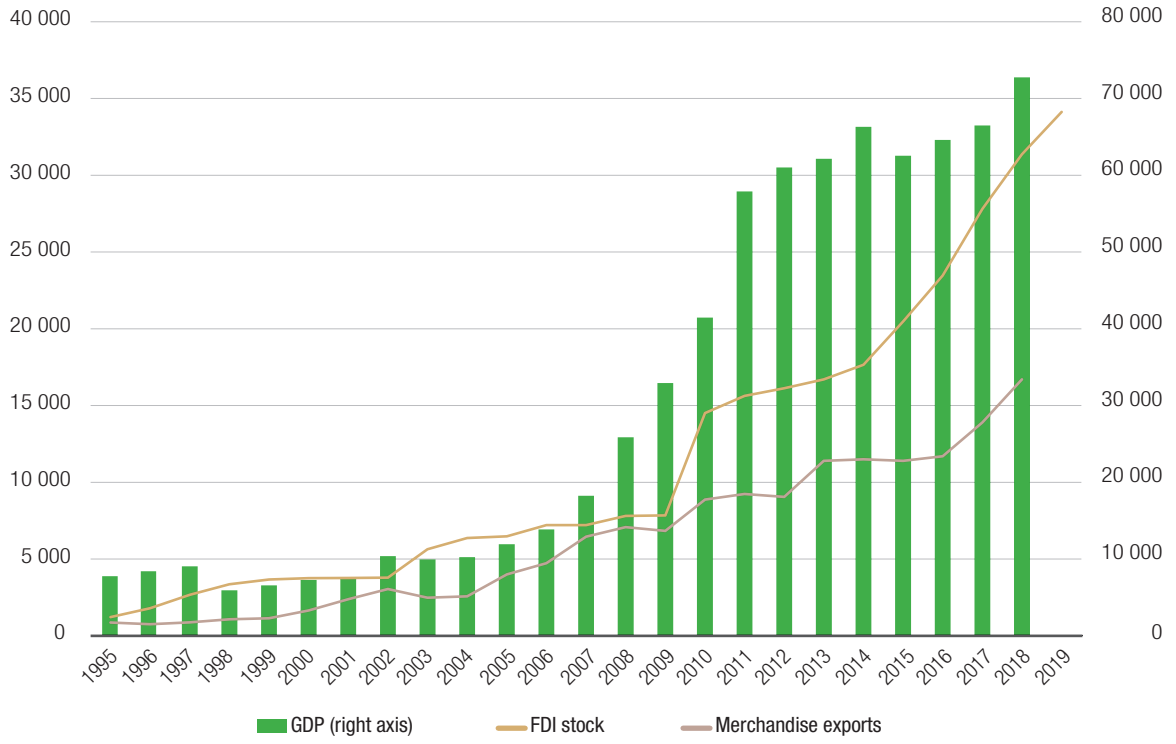
Bangladesh, India, and Thailand share ties with Myanmar that are more than simply related to economic influence, market share and control over natural resources, including oil and gas; they also relate to ethnic and cultural identities. Defence and security are also common interests among Myanmar and neighbouring countries, in particular China, India, and Thailand. Japan, which does not share a border with Myanmar, has increased its value-oriented diplomacy with Myanmar through investments in construction, shipping, rail, roads, mining, and offshore oil development. The European Union is also upscaling its partnership with Myanmar, within the framework of broader economic engagement with ASEAN, and promoting democracy. Through this engagement, European Union trade with Myanmar grew from $119 million in 2010 ($58 million in exports from Myanmar to the European Union) to $3.6 billion in 2019 ($2.8 billion in exports from Myanmar to the European Union). There are other countries that do not have direct geopolitical influence in Myanmar but have important cultural and economic linkages with the country. For example, cultural exchanges with and tourism to Belgium, Bulgaria, Finland, and Poland have grown. The leading destination from Myanmar is the Philippines, with close to 10,000 visitors each year.

There is empirical evidence that FDI inflows have had a 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 investment (Ramirez and Tretter, 2013). This is particularly true with regard to politically sensitive FDI from the United States and the European Union. In 2018, FDI inflows declined by 18 per cent to $3.6 billion, as major foreign investors slowed investment, with the humanitarian crisis in Rakhine State a contributing factor (UNCTAD, 2019a). The progressive lifting of sanctions was beneficial in attracting FDI and, in 2010–2019 alone, FDI more than trebled and sources became more diversified. Inward stock grew from $3.75 billion in 2000 to $14.5 billion in 2010 and $34 billion in 2019. However, the lifting of sanctions did not change the concentration of FDI in the extractive and energy sectors, but instead deepened the interests of key investors in the sector, including from China, the Republic of Korea, Thailand and Hong Kong, China (Bissinger, 2012). The recent drop in FDI inflows after Myanmar allowed 100 per cent foreign ownership in the retail and wholesale 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 further effort that needs to be made to diversify FDI destination sectors (figure 4). FDI inflows to Myanmar in 2019 were $2.8 billion, representing a drop of 22.2 per cent, but electricity projects were expected to push foreign investment flows in 2020

Figure 4

Foreign direct investment, gross domestic product, and merchandise exports

(Millions of dollars)



Source: UNCTAD calculations, based on data from the UNCTADstat database.

(UNCTAD, 2020a). 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 domestic market policies and recent upgrades to investment laws could further enhance the investment climate and trigger diversity in FDI destination sectors.

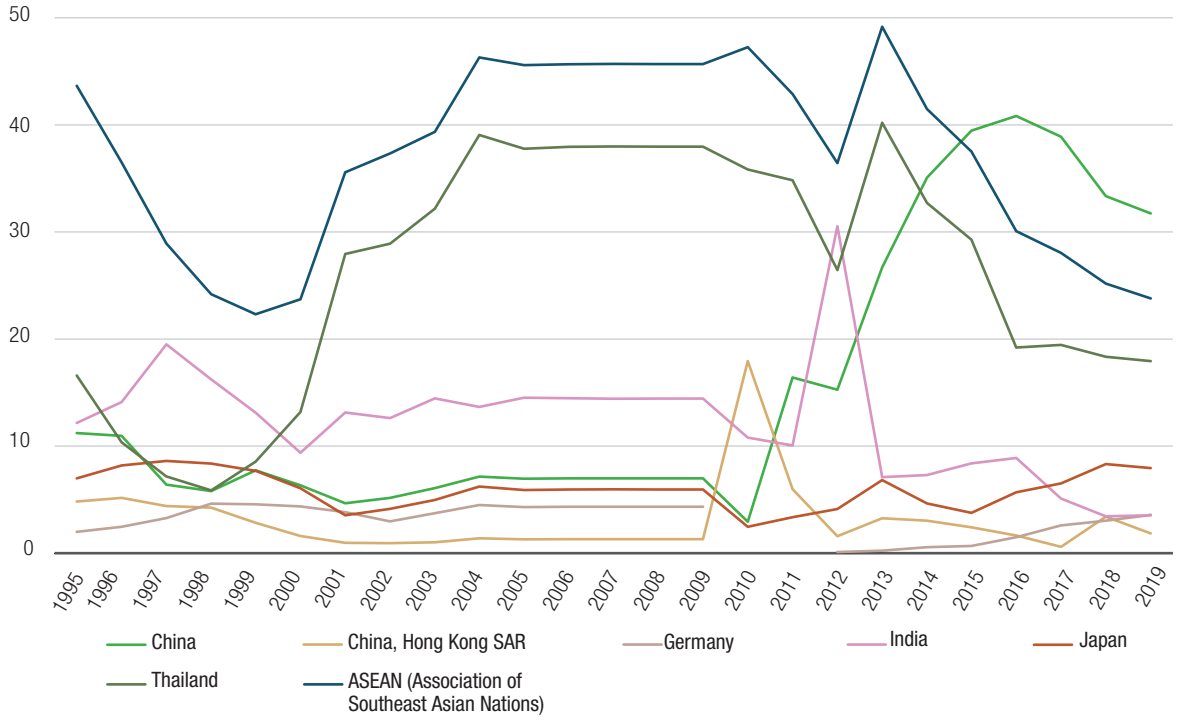
The macroeconomic environment has been stable, with low inflation, strong growth and a cautious balance in fiscal policy. Total public debt was low, at 38 per cent of GDP in 2018/2019, split between public domestic debt (61.8 per cent of the total) and public and publicly guaranteed external debt (38.2 per cent). In 2018/2019, the largest share of public and publicly guaranteed external debt was held by China, at 33.7 per cent, followed by Japan, at 28.7 per cent (IMF, 2020a). Concerns that debt owed to some of these bilateral creditors is more costly may be unfounded as interest obligations on the debt are not uncharacteristically high compared with the rest of the public and publicly guaranteed debt stock. However, debt generally carries its own risk, particularly if a bilateral arrangement is linked to commodities or other assets as 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, the economic interests of Myanmar would best be served within ASEAN. ASEAN member countries, in particular Thailand, were allies of Myanmar during the period of sanctions and have continued to provide the country with an economic cushion even during the uncertainties brought about by the pandemic. The regional group remains among the leading export destinations for merchandise from Myanmar, although it 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, Japan and Hong Kong, China. These trading partners, except China, are relatively well insulated from the growing trade frictions between countries and based on the historical linkages between China and Myanmar, trade-related issues between China and the United States are unlikely to have any direct impact on this relationship.

Figure 5

Shares of leading export markets

(Percentage)



Abbreviation: SAR, Special Administrative Region.
Source: UNCTAD calculations, based on data from the UNCTADstat database.

Beyond the COVID-19 shock, which has seen trade deteriorate due to supply chain constraints and shrinking international demand, geopolitical risks are increasing largely on account of tariff escalations between China and the United States. These actions are unsustainable and costly in the current environment of the global slowdown due to the pandemic (UNCTAD, 2019b). An increase in market volatility, in particular with regard to fuel related commodities and agricultural raw materials, would be the main concern for Myanmar, rather than trade-related friction among the major economies. A major influence in this regard will be the changing rate of COVID-19 infections and the roll-out of vaccinations at the national, regional, and global levels. Myanmar should also consider the increased risk of concentration in digitalized supply chains. Concerns over global value chain expansion and the concentration of value added in high-technology industries that overlap with geopolitical and technology supremacy issues may not currently be relevant in Myanmar. However, the growth of low-technology industries in Myanmar may be significantly constrained by the tendency of technology leaders to overly consolidate, in particular in the technology-heavy segments of global value chains. This is the case in the digital economy, in which a few global platforms and multinational enterprises control large market shares and subordinate other players to becoming providers of raw data to the 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 supply chains, 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 East Asia, South Asia, and South-East Asia.

2.2 Situating the national performance and economic structure in the regional context

The GDP growth rate in Myanmar in 2016–2018 was strong, hovering at just below 7 per cent. As noted, the boom in 2000–2011 was due to a sharp increase in manufacturing and industrial output, which grew at a fast rate (figure 6). Although economic growth faltered in 2011/2012, industry recovered strongly in 2014–2018, with large-scale

Figure 6

Annual growth rate of value added by sector

Source: UNCTAD calculations, based on data from the World Development Indicators database of the World Bank.

construction projects and manufacturing picking up pace as FDI flowed in. However, agriculture, which employs half of the workforce, slowed down after 2010 and posted negative growth or weak positive growth, ending 2018 with a 3 per cent growth rate. The sharp divergence of productivity between agriculture and manufacturing has important implications for economic growth and structural transformation. The potential of the country to sustain growth is limited by the quality of jobs being created in the various economic sectors (section 3.1.2). Agricultural and manufacturing export growth has not translated into improved living standards for the majority of the population. This has been attributed to low investment, in particular in traditional sectors, and the uncertain policy environment due to political tensions. In 2000–2010, the gross domestic investment of Myanmar averaged 14.2 per cent of GDP, the lowest among ASEAN member countries (Asian Development Bank, 2012).

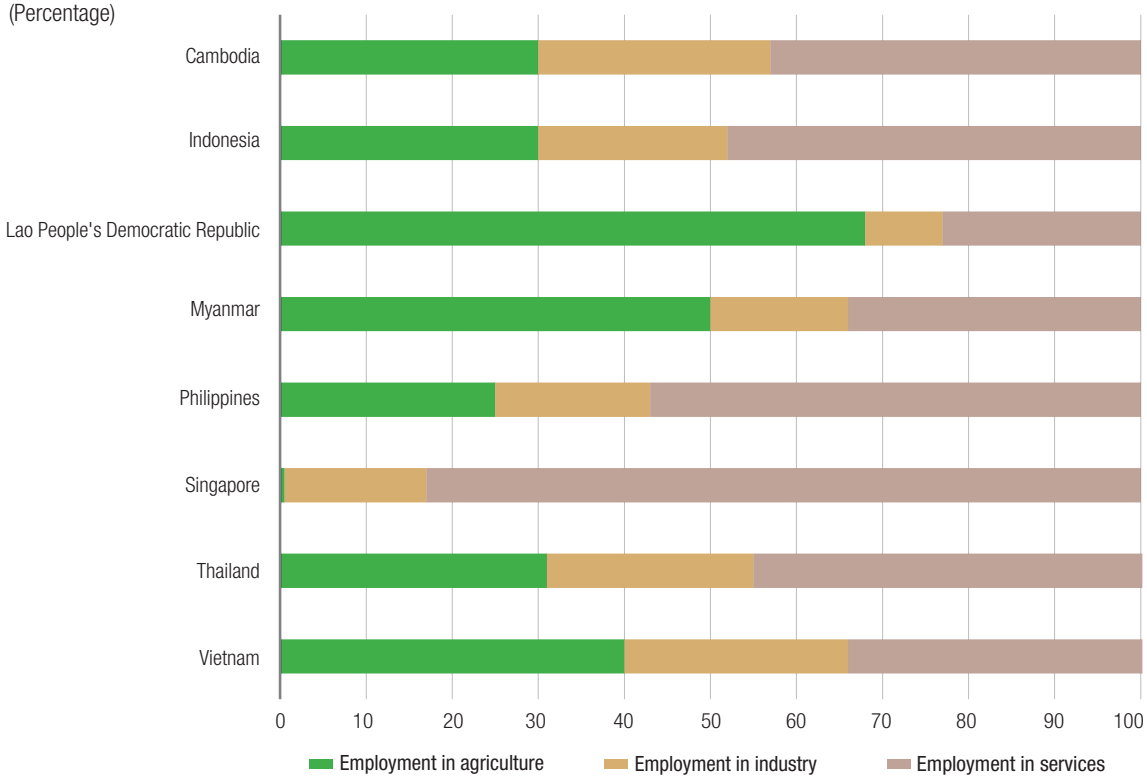
The ASEAN economies vary significantly in structure. Among ASEAN LDCs, the Lao People's Democratic Republic is perhaps the closest to Myanmar in terms of structure of employment, with a dominant agricultural sector, but the industry and services sectors in Myanmar employ proportionately more of the total labour force than in the Lao People's Democratic Republic. The economy of Myanmar is agrarian but with emerging industry and services sectors. In comparison, Cambodia has a relatively diversified economy, with 43 per cent of the labour force employed in services, 30 per cent in agriculture and 27 per cent in the industrial sector (figure 7). The industrial employment share of Myanmar has been stagnant for some time, although the contribution of the sector to GDP has grown significantly. The economy of the Philippines is a services-dominated economy, but employment shares in agriculture and industry are significant.

Myanmar is the fourth smallest economy in ASEAN, with a GDP of about 13 per cent that of Thailand in 2019. However, it is one of the fastest growing economies in the group and relatively well insulated from the pandemic according to IMF projections for 2020–2022 (table 1) (IMF, 2020b). The comparison, based solely on economic structure and size, masks important information concerning productivity and the potential to add to existing productivity. In this regard, UNCTAD has developed a productive capacities index (PCI) aimed at measuring and benchmarking the productive capacities of countries (UNCTAD, 2021).

Figure 7

Selected countries: Sectoral shares in total employment, 2018–2019

(Percentage)



Source: UNCTAD calculations, based on data from the World Development Indicators database of the World Bank.

Table 1

Selected economies in the Association of Southeast Asian Nations: Gross domestic product and growth rate projections

	GDP (current prices, billions of dollars)	Real GDP growth (annual percentage change)			
	2019	*2019*	*2020*	*2021*	*2022*
Brunei Darussalam	13	3.9	0.1	3.2	3.7
Cambodia	27	7.0	-2.8	6.8	7.3
Indonesia	1 120	5.0	-1.5	6.1	5.3
Lao People's Democratic Republic	19	5.2	0.2	4.8	5.6
Malaysia	365	4.3	-6.0	7.8	6.0
Myanmar	69	6.5	2.0	5.7	6.2
Philippines	377	6.0	-8.3	7.4	6.4
Singapore	372	0.7	-6.0	5.0	2.6
Thailand	544	2.4	-7.1	4.0	4.4
Viet Nam	330	7.0	1.6	6.7	7.4
ASEAN member States: Indonesia, Malaysia, Philippines, Singapore, Thailand	2 735	4.9	-3.4	6.2	5.7

Source: UNCTAD calculations, based on data from IMF (2020b).

2.3 Benchmarking productive capacities

Successfully building productive capacities requires knowing their current levels and specifying benchmarks against goals and targets and in comparison with other developing countries (see p.10 box).

Productive capacities can be developed mainly through an endogenous process dictated by policy and through interactions and exchanges among countries. The PCI score at any point in time is an aggregate measure that incorporates not only the endowments of a country but also how it transforms resources and benefits from interlinkages with other

UNCTAD productive capacities index

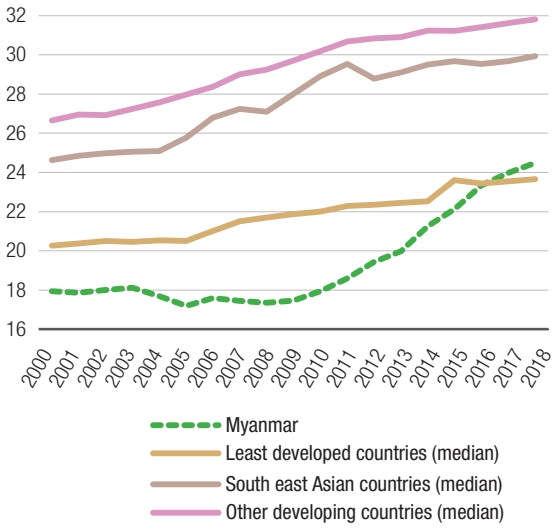
The PCI is the first comprehensive attempt to measure productive capacities in all economies, including LDCs, other developing countries and developed countries. The index builds on the conceptualization of productive capacities, defined as "the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop", and identifies eight distinct categories that constitute the core components of the index, as follows: transport, energy, information and communications technology (ICT), human capital, natural capital, institutions, structural change and the private sector. PCI is a composite index of 46 indicators under these eight components. A detailed description of the methodology of the construction of the PCI is provided in UNCTAD (2021); for the purpose of this report, it suffices to note 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 maximum and minimum 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.

Sources: UNCTAD, 2006; UNCTAD, 2020; UNCTAD, 2021.

countries. The PCI score of Myanmar has risen from 17.9, or 12 per cent below the LDC average score, to 24.5, or only 2 per cent above the LDC average score. The significant improvement in productive capacities is due to growth in information and communications technology (ICT), institutions, and structural change. There have also been marginal improvements in energy, human capital, and private sector capacity. ICT captures access to telephone and Internet services; the institutions component reflects quality governance; and structural change reflects the evolution of at least three indicators, namely, export concentration, economic complexity, and gross fixed capital formation. In 2000–2018, the overall PCI scores for all countries in South-East Asia improved to varying magnitudes and degrees. Myanmar recorded rapid improvements in its overall PCI score after 2011, compared with the trajectories in other developing countries and South-East Asia in the same period, due to a wide range of political and economic reforms (figure 8). However, Myanmar lags behind regional economies in productive capacities.

Figure 8

Developing country groups: Productive capacities index

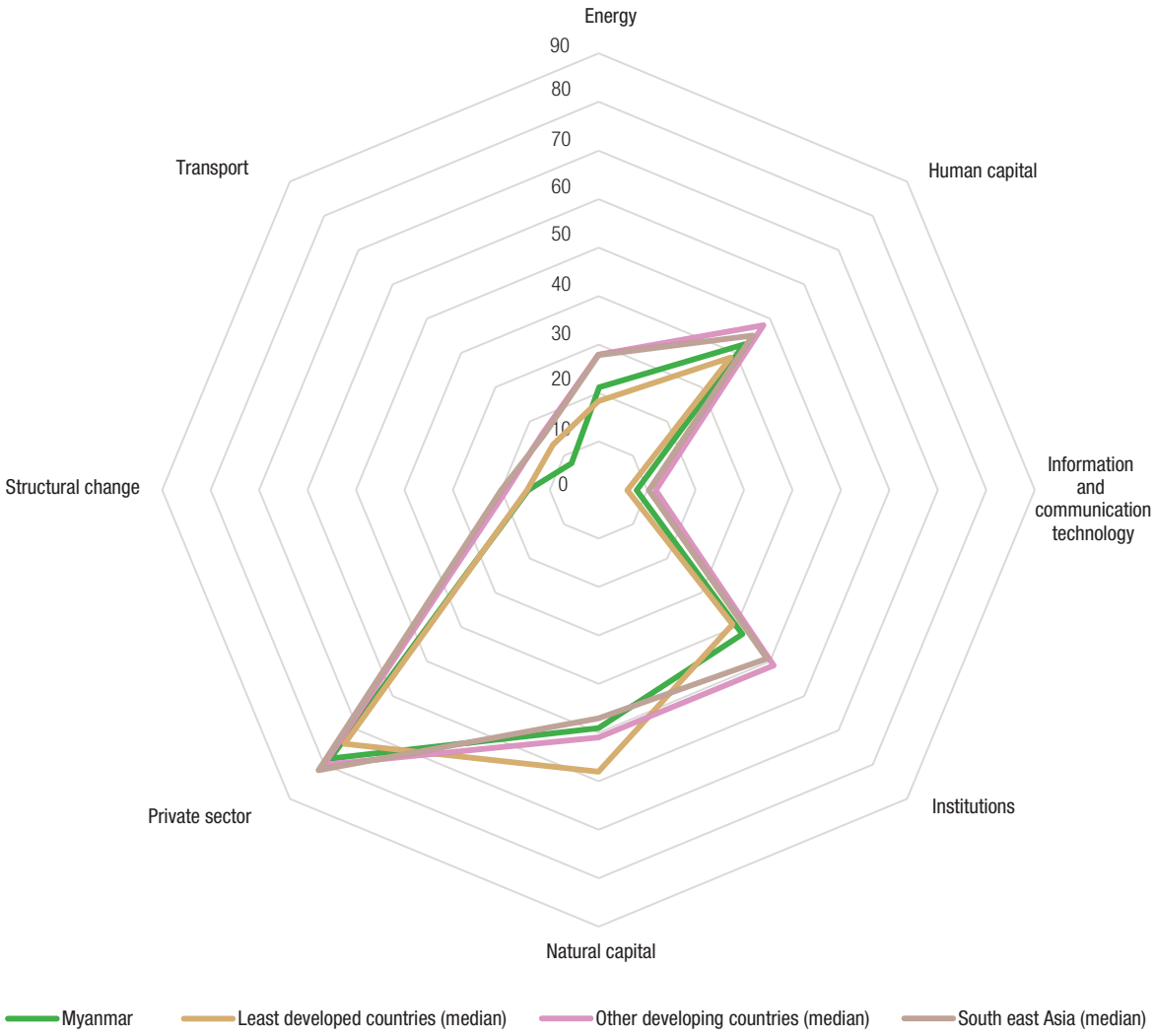


Source: UNCTAD calculations, based on data from the UNCTADstat database).

To investigate the underpinnings of the trend and progress of the PCI score of Myanmar, it is instructive to examine the individual components of the index. In 2000–2018, Myanmar had major improvements with regard to ICT, institutions and the private sector. However, there were limited developments in human capital development and structural change components. 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 the development potential of Myanmar. There are significant disparities, by location (urban versus rural), socioeconomic status and gender in access to education, which widen markedly in secondary education, and in employment (section 3.1). Data on productive capacities show that Myanmar outperforms the LDC median score in relation to most PCI components, particularly ICT and the private sector, with private sector investment contributing to nearly half of all growth in 2011–2016. In comparison with other developing countries, Myanmar underperforms in all PCI components, with the exception of natural capital, in particular in ICT, human capital and structural change (figure 9). Myanmar was among the leading 20 reformers in the 2020 doing

Figure 9

Developing country groups: Productive capacities index components, 2018



Source: UNCTAD calculations, based on data from the UNCTADstat database).

business index, rising from a ranking of 182 in 2013 to 165 in 2019.[2] Nevertheless, there is considerable scope for improvement, as Myanmar lags behind many neighbouring countries in the region in both the availability and quality of key infrastructure and related services; for example, firms identify a lack of power and of reliable power as a key constraint to doing business.

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

[2] The private sector in Myanmar is largely dominated by informal and small enterprises and farms, with only a few large, modern enterprises. The high costs of doing business and trading across borders constitute key constraints to private sector development, in particular for small and medium-sized enterprises. Small enterprises are negatively affected in particular from complex bureaucratic processes for establishing and operating a business.

Transport connectivity challenges in Myanmar hinder the movement of people and goods and constrain economic activity, weighing down its competitiveness. National transport networks, including railways, roads, and inland waterways, are outdated and in poor condition and low-capacity airports remain insufficient and are key infrastructure obstacles (Asian Development Bank, 2012; Oxford Business Group, 2016). Myanmar outperforms the LDC median score in the energy component, yet its power sector is one of the least developed in South-East Asia, with more than half the population not connected to the national grid and the rest subject to prolonged and frequent power disruptions (Lee et al., 2016; Numata et al., 2020). The geographic location of Myanmar gives the country a unique opportunity to develop into a key transport connection hub between China, India, and ASEAN. The Government recognizes that businesses require improved infrastructure and Myanmar Sustainable Development Plan 2018–2030 emphasizes, in particular, electricity, roads and ports (Malesky et al., 2019). The Ministry of Transport and Communications estimates that the transport sector requires some $60 billion in investments over the next 20 years, with the Government increasingly turning towards public–private partnerships to deliver major transport projects (Pricewaterhouse Coopers, 2018). One of the most significant developments in the last seven years has been the liberalization of the telecommunications market, the speed and scale of which have been unprecedented, resulting in near universal telephone access from 15 per cent in 2013, at affordable prices and with data applications, with significant impacts on livelihoods (Norbhu, 2015).

2.4 Pandemic-related economic challenges

The impact of the pandemic on growth in the region is expected to be similar across South Asia and South-East Asia and among the worst affected, the economies of India and Thailand will contract by 10 and 7 per cent, respectively (IMF, 2020c). The economy of China will slow down and, as the biggest importer of commodities in the subregion, its import demand for commodities may contract by $15.5 billion to $33.1 billion in 2020. Countries with trade highly dependent on exports to China will see economic activities deteriorate. For example, the energy product exports of Myanmar to China will likely fall by 16–34 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 a significant reduction in production and import demand, but price corrections due to demand conditions, as well as unsynchronized local impacts of the pandemic in various economies and regions may lessen the economic shock.

Myanmar confirmed its first case of COVID-19 on 23 March 2020, two months after the first cases were diagnosed in China. In order to help prevent the spread of the virus, the Government put in place measures that included travel restrictions, the closure of land borders, partial lockdowns, bans on mass gatherings, stay-at-home orders and curfews in some major cities, quarantine measures and social distancing requirements, among others. These measures helped to contain the first wave of infections, considering the population size and the long border with China; 374 cases and six deaths were recorded during the first wave that lasted from March to July 2020. After mid-August 2020, however, the number of local transmissions of the virus increased throughout the country, with the highest number of cases reported in Yangon Region, followed by Rakhine State and Bago Region (Office for the Coordination of Humanitarian Affairs, 2020). As of 12 November 2020, Myanmar had registered 64,453 confirmed cases and 1,480 deaths (World Health Organization, 2020). The much stronger second wave strained the weak social protection and health-care systems in Myanmar, posing new challenges to efforts to reduce poverty, food insecurity and malnutrition. Consequently, localized quarantine measures and a ban on international tourism resumed following partial lockdowns in major cities in September and October 2020 (Win, 2020).

Before the onset of the pandemic, prospects for economic growth in Myanmar had remained positive, namely a 6.4 per cent growth rate in 2020, on the back of structural reforms and increased investment in the transport and telecommunications sectors and greater infrastructure spending by the Government (World Bank, 2019). The pandemic has caused a steep decline in economic growth; the GDP growth forecast of the World Bank for 2020 was revised to just 0.5 per cent and IMF forecasted that the economy would grow by only 2 per cent in 2020. However, both IMF and World Bank projections indicate that the negative impact of the pandemic on GDP growth may be short-lived, with a recovery of growth levels expected from 2021 (IMF, 2020c; World Bank, 2020a). The economy is impacted by both supply and demand shocks. Measures aimed at containing the spread of the virus are likely to disproportionately affect microenterprises and small

and medium-sized formal and informal enterprises. The policy measures implemented by Governments worldwide, including Myanmar, disrupted domestic and global economic activities and trade flows, curtailing domestic demand, affecting "wholesale, retail trade, restaurants and hotels (ISIC G-H)", "transport, storage and communication (ISIC I)", as well as "other activities (ISIC J-P", which together accounted for 40 per cent of the GDP in 2019.[3]

The manufacturing sector, in particular the garment industry, which generates about one fourth of exports was also severely hit by the disruption in global trade. The pandemic has also posed a major challenge to the construction sector due to the suspension of projects, temporary lockdowns, and cash flow problems. Declining demand for manufactured goods (such as cancelled orders and associated non-payments or reduced payments) among the major trading partners of Myanmar, such as China, led to unemployment and losses of wages. By contrast, the agricultural (about 21 per cent of the economy) and ICT sectors have proven relatively resilient in the face of the crisis to date, for example through the surge in online activities due to telecommuting and digital transactions (Diao et al., 2020).

Major disruptions in international travel, tourism and supply chains contributed to a significant contraction in global trade early 2020. In Myanmar in 2018, trade represented about 61 per cent of GDP, compared with 0.2 per cent in 2011. The effects of declining exports were experienced in Myanmar after border closures with China in January and February 2020, followed in March by significant cancellations of orders for garment exports from Europe, given that 70 per cent of garment exports are directed to the European Union market (Htwe, 2020). The sectors most affected by the pandemic, in particular agriculture, tourism, and the garment industry within manufacturing, are female-labour intensive and the pandemic has therefore disproportionately affected women (UNCTAD, 2020c). With the reopening of borders, cross-border trade rebounded, although recovery in the garment industry was slower, as demand from the European Union market continued to be low. Despite the impacts of the pandemic, export revenues in Myanmar increased by around $2 billion in fiscal year 2019/20, compared with in the previous fiscal year (Loon, 2020). However, the trade deficit widened to $1.8 billion in July 2020, 78 per cent higher than in the same period in 2019, as the pandemic affected exports more severely than imports (World Bank, 2020b). In services trade, the tourism revenue of Myanmar was projected to decline sharply in 2020, by as much as 50 per cent, reflecting tightening global travel restrictions and falling earnings from hotels, restaurants, and transportation activities (Hein, 2020). Myanmar recently finalized National Export Strategy 2020–2025, with a focus on export diversification into higher value-added manufacturing and market-oriented agriculture and services. The COVID-19 crisis therefore provides important lessons for recalibrating initiatives and plans to implement the strategy.

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 (with FDI inflows falling $100 million short of the target in fiscal year 2019/20), as major source markets such as China, Singapore and Thailand faced significant domestic downturns. FDI commitments increased by $1.2 billion from fiscal year 2018/19 to fiscal year 2019/20, reaching $5.7 billion. About one third of FDI was channelled to electricity generation and the real estate sector and industry received about 20 per cent each (Tun, 2020). The future trajectory of FDI inflows will depend on efforts in Myanmar to contain the virus and mitigate country-specific risks, as well as the recovery in international markets (World Bank, 2019).

The pandemic delivered a significant shock to commodity markets, with impacts varying in magnitude and duration with regard to different types of commodities. A mild winter in the South East-Asian subregion in 2019/20, coupled with a steep decline in commercial and industrial usage as a result of pandemic-related business closures, depressed demand for natural gas, although less severely in comparison with demand for oil. The reduction in demand drove down commodity prices, with a decline of 66 and 22 per cent in oil and natural gas prices, respectively, in January–April 2020. The gradual reopening of economies starting in May 2020 helped the rebound of natural gas prices in the third quarter of 2020, which almost reached pre-pandemic levels. As Myanmar is an importer of oil, the decline in crude oil prices benefited consumers and producers in the country. In 2018, rents of natural gas, the second largest export product of Myanmar, accounted for 3.5 per cent of GDP and declining gas revenues were expected to increase fiscal and external imbalances while intensifying financing pressure (World Bank, 2020a).

[3] See UNData, National Accounts Estimates of Main Aggregates. United Nations Statistics Division. http://data.un.org/Default.aspx.

To mitigate the social and economic impacts of the pandemic, the Government launched a COVID-19 economic relief plan in April 2020, with the aim of improving macroeconomic recovery through monetary stimulus; easing the impact on the private sector through improvements to investment, trade and banking; easing the impact on labourers and workers; easing the impact on households; promoting innovative products and platforms; strengthening health-care systems; and increasing access to COVID-19 response financing, including contingency funds (Government of Myanmar, 2020a). Direct support was provided to vulnerable households, workers, farmers, and small businesses, including those involved in electronic commerce. Spending in the health-care system was increased to ensure an efficient response to the pandemic through, among others, mass testing, protection, and treatment, as well as upgrades of hospitals and health-care facilities for effective implementation of the health sector contingency plan.

As part of the economic stimulus, the central bank cut the primary policy interest rate by 3 percentage points in March–May 2020, with a view to boosting macroeconomic recovery; announced a temporary reduction in the required reserve ratio for banks from 5 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 in April–August 2020 despite a widening trade deficit. The current account deficit of about 2.6 per cent of GDP in 2019 was expected to widen to 3.5 per cent in 2020 due to lower tourism revenue and commodity prices (IMF, 2020d). Before the pandemic, public finances in Myanmar were relatively sound. The fiscal deficit was about 4 per cent of GDP and general government gross debt was about 39 per cent of GDP, which led IMF to assess Myanmar to be at a low level of external debt distress. However, due to the pandemic, as economic activity decelerated, and given additional spending on social and welfare activities to limit the socioeconomic impacts of the crisis, the government budget was negatively affected. The fiscal deficit in fiscal year 2019/20 was estimated at about 6 per cent, with general government gross debt at an estimated 42.4 per cent of GDP (IMF, 2020d). The pandemic brought inflation levels down slightly, as lower oil prices and the slowdown in economic activity exerted a downward pressure on consumer prices. IMF estimates indicated that average annual inflation would be brought down to about 6.1 per cent in 2020 from 8.6 per cent in the 2019.

The impact of the pandemic extends to external financing sources, in particular private flows to Myanmar. The decline in the flow of remittances represents the loss of crucial financial support for many vulnerable households. Labour migration has long been an important livelihood strategy in Myanmar. Before the onset of the pandemic, Myanmar had an estimated 4.25 million migrants living abroad, mostly in Thailand, followed by Malaysia, Singapore, and other countries (Government of Myanmar and United Nations Population Fund, 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, receive remittances from a migrant household member and this accounts for half of household income in poor households (Central Statistical Organization et al., 2017). Collectively, formal remittances reached $2.8 billion in 2018, constituting more than 4 per cent of GDP (World Bank, 2020c). Informal remittance channels are prominent, with 68 per cent originating from Thailand (United Nations Capital Development Fund, 2017). Slowing external demand and lockdown measures in destination countries triggered a high level of returns to Myanmar as industries that employed foreign workers were affected and jobs lost. The trajectory of economic recovery in Malaysia, Singapore and Thailand will be key in determining the impact of the pandemic on remittance flows to Myanmar.

The scale of the full impact of the crisis on the economy has yet to be fully understood because the pandemic has not yet ended, including in countries essential to economic stability and growth in Myanmar. The economic impact on businesses of the second wave, however, appeared to be more severe than the first wave, according to a firm-level survey by the World Bank in September 2020, the results of which showed that firms across all sectors (66 per cent) were not well prepared for the second wave (World Bank, 2020d). Agricultural firms, microenterprises and smaller firms were found to be the least prepared (at 73, 68 and 64 per cent, respectively). The share of firms reporting a reduction in sales was 93 per cent (a major concern for small and medium-sized firms); 34 per cent of firms experienced cash flow shortages; and 29 per cent of firms, in particular agricultural firms, possibly linked to their higher rates of informality, experienced a reduction in access to credit. Half of the surveyed firms in agriculture and about one third of firms in retail and wholesale trade reported the likelihood of falling into arrears within the next three months.

Strong economic growth, remittances and the resilience of the large informal economy were contributing to poverty reduction in Myanmar prior to the pandemic. 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 progress made over the past decade in reducing poverty and will increase inequality. People who worked in the informal sector, often in casual or seasonal activities, without job security and outside the formal safety net, faced sudden income losses due to the implementation of restrictions on mobility. From a gender perspective, 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 employment in the sectors most directly affected by the crisis. According to data from the Myanmar living conditions survey in 2017 implemented by the Central Statistical Organization of the Ministry of Planning and Finance, 77 per cent of the waged employees in the most-impacted economic sectors (that is, tourism, hospitality, transportation and food services, retail, construction, and garments) are working in informal employment (Central Statistical Organization et al., 2017). World Bank projections show poverty rates increasing in the short term, with wealthier quintiles and households engaged in the services sector particularly likely to be affected, and no return to pre-crisis levels until fiscal year 2021/22.

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

The Government introduced a series of emergency measures, including cash transfers and credit to farmers and businesses, yet support has not reached all households in need (Headey et al., 2020). It is essential that the Government increase awareness of the eligibility for cash assistance and take steps to facilitate easier access to such funds.

School closures in Myanmar have affected millions of students, with more visible impacts on the most vulnerable children and youth, exacerbating existing educational inequalities. The Ministry of Education announced a phased reopening of schools to start in July 2020, but schools were again closed at the end of August due to the increasing number of cases of infection (United Nations Educational, Scientific and Cultural Organization, 2020). Children and youth may therefore be losing educational opportunities, which are important for social and behavioural development. Access to broadband Internet is still underdeveloped, at 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 disruptions in education could lead to a rise in child labour and child marriage, particularly among poor households.

The pandemic exacerbates the extreme vulnerability of Myanmar to multiple hazards associated with extreme weather events and climate change. Both rural and urban communities often have a limited understanding and knowledge of basic norms for COVID-19 prevention, such as social distancing and hygiene-related measures. It is essential to promote the integrated use of emergency measures with disaster responses, such as by installing handwashing stations in cyclone shelters.

3. Areas of vulnerability

3.1 People

The population of Myanmar is 54.4 million and is projected to reach 65.8 million by 2050 (United Nations, 2019). Slightly over one fourth of the population (25.5 per cent) is in the 0–14 age bracket and over two thirds (68.3 per cent) are in the 15–65 age bracket (UNFPA, 2021). According to data from the World Bank, World Development Indicators, life expectancy at birth was estimated at 67 years in 2016–2019, the fourth lowest in Asia and Oceania after Papua New Guinea, Afghanistan, and Yemen. The rural share of the population remains high, falling slightly from 73 per cent of the total in 2000 to 69 per cent in 2018. In absolute terms, however, the rural population grew by almost 3 million, to 37 million in 2000–2018.

Myanmar has made strides in improving social development in various thematic areas, including poverty, food and nutrition and education and health, but challenges remain. The average number of undernourished people declined significantly,

from 17.8 million in 2000–2002 to 7.6 million in 2017–2019 (data from the Food and Agriculture Organization of the United Nations (FAO) FAOstat database, July 2020). The situation with regard to water and sanitation has also improved, although gaps remain, in particular in populous rural areas. The share of the population using at least basic drinking water services increased from 46 per cent in 2000 to 82 per cent in 2017. However, the proportion of the population obtaining drinking water from surface or unimproved sources is 33 per cent in rural areas and 7 per cent in urban areas (UN Water,2020).

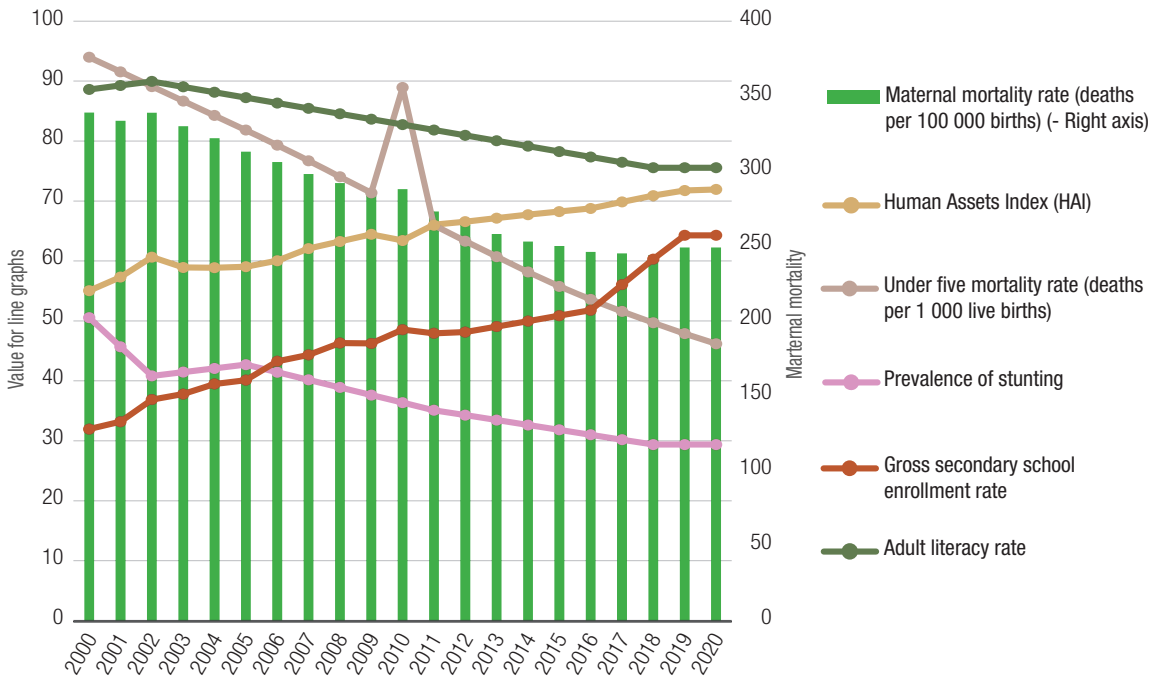
The proportion of the population living under the national poverty line halved from 48.2 per cent in 2005 to 24.8 per cent in 2017 (Central Statistical Organization et al., 2017). The improved trend in poverty levels reflects improvements to the economy and growing investments in social sectors, in particular education and health. Education, health, and well-being are crucial elements of human capital development, which in turn is a key factor affecting productivity and competitiveness and therefore a determinant of economic growth and development. To be productive and competitive, a country needs to invest in educational knowledge and skills, quality health care and nutrition and to secure decent jobs and social protection for the population. All of these are also necessary elements in creating inclusive societies and particularly pertinent in countries with ethnic diversity, such as Myanmar.

3.1.1 Human assets index

HAI is a composite measure that captures the contribution of education and health 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 reviews in 2000 and 2003, when it fluctuated near the threshold. Currently available data shows that since 2011, Myanmar scored 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; performance in the individual HAI components has generally improved among developing countries. However, the distance of between the HAI score and the graduation threshold (still at 66 since the 2015 review) reflects how far the country has progressed, based on performance in the HAI subcomponents, namely, under-five mortality rate, prevalence of stunting, gross secondary school enrolment ratio, adult literacy rate and gender parity index in gross secondary school enrolment.

Figure 10

Human assets index and its subcomponents



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

Education

There has been a steady improvement in the gross secondary school enrolment ratio, from 30 to 64 per cent in 2000–2020, but the adult literacy rate fell from 89 per cent in 2000 to 76 per cent in 2020. This could be the result of the growing number of young adults (15+) who do not transition from primary to secondary education. However, it is important to note that national data report a 7–12 percentage point higher gross secondary school enrolment ratio in 2000 and 2018. National data also show a steady improvement in the adult literacy rate over three national censuses undertaken in 1973, 1983 and 2014, which reported rates of 71, 78.6 and 89.5 per cent, respectively. In addition, the Myanmar living conditions survey in 2017 reported the adult literacy rate as at 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 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 and 3.66 per cent, respectively, in 2011/12 (United Nations Children's Fund and Government of Myanmar, 2018). The Government introduced free education for primary education in 2011/12, for lower secondary schools in 2014/15 and high schools in 2015/16. In addition, the Government removed fees for registration, stationery and parent teacher associations in all government schools and provides free textbooks and uniforms to all students. The Government also provides grants to all basic education schools to reduce the burden of their operating costs, traditionally borne by communities (World Bank, 2017). The United Nations Educational, Scientific and Cultural Organization estimates that expenditure on education in 2019 was 10.5 per cent of total government expenditure or 1.93 per cent of GDP (UNESCO, 2021). However, despite the significant increase in government spending on education, Myanmar allocates the least for education as a percentage of the overall budget compared with other countries in the region. This percentage varies significantly; allocations in Indonesia, Thailand and Singapore are closer to 20 per cent and in Cambodia and Myanmar are below 10 per cent (United Nations Children's Fund and Government 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, child labour remains a persistent concern in Myanmar, with one in five children aged 10–14 years working. As a consequence, dropout rates are high during the transition from primary to lower secondary school and from lower and upper secondary school. About 24 per cent of adolescents of lower secondary school age were out of school in 2017, but this represents a significant improvement, as the rate was 56.4 per cent in 2000 (World Development Indicators database). One in four children in Myanmar do not complete primary school, with the dropout rate even higher in poor communities. Fewer than one in three children finish upper secondary school (Child Fund Australia, 2017). Despite a net primary enrolment of close to 100 per cent (UNESCO, 2021), the mean years of schooling are 4.7, similar to in Cambodia, but less than in Bangladesh and the Lao People's Democratic Republic, each at 5.2 years; India, at 6.3; China, at 7.6; and Thailand, at 7.9 (Child Fund Australia, 2017). This is far from the objective in National Education Strategic Plan 2016–2021 of extending the basic education system for all to 13 years (Government of Myanmar, 2016). The lower 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 and a lack of didactic teaching methodologies, along with outdated curricula and decayed and overcrowded classrooms, in addition to a heavy reliance on memorization and low levels of attainment of literacy and numeracy skills (Child Fund Australia, 2017).

Shortcomings in education affect the population in general and minority groups have even fewer educational opportunities. Ethnic diversity, with minority groups speaking many different languages other than that taught in schools, presents additional challenges for children and educators (Child Fund Australia, 2017; Government of Myanmar, 2016). Recent developments in education have seen the introduction of mother tongue-based teaching in government schools, such as the teaching of additional languages during school hours. This has met one of the main demands of minority groups and it is seen by many as a step in the right direction (South and Lall, 2016). However, incidents of conflict make access to education difficult for populations living in conflict-affected areas and/or displaced by violence.

Education and other social services, including health, are significantly hindered by a lack of affordable and reliable access to roads and energy. The electrification rate increased significantly, from 53 per cent in 2011 to 70 per cent in 2017, yet the rate in Myanmar is still the lowest in South-East Asia and average annual consumption per capita is much lower than the global average; 15 times lower in 2014 (World Development Indicators database).

Only 21.9 per cent of the 150,816 km of roads are paved and it is estimated that around 20 million people, or half the rural population, do not have road access (World Bank, 2017).

Health

Myanmar has made significant progress in all three health-related indicators, namely the under-five mortality rate, maternal mortality ratio and prevalence of stunting. According to CDP estimates, the under-five mortality rate declined from 94 in 2000 to 46 in 2020. The Myanmar Demographic and Health Survey 2015–2016 implemented by the Ministry of Health and Sports showed a significant decline in the under-five mortality rate in the decade preceding the survey, from 103 to 50 deaths per 1,000 live births (Ministry of Health and Sports and ICF, 2017).

Maternal mortality declined from 340 per 10,000 in 2000 to 289 in 2010 and 250 in 2020. The Demographic and Health Survey reported a value of 227 per 100,000 in 2015, slightly lower than CDP estimates. Progress has been made, yet maternal health remains a challenge due to disparities between rural and urban areas and across ethnic communities. Improvement in maternal health is a factor in enhancing child survival. Antenatal care, the use of health facilities for delivery and the availability of post-natal care services are important in 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 minimum number of 1 medical doctor per 1,000 people recommended by the World Health Organization. National averages show that in 2015–2016, there was one medical doctor per 1,477,000 people, but with a wide disparity between urban areas, at one doctor per 633,000, and rural areas, at one per 3,447,000 (Saw et al., 2019).

Another indicator of general health among the population is the prevalence of stunting. Available statistics show that the prevalence of stunting among children under five declined from 35.1 per cent in 2010 to 29 per cent in 2016 and 26.7 per cent in 2018 (Government of Myanmar, 2019; Ministry of Health and Sports and ICF, 2017; United Nations Children's Fund and Government of Myanmar, 2010). There was also an improvement in the situation as the prevalence of undernourishment declined from about 37.7 per cent in 2000–2002 to 14.1 per cent in 2017–2019 (data from the FAOstat database). Nutrition and health are linked to poverty as both a cause and effect of poor access to education and health. The Government increased current expenditure on health from a mere $3.35 per capita in 2000, or 1.8 per cent of GDP, to $58.04 per capita in 2017, or 4.7 per cent of GDP (World Development Indicators database). These outlays have been used to finance the construction of new health facilities and equipment needed for the delivery of services (World Bank, 2017). These efforts are reflected in a lower reported incidence of new HIV infections and drug-resistant malaria and tuberculosis, although much still needs to be done to catch up with the situation in other countries in Asia. Because so little is spent on health care, most people have to pay for treatment if they fall ill. The public health system needs a boost to meet the increasing pressure for services and attain the goal of universal health coverage (Sustainable Development Goal 3.8). Currently, only 2.5 per cent of the population is covered by health insurance, administered by the Social Security Board, Ministry of Labour, Immigration and Population, a figure far from the objective in National Health Plan 2017–2021 of universal access to basic health services. The population above the age of 65 accounts for 6.2 per cent of the total, yet only 0.9 per cent of people above retirement age receive a pension. Therefore, the dependent population that does not earn an income is likely to increase despite the expected improvements in education and health.

3.1.2 Labour force and employment

The total labour force grew from 22 million in 2000 to 25 million in 2018 and, in the same period, the population in the 15–64 age bracket grew to 36 million, an increase of 7 million. The ratio of female to male labour force participation in percentage terms declined 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 women make up 40 per cent of the labour force, although they make up 53 per cent of the population in the 15–64 age bracket and contributed 4 million to the growing potential labour force in 2000–2018. Unemployment remains low, picking up slightly from 1.2 per cent in 2016 to 1.6 per cent in 2019. Among the female labour force, unemployment jumped from 1 per cent in 2010 to 2 per cent in 2019 and among the male labour force, unemployment rose marginally from 0.8 to 1.2 per cent. The disparities between the female and male labour force are more pronounced among youth. For example, in 2019, while youth unemployment was slightly higher than the national average, at 3.9 per cent (1.8 per cent in 2010), the youth unemployment rate among the female labour force was 5.2 per cent (1.9 per cent in 2010) compared to 2.9 per cent (1.7 per cent in 2010) among the male labour force.

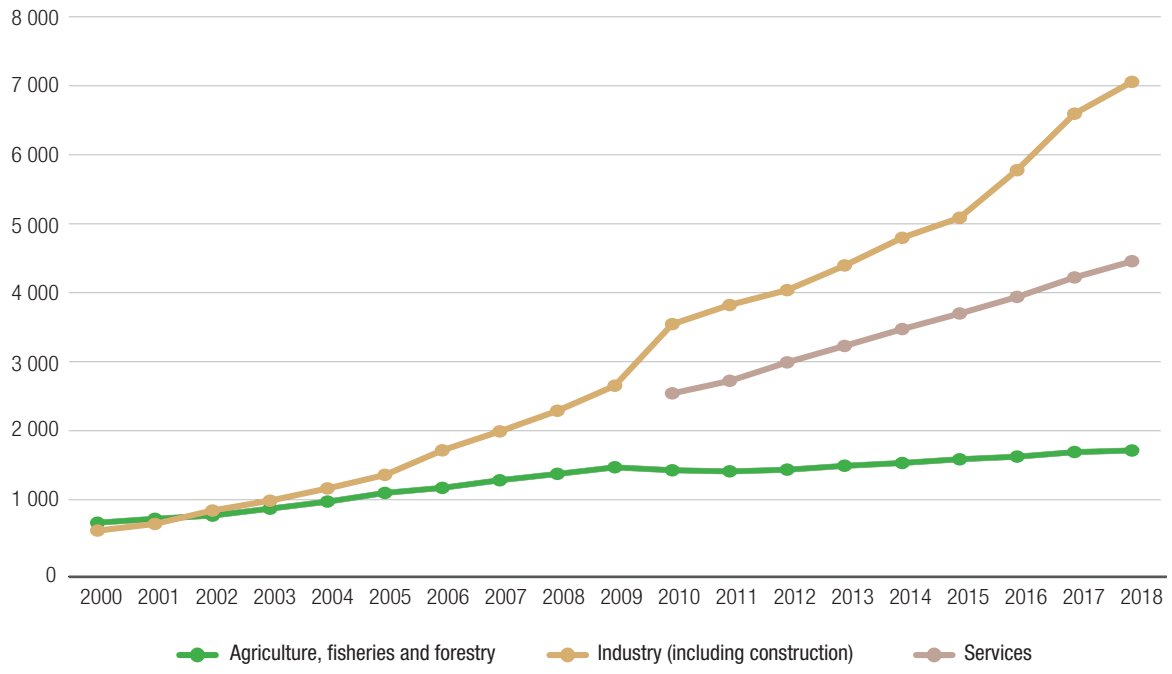
Agriculture is the dominant employment sector, absorbing 50 per cent of the labour force in 2019 (61 per cent in 2000). The services sector is the second largest, attracting 34 per cent of the labour force in 2019 (26 per cent in 2000). The value-added share of industry, including construction, more than trebled, from 9.7 to 32 per cent of GDP in 2000–2018, but the employment share of industry remained virtually unchanged, at 13–16 per cent in 2000–2019. There were also strong gains in the value-added share of manufacturing, which rose from 7 to 24 per cent of GDP in 2000–2018. In contrast, the value-added share of agriculture, fisheries and forestry in GDP continued to shrink, from 57 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 industrial 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 agricultural 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 low, despite some improvements to the value added per worker achieved in recent years (figure 11). For example, the value added per worker in agriculture in 2018 ($1,713) matched that in India but was less than half that in China. In industry, value added per worker exceeded that of India but was also less than half that in China. In services, value added per worker was half that in India and 30 per cent of that in China. Myanmar needs to accelerate the pace of human capital development to impede a low skill level becoming a major obstacle to economic progress. About 30 per cent of production workers are low skilled compared with 20 per cent in developing countries in East Asia and the Pacific, 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) is in vulnerable employment, consisting of own-account workers and contributing family workers, whose earnings and productivity are too low to make a dent on poverty.

The structure of employment is both a result and a cause of the differences in labour productivity. Labour productivity in Myanmar is undergoing a pattern of structural transformation familiar among LDCs, that is, productivity growth has slowed significantly over the years as labour has shifted from agriculture to other sectors, mainly services. Labour productivity growth averaged 8.4 per cent in 1991–2010 but declined to only 3.8 per cent in 2011–2018 (figure 12).

Figure 11

Value added per worker

(Constant 2010 dollars)

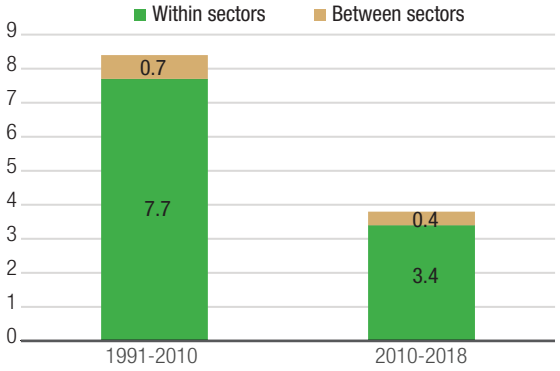


Source: UNCTAD calculations, based on data from the World Development Indicators database of the World Bank.

Figure 12

Labour productivity growth

(Percentage)



Source: UNCTAD calculations, based on data from the International Labour Organization.

Nevertheless, Myanmar is still considered among the best performers among LDCs, in which labour productivity growth averaged 1.9 per cent in 2011–2018.

The slowdown in labour productivity growth signals structural constraints in extracting further growth from the economy. Labour productivity complements resource efficiency as one of the strategies for increasing competitiveness and sustaining economic growth (Stocker et al., 2015).

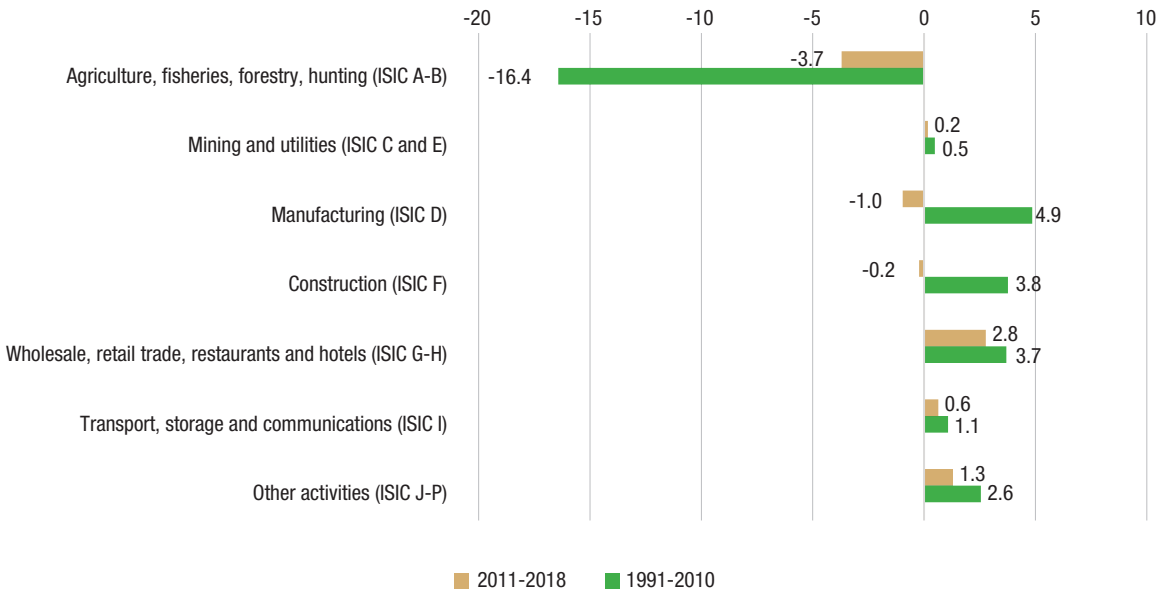
However, the slowdown in labour productivity shows that different dimensions of structural transformation, including changes in the composition of output, have not materialized. The most significant change in labour productivity has been in agriculture, where it declined in 2011–2018 but at a much lower rate than in 1991–2010 (figure 13). The shift in the structure of employment was mainly from agriculture to services, namely, international standard industrial classification G and H and international standard industrial classification I; both areas had 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 in those sectors has been growing rapidly.

The growing working-age population and improvements in the quality of education may reverse the labour productivity trend, particularly if training is geared towards preparing the youth labour force for technology and innovation, which form part of competitive global markets. As the structure of employment changes, policymakers should more closely keep track of labour productivity growth rates and the composition of output, to identify bottlenecks to economic growth and structural transformation. In Myanmar, both agriculture and services have the potential to sustain employment but the potential for gainful employment is in other sectors such

Figure 13

Average labour productivity growth by sector

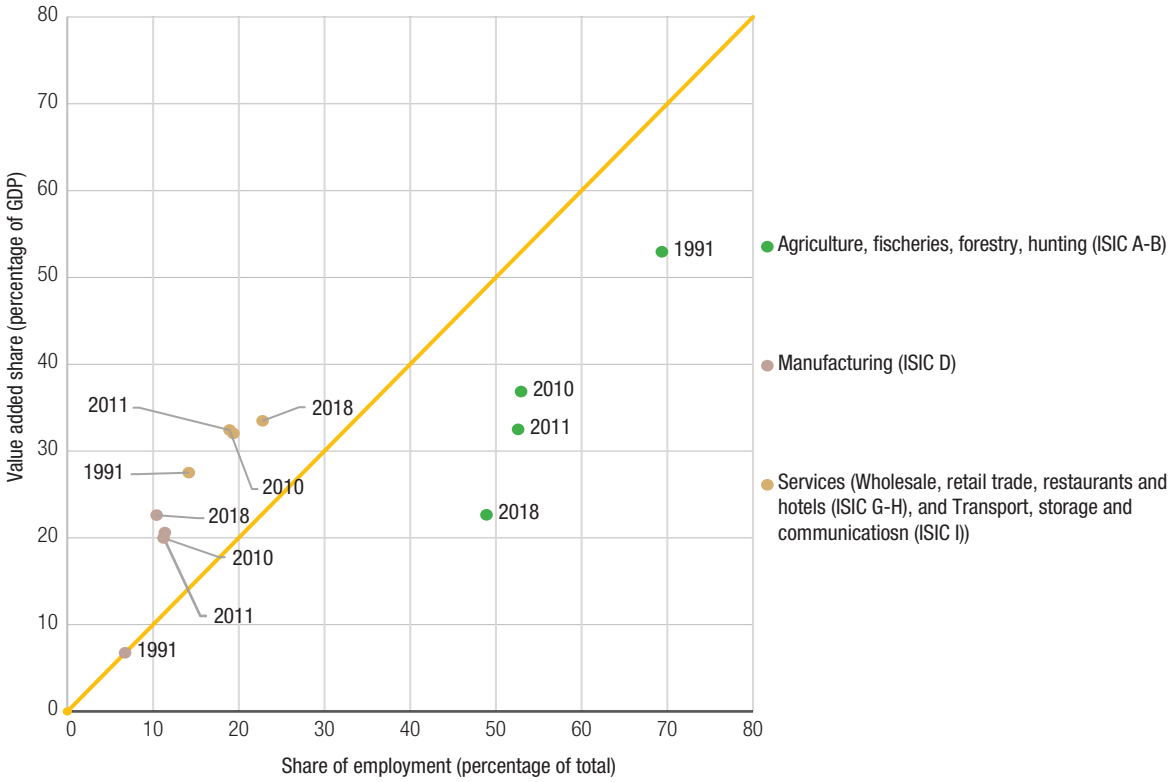
(Percentage)



Abbreviation: ISIC, international standard industrial classification.
Source: UNCTAD calculations, based on data from the International Labour Organization.

Figure 14

Value added and employment shares by sector, selected years



Abbreviation: ISIC, international standard industrial classification.
Source: UNCTAD calculations, based on data from the International Labour Organization.

as manufacturing, in which 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, the value-added share of manufacturing grew at a slower pace but the share of employment in the sector declined. The services sector, on the other hand, added jobs and its contribution to economic growth was substantial. However, for services to meaningfully contribute to structural transformation, there is a need to close the labour productivity gap between services and manufacturing.

3.2 Prosperity

An increase in the household income of the bottom half of the population is an indicator of shared prosperity. In Myanmar, the reported inequality, with a Gini index of 38.1 in 2015, is relatively low compared with in neighbouring countries. However, the lowest 20 per cent of the population held 7.3 per cent of income in 2015 and the lowest 10 per cent held only 3 per cent (World Development Indicators database). On the other hand, in 2015, the highest 10 per cent held 31 per cent of the income share and the highest 20 per cent held 45 per cent. Therefore, any measure reporting improvement in income distribution should be contextualized. Low-income households also tend to spend proportionately more of their income on basic goods and essentials. For example, the proportion of the population spending more than 10 per cent of household consumption or income on out-of-pocket expenditures on health care was 14 per cent in 2015.

According to data from the Myanmar living conditions survey, 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 level of extreme poor (1.4 per cent) and moderately poor (13.6 per cent) are quite significant given the total population (Central Statistical Organization et al., 2017). There was a corresponding increase in the proportion of non-poor secure from 24 to 42.3 per cent of the total population, but the non-poor insecure increased significantly, from 27.8 to 32.9 per cent. In 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 rural areas (87 per cent of the total) and the poverty headcount is significantly higher (30.2 per cent) than in urban areas (11.3 per cent).

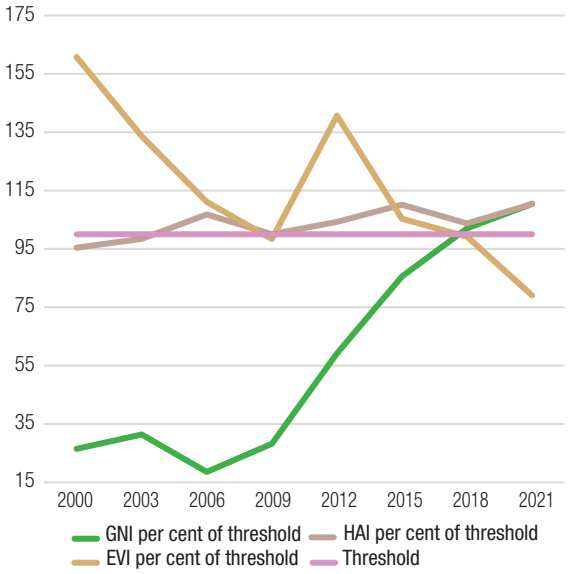
Differences in engagement in and returns from non-farm business and non-agricultural labour, as well as proximity to major towns and cities, explain the differences in household incomes between regions and cities. For example, Mandalay Region, Mon State, Sagaing Region, Tanintharyi Region and Yangon Region 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 with regard to poverty and access to and quality of education and health services, affecting in particular ethnic minorities, the urban poor and people living in rural and remote areas. Poverty is 2.7 times higher in rural areas, in which 30.2 per cent of the population is estimated to be poor compared with 11.3 per cent in urban areas. Most of the poor live in rural areas, at 87 per cent of the total population in the country. With regard to states and regions, the poverty rate is highest in Chin State, in which 58 per cent of the inhabitants are poor, followed by Rakhine State, at 41.6 per cent. At the other end, three regions, namely, Mandalay Region, Tanintharyi Region and Yangon Region, have the lowest poverty rates, in the range of 13–14 per cent (Central Statistical Organization et al., 2017).

Data from the CDP triennial reviews are not comparable due to data revisions and changes in data sources, methodologies, and the composition of composite indices. However, it is possible to track and trace progress towards meeting the graduation criteria at various stages. This section takes into account the changes and analyses the evolution in Myanmar of the remaining two of the three criteria namely, gross national income (GNI) per capita and economic vulnerability. Among the three criteria, Myanmar has continuously registered the weakest score under the income criterion, as GNI per capita has been one of the lowest among low-income countries, reaching less than one third of the graduation threshold in the first part of the 2000s. By contrast, since the start of the CDP triennial reviews in 1991, the HAI score of Myanmar has been above the threshold in all reviews except in 2000 and 2003. The EVI score has bordered on the threshold since 2006 except in 2012 and crossed it by a thin margin in 2009. Myanmar had already met the graduation requirements in 2009, when it crossed both the HAI and EVI thresholds by a thin margin (figure 15).

Figure 15

Graduation criteria scores standardized as percentage of the graduation threshold

(Percentage)



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

3.2.1 Gross national income per capita

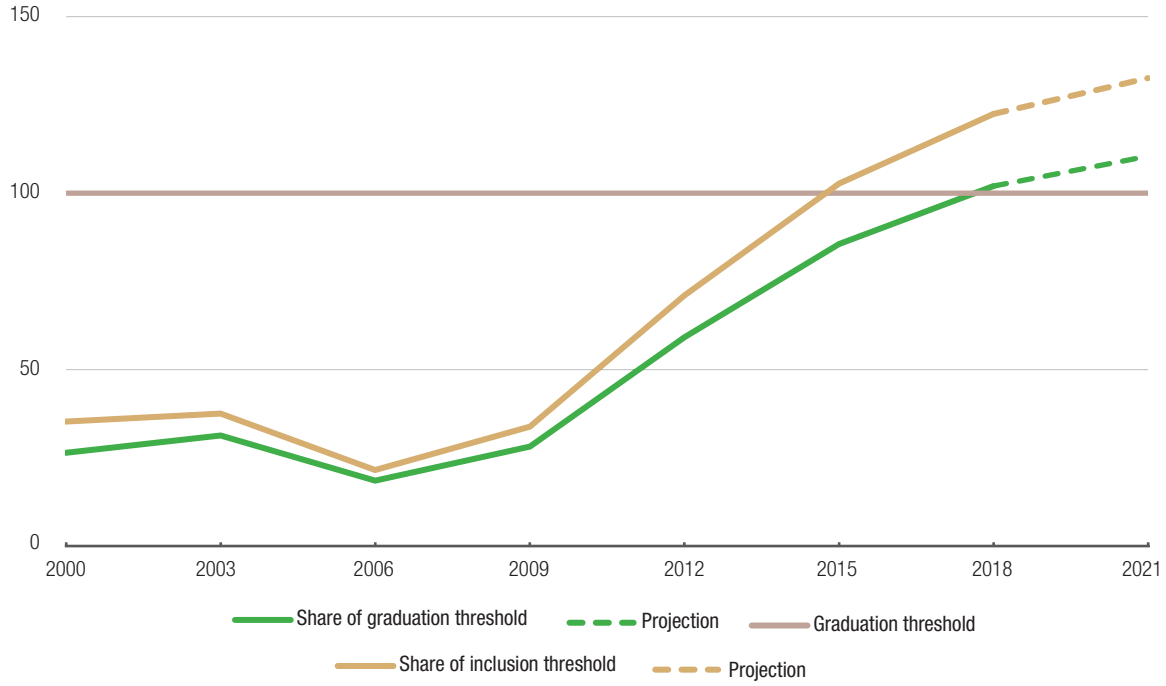
In Myanmar, the pace of GNI per capita growth has been significant since the second half of the 2000s, increasing from 19 per cent of the threshold at the triennial review in 2006 (corresponding to the 2002–2004 average) to 102 per cent at the review in 2018, when Myanmar met the income criterion threshold for the first time (figure 16). The significant rise in GNI per capita is linked to the economic boost in 2011–2019 that coincided with the progressive lifting of sanctions. Prior to this, economic growth had been mainly driven by the natural resource sectors, including agriculture, fisheries, and forestry; oil and gas; mining; and electricity.

After 2010, growth was underpinned by a broader range of activities, including tourism and manufacturing, spurred by improved access to capital and foreign markets following the progressive lifting of sanctions. The construction industry also made a 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 projects, such as with regard to the Shwe fields, came on stream in 2013,

Figure 16

Gross national income per capita

(Normalised scale, 100 = threshold)



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

contributing to GDP growth and generating a jump in exports (World Bank, 2015).

It is important to note that population growth rate for Myanmar is low, at an annual change of 0.6 per cent in 2018, compared with 1.1 per cent in Bangladesh and 1.5 per cent in the Lao People's Democratic Republic. In addition, the population growth rate declined sharply in 2000–2010 as sanctions were adopted and only recovered slightly, from 0.62 to 0.85 per cent in 2008–2013, before falling back to 0.63 per cent in 2019. Therefore, while the economic base has been expanding rapidly over the last decade, the low population growth has contributed to the growth in per capita income (table 2).

The economic growth benefited from a diversified and fast growing FDI stock on the back of the resumption of economic relations with the European Union and other developed regions. Over the last decade, FDI has been heavily concentrated in the extractive and power sectors and the main investors have been China, Thailand and Hong Kong, China, in that order (Bissinger, 2012). In the period 1988–2011, these countries accounted for more than 70 per cent of total approved FDI projects, yet their share declined to 33 per cent in the period 2012–mid-2019 and Singapore became the main investor, with 44 per cent of approved FDI projects. FDI inflows from other countries, such as Japan and Viet Nam, have also been on the rise. With regard

Table 2

Gross national income and gross domestic product per capita

(Current dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GNI per capita, Atlas method	850	1 010	1 130	1 200	1 230	1 260	1 280	1 290	1 370	1 390	..
GNI per capita, three-year average	329	411	539	698	876	1 054	1 185	1 243	1 244	1 230	1 257
GDP per capita	979	1 176	1 166	1 162	1 252	1 287	1 267	1 292	1 418	1 408	..

Source: UNCTAD calculations, based on data from CDP and the World Development Indicators database of the World Bank.

to sectors, new sectors such as transport and communications, manufacturing, hotel and tourism, and real estate began to receive increasing inflows of FDI. According to official statistics from the Ministry of Investment and Foreign Economic Relations, their combined share in total approved FDI projects was 38 per cent by end December 2019, up from 24 per cent by end December 2014. The launch of a few special economic zones, such as the Thilawa special economic zone, are also attracting FDI.

International trade flows have also grown significantly between Myanmar and other countries beyond ASEAN. The trade mix has also improved, with more products added to the export basket. Gas has remained the largest export category of Myanmar, but manufacturing has registered a strong recovery, with the strongest increase in non-textile manufacturing. Myanmar has benefited significantly from the reinstatement of the preferential trade access to the European Union market under Everything but Arms since 2013, with exports more than doubling in a few years. However, the impact of trade on poverty is rather weak, because of the manufacturing component, which has been shown to have little impact on employment creation; and because of the concentration of exports in narrowly defined tradable sectors, leaving the majority of the population in typically traditional agricultural and non-tradable services sectors.

3.2.2 Economic vulnerability

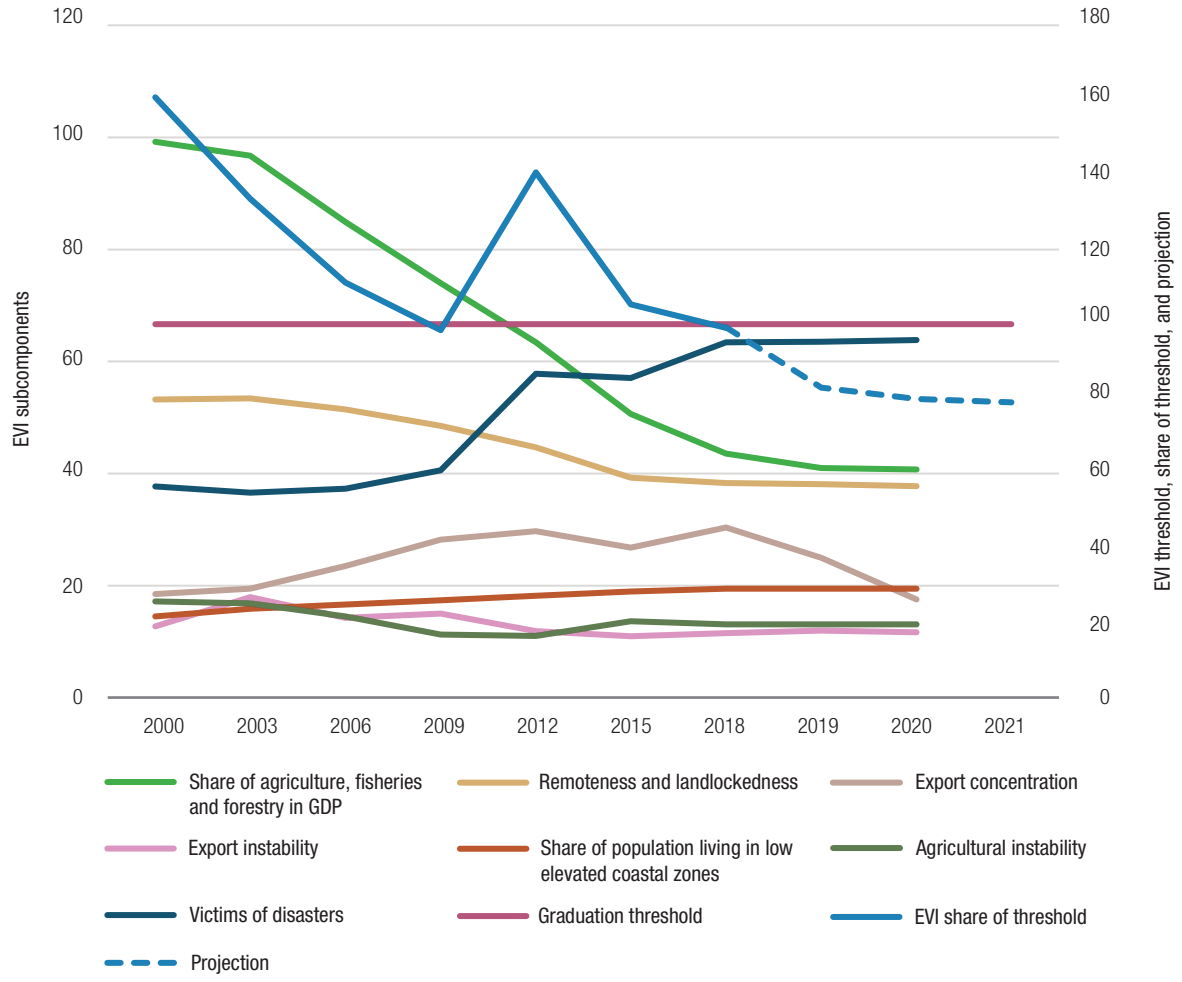
Prior to the uncertainties brought by the pandemic, the economic outlook for Myanmar was positive, with strong projections for growth in the medium term. Investment as a share of GDP is increasing, supported by several megaprojects, including in power generation and critical infrastructure development. However, such investments tend to have a predetermined cycle and are likely to be phased out in the next few years. Myanmar should focus on building resilience to emerging and long-term risks. In particular, Myanmar faces economic vulnerabilities related to the following: a high level of reliance on natural-resource based activities and on limited numbers of destination markets for exports, although manufacturing exports have been growing quickly in recent years; the expected erosion of preferential access to developed country markets as non-LDC ASEAN member countries are engaged in negotiations under different trade agreements; the loss of trade-related support measures after graduation, in particular the loss of duty-free, quota-free access to the largest markets for manufacturing exports from Myanmar; and significant investment needs in education, health and infrastructure, which require large fiscal commitments that could jeopardize macroeconomic stability and debt sustainability. The country is also prone to disasters and weather-related hazards that increase economic vulnerability (section 3.3).

Myanmar first met the economic vulnerability graduation criterion in the triennial review in 2009 and again in 2018. After a 25 per cent decline in 2000–2009, it crossed the threshold in 2009 and the EVI score increased in 2012, reaching 141 per cent of the threshold, as the country recovered from the impacts of Cyclone Nargis. EVI has declined rapidly since the review in 2015 (figure 17).

The analysis by EVI component is limited to the period 2006–2018 because important modifications were introduced to the index composition at the review in 2006. The decline of the EVI score of Myanmar in 2009 was mainly due to the decline in the remoteness component due to the growing importance in world trade of countries in Asia in general and China in particular, which situated Myanmar relatively closer to major world markets. The share of agriculture, fisheries and forestry in GDP also declined rapidly in the period. There was a slight decline in other indicators, such as export instability and agricultural instability, which also contributed to the decline. The spike in economic vulnerability in 2009–2012 was mainly driven by a sharp rise in the number of victims of disasters as the population living in low elevated coastal zones increased. These populations are particularly prone to disasters triggered by natural hazards and were severely affected by the Cyclone in 2008. In addition, the export concentration increased due to the strong return of manufacturing and industry on the back of the resumption of economic relations with the European Union and other developed regions. The economic vulnerability index is likely to continue declining with the expected fall 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 further lowering the EVI score from the threshold level. Such strategies should also include measures to enhance productivity, building of productive capacities and improving labour efficiency. As shown, labour productivity has been on the rise in all sectors, with value added per worker growing fastest in industry in 2000–2018. However, the country lags behind major players in the ASEAN market, in particular in manufacturing and industry,

Figure 17

Economic vulnerability index and subcomponents



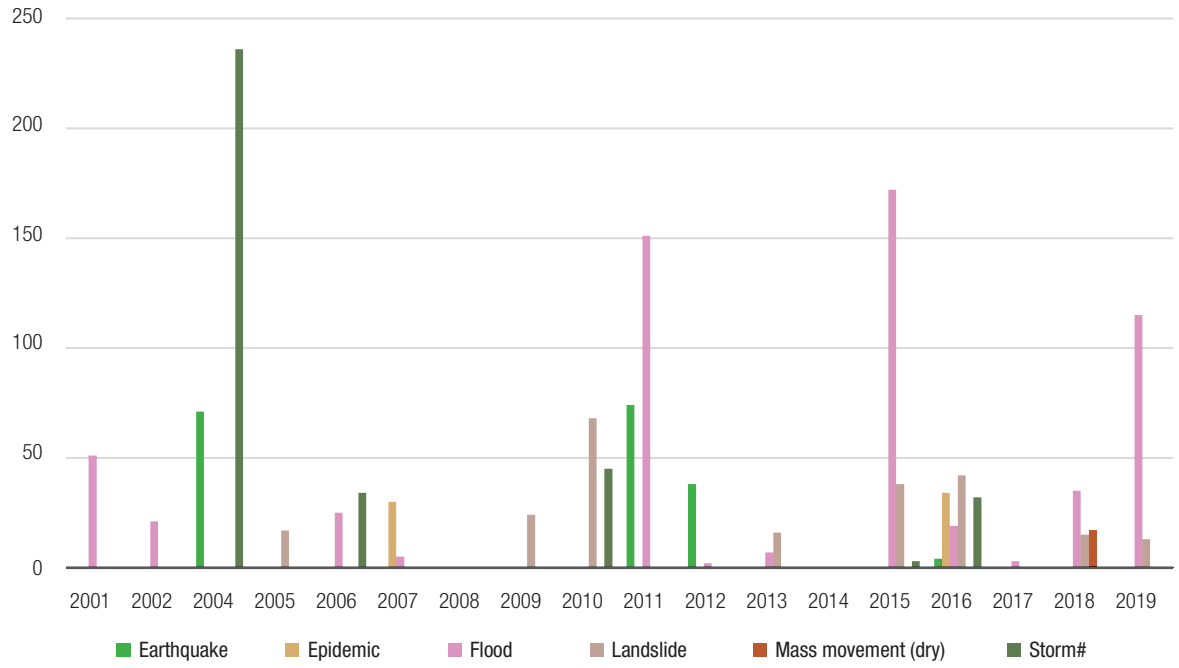
Source: UNCTAD Secretariat calculations, based on data from United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria [November 2020].
Note: Data for 2021 are projections.

3.3 Planet

Natural resources in Myanmar face threats on two fronts, namely, the unprecedented economic boom centred on the depletion of natural resources puts pressure on forests and water resources; and the country is geographically located 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, the global climate risk index developed by Germanwatch examines the extent to which economies have been affected by weather-related losses; Myanmar ranked second among economies most affected by extreme weather events in 1999–2018 (Puerto Rico was first and Haiti third), with 14.29 deaths per 100,000 inhabitants and $1.6 billion in losses (1 per cent of GDP) from 55 recorded events in the 20-year period (Eckstein et al., 2019). Losses caused by disasters in 2006–2015 were estimated to be around 2 per cent of GDP annually (IMF, 2020a). Myanmar is exposed to a range of disasters that have become more intense and more frequent, including tsunami, cyclones, storms, floods, landslides, earthquakes, droughts, and forest fires. Close to 140,000 disaster-related fatalities have been recorded in 2001–2019, with most of the deaths occurring in 2008 (figure 18). Such hazards are accompanied by high social and economic costs, with significant impacts on the poor and most vulnerable and severe damage to the economy and infrastructure.

Figure 18

Deaths caused by disasters



Source: The International Disaster Database, EM-DAT, The Centre for Research on the Epidemiology of Disasters (CRED), Université Catholique de Louvain (UCLouvain), Brussels, Belgium. www.emdat.be.
Note: # Cyclone Nargis killed 138,366 people in 2008.

Cyclone Nargis in 2008, a category 3 cyclone, was the worst natural disaster in Myanmar, resulting in 138,366 deaths, about 2.4 million people seriously impacted and considerable damage to the agricultural sector in parts of Ayeyarwady Region and Yangon Region. The rural Ayeyarwady delta, known as the rice bowl of Myanmar, was critically affected; there was considerable damage in Yangon; and infrastructure was significantly damaged in both Ayeyarwady and Yangon. Salt water intruded into large areas of land, leading to a significant reduction in productivity and in 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 cyclone-affected areas were significantly depleted, in particular the Ayeyarwady delta (Dapice et al., 2009). The estimated total cost of damage to the economy due to Cyclone Nargis is estimated at $4 billion, including damage to infrastructure and other long-term socioeconomic impacts (Government of Myanmar, 2015).

In 2015, major floods displaced 1.6 million people and exposed multiple economic vulnerabilities (Myanmar Information Management Unit and Humanitarian Assistance and Resilience Programme Facility, 2018). Four of the five most affected states or regions, namely Ayeyarwady Region, Bago Region, Magway Region and Sagaing Region, are the leading four sources of agricultural output in Myanmar. Chin State and Rakhine State, the two poorest among all states and regions, were also affected by the floods and declared natural disaster zones by the Government. The Government estimates that in Rakhine State alone, around 210,000 acres of rice paddies were destroyed and 20,000 livestock units were lost. The loss of assets was accompanied by the loss of access to basic services such as clean water, sanitation, education, and health (World Bank, 2015). The immediate economic impact of the floods, in terms of physical assets destroyed and production losses, amounted to 3.1 per cent of GDP of the 2014/2015 fiscal year (Government of Myanmar, 2015a). The impact of the floods largely explains the sharp rise in inflation, which peaked at 16 per cent in October 2015, and the decline of 12 per cent in exports in 2015–2016 due to the agricultural supply shock, which contributed to a growing trade deficit and exchange rate fluctuations (World Bank, 2016).

The intended nationally determined contribution of Myanmar provides a preview of some of the priority areas in climate mitigation and adaptation. First, the large stock of standing forests gives Myanmar an

advantage over other countries in South-East Asia with regard to carbon sink contributions. 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 gigawatts by 2030 and the expanded use of renewable sources for electricity supply to rural areas (Government of Myanmar, 2015). These priorities, including the ambition to increase land under forest cover, sustainable infrastructure development and other ecosystem adaptation measures, need to be supported by adequate means of implementation, including finance. To ensure consistency, climate-related policy interventions should be articulated in more detail and integrated into Sustainable Development Plan 2018–2030.

Floods, cyclones, and droughts are becoming more intense and more frequent, causing loss of life and severe damage to 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 disaster management policies, plans and procedures, although the resources to implement policy changes have been slower to develop. In Myanmar, the armed forces (army, navy, air force) are primary responders in disaster response, although notable transformations in civil–military coordination in disaster response have been made in the past decade (Regional Consultative Group, 2017). In the aftermath of Cyclone Nargis, in January 2009, the Government issued a standing order on natural disaster management in Myanmar that outlined the involvement of the armed forces in disaster response and defined the mandates, roles and responsibilities of national-level institutions in disaster management. The last standing order was updated in 2011.

A lack of capacity at various levels has been identified as one of the critical factors impeding 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 was established, with the second vice-president as chair, replacing the disaster preparedness agency. Its task is to ensure disaster preparedness and to promote coordination and quick and effective disaster relief and response activities. Given the importance of capacity-building for disaster risk management, a national disaster management law was enacted in 2013 and disaster management rules were adopted in 2015. They stipulate that the capacities of the public shall be enhanced to build a disaster-resilient community and outline the roles and responsibilities of military and civilian players, including guidance on requesting assistance from the military for search and rescue operations, security in disaster-affected areas and the delivery of assistance to victims more generally. The coordination of external support is guided by the development assistance policy launched in 2018 and updated in September 2020, with the aim of aligning development assistance with the national development framework, that is, Sustainable Development Plan 2018–2030 (Government of Myanmar, 2020b). The Government also approved the establishment of a disaster management training centre that started operations in December 2015, with the aim of building capacity for implementing disaster management activities (Government of Myanmar, 2017; Regional Consultative Group, 2017). As a member of ASEAN, Myanmar is part of the Agreement on Disaster Management and Emergency Response that came into force in 2009 and was the first legally binding regional agreement aligned with the Hyogo Framework for Action 2005–2015. There are also disaster preparedness working committees in states and regions and at the district, township and village levels, the role of which is to monitor potential and imminent disasters, implement responses, share relevant data, and provide information to the public and ensure the systemic provision of food and relief items and rehabilitation materials to victims (Stokkel, 2015). With regard to the floods in 2015 that caused extensive and severe damage throughout Myanmar, an investigation on disaster response in the Bago River basin found the following (Kawasaki et al., 2017, p.151): “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 learned from the floods of 2011 and had implemented structural and non-structural measures for flood risk reduction.”

In June 2019, the Government launched two new policies, the National Environment Policy, and the Climate Change Policy, which recognized the increasing threat of extreme weather and other climate change impacts to social and economic development and set out the objective of transforming Myanmar into a climate-resilient, low-carbon society that is sustainable, prosperous, and inclusive, 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 the United Nations Development Programme and the Myanmar Climate Change Alliance and funded by the European Union, with technical support from the United Nations Environment Programme and the United Nations Human Settlements Programme. The two new policies will allow the Government to integrate environmental concerns across all development planning, in particular in harmony with Sustainable Development Plan 2018–2030 (United Nations Development Programme, 2019).

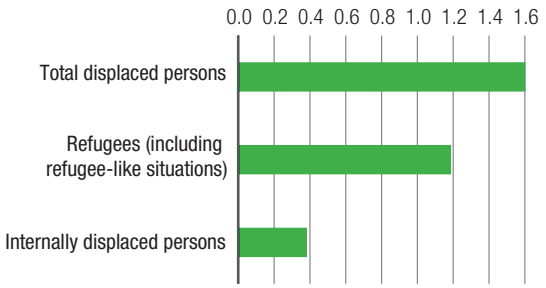
3.4 Peace

The internal conflicts in Myanmar that began shortly after independence in 1948 have been described as one of the world's "longest-running internal conflicts" (Myanmar Information Management Unit and Humanitarian Assistance and Resilience Programme Facility, 2018). Such conflicts have created security challenges, hindered economic development, and continue to weaken democracy and affect the well-being of the population. Since 2011, such conflicts have mostly involved non-signatory groups to the nationwide ceasefire agreement and resulted in the displacement of a large number of people (Myanmar Information Management Unit and Humanitarian Assistance and Resilience Programme Facility, 2018). Displacements have significant negative social and economic impacts, including with regard to instability in access to education, health and nutrition and the loss of revenue, eroding the resilience of communities and households and significantly affecting their well-being. Peace and stability, including by addressing the inclusion of all minority groups, are necessary in progressing towards democracy, sustainable economic development, and poverty alleviation. In 2018, the total number of displaced persons in Myanmar was 1.5 million, most of whom were in refugee or refugee-like situations (figure 19). The number of internally displaced persons was fewer, at around 400,000. Due to the nature of the cause of displacement, internal displacements may pose more difficulty for individuals than external migration.

Figure 19

Displaced population, 2018

(Millons)



Source: UNCTAD calculations, based on data from the refugee population statistics database of the Office of the United Nations High Commissioner for Refugees).

4. Effects of the vulnerabilities

4.1 Trade links

The trade links of Myanmar have expanded beyond developing countries in Asia, with the share of developed countries in total exports increasing sevenfold, from 4 per cent in 2010 to 28 per cent in 2018. In 2019, developing Asia accounted for 66 per cent of the export market and developed countries in Europe accounted for 19 per cent (figure 20).

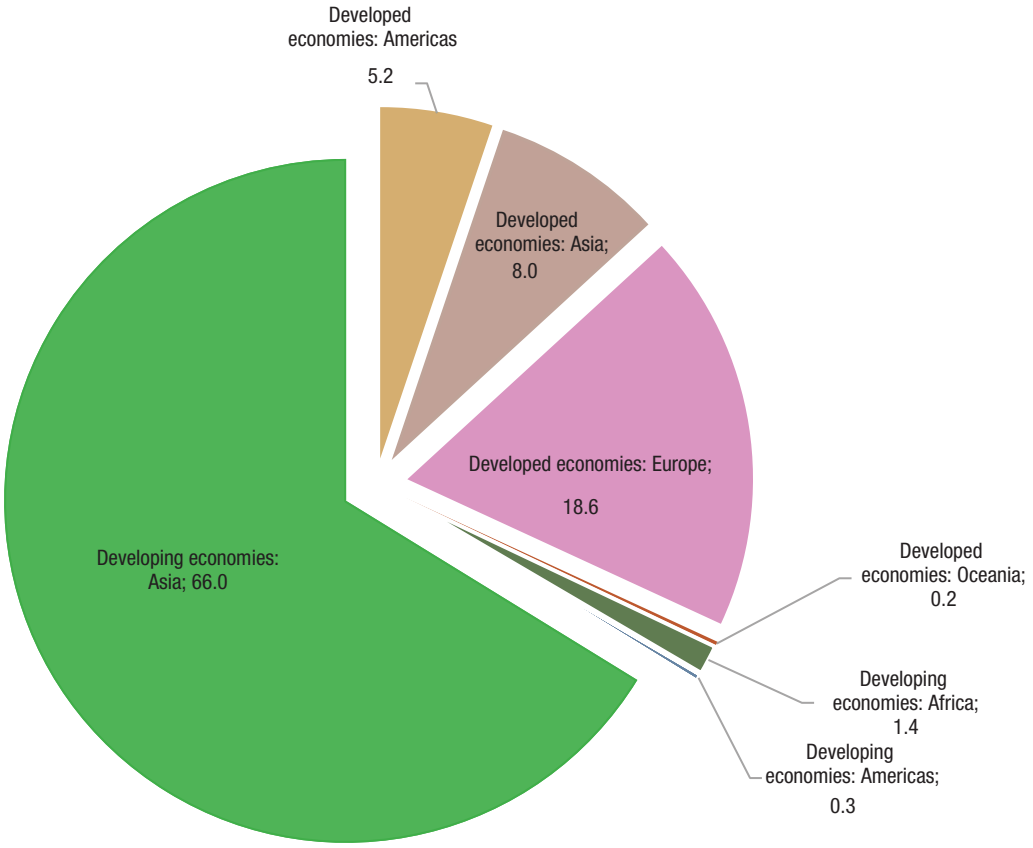
Merchandise exports grew at an annual average rate of 9 per cent in 2011–2019, with the strongest increase in ores and metals (39 per cent) and manufactured goods (40 per cent). Fuel exports increased by an average of 8 per cent in the period and had an erratic trajectory, shifting from a robust average annual growth of 15 per cent in 2011–2015 to an average annual decline of 0.3 per cent in 2016–2019, with the greatest annual drop in 2016, at 32 per cent. The export concentration index rose from 0.32 in 2013 to 0.40 in 2014 as manufacturing exports increased (UNCTADstat database). The index then receded to 0.25 in 2019 as non-traditional exports became prominent in reaction to the slowdown in commodity markets, in particular of oil and other natural resources.

Export markets remain dominated by two countries, China, and Thailand, which absorbed 50 per cent of the total merchandise exports of Myanmar in 2019. These two countries are the only destinations for natural gas exports from Myanmar, which 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. In 2011–2018, there were important changes in the destination of exports, with a strong increase in export shares to both China (which replaced Thailand as the leading export destination in 2014) and the member countries of the Quadrilateral Security Dialogue (QUAD), namely,

Figure 20

Export market shares, 2019

(Percentage)



Source: UNCTAD calculations, based on data from the UNCTADstat database.

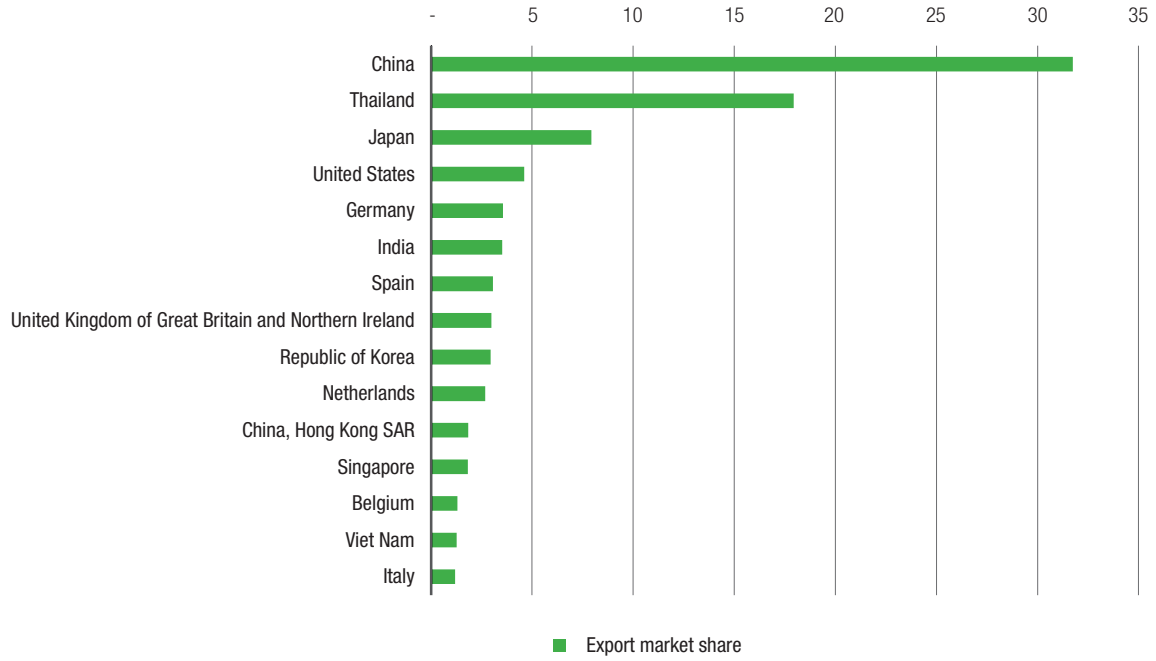
Australia, India, Japan, and the United States. The expansion of exports to China is driven by primary commodities, including gas (which China began to import from Myanmar in 2014), copper, sugar, rice, fruits, vegetables, live animals and fish, and to QUAD countries, by manufactured goods. In 2011–2019, the share of QUAD countries in total exports increased marginally, from 15 to 16 per cent, mainly driven by the United States (from 0.1 to 5 per cent) and Japan (from 4 to 8 per cent). In 2019, the leading 15 export destinations included a number of non-ASEAN member countries, including the United States and the European Union (figure 21).

Myanmar benefits from trade preferences in Australia, Canada, Japan, Norway, the Republic of Korea and the European Union. In addition, it benefits from duty-free access within ASEAN and from trade preferences under the free trade agreement concluded by ASEAN with the five countries in Asia and the Pacific under RCEP. The duty-free access provided under preferential trading arrangements has been one of the key elements in the rapid growth in the manufactured exports of Myanmar, in particular in products for which most-favoured nation duties are high. In the European Union, for example, the average most-favoured nation import duty on garments is 12 per cent and the most-favoured nation duties on footwear range between 3.5 and 17 per cent depending on the tariff line considered. Non-LDC developing countries have a 20 per cent reduction in the most-favoured nation rate for garments under the European Union Generalized Scheme of Preferences, meaning that the preference margin for LDCs compared with non-LDCs is 9.6 per cent. These differences in import duties can have significant impacts on profit margins and therefore provide an incentive to export-oriented investment in those sectors

Figure 21

Export destination market value shares, 2019

(Percentage)



Abbreviation: SAR, Special Administrative Region.
Source: UNCTAD calculations, based on data from the UNCTADstat database.

in which the preference margin is high (UNCTAD, 2019c). About 76 per cent of exports from Myanmar to the QUAD countries are manufactured goods, of which 49 per cent are textile fibres, yarn, fabrics and clothing (UNCTADstat database). Almost all exports from Myanmar to the QUAD countries may lose preferential access after graduation and achievement of a smooth transition period. The challenge of progressive preference erosion may be mitigated by RCEP. In 2019, RCEP countries represented 67 per cent of the merchandise export market of Myanmar, absorbing 39 per cent of its manufactured exports, 80 per cent of its agricultural raw material exports, 85 per cent of its ore, metal, precious stones and non-monetary gold exports and 99.7 per cent of its fuel exports (table 3). The RCEP agreement covers trade in goods but excludes some services and agriculture. However, it has provisions for the temporary movement of natural persons and a number of specific provisions on investment, intellectual property, electronic commerce, competition and small and medium-sized enterprises, among others (ASEAN, 2020). RCEP harmonizes the free trade agreements between ASEAN member countries and the five other countries, eliminating the need for separate trade agreements between them and creating room for the further liberalization of trade in areas not currently covered by the agreement. It is important to note that trade arrangements negotiated by non-LDC members of ASEAN (Singapore, Thailand, Viet Nam, Indonesia, the Philippines, and Malaysia) with the European Union will have an impact on the ASEAN cumulation provision, which can affect the insertion of Myanmar into regional value chains. This is because "once the free trade agreements with the European Union are ratified, ASEAN member countries will no longer be eligible under the Generalized Scheme of Preferences 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, the non-LDC 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, European market growth has been strong, in particular for manufactures, including textile fibres, yarn, fabrics and clothing, as well as electronics, excluding parts and components. Therefore, with uncertainty over the expected withdrawal of Everything but Arms, the diversification of export partners is a clear risk

Table 3

Exports to Regional Comprehensive Economic Partnership member countries

All merchandise exports		Australia	China	Japan	Republic of Korea	New Zealand	Association of Southeast Asian Nations	European Union (2020)
2000	*Value in million dollars*	*7.7*	*104.3*	*99.8*	*19.0*	*1.0*	*390.5*	*206.7*
2011	*Value in million dollars*	*6.2*	*1 515.3*	*310.0*	*207.0*	*0.3*	*3 961.2*	*90.3*
2019	*Value in million dollars*	*28.1*	*5 712.6*	*1 428.5*	*530.6*	*3.5*	*4 282.0*	*2 795.3*
Share of total export of producty category								
2019	Agricultural raw materials (SITC 2 – 22, 27 and 28)	0.1	55.6	2.64	3.1	0.0	19.1	3.0
2019	Fuels (SITC 3)		43.5	0.02			56.2	
2019	Manufactured goods (SITC 5–8 – 667 and 68)	0.3	6.3	18.55	6.5	0.0	6.8	26.6
2019	Machinery and transport equipment (SITC 7)	0.2	4.3	9.92	1.4		45.6	3.7
2019	Electronics, excluding parts and components (SITC 751 + 752 + 761 + 762 + 763 + 775)	0.3	1.9	1.10	0.0		2.9	12.3
2019	Parts and components for electrical and electronic goods (SITC 759 + 764 + 772 +776)	0.8	12.8	36.05	3.6		19.4	3.2
2019	Other machinery and transport equipment (SITC 7 – (751 + 752 + 761 + 762 + 763 + 775 + 759 + 764 + 772 + 776))	0.0	3.4	7.55	1.3		56.0	2.4
2019	Iron and steel (SITC 67)	0.0	98.0	1.28	0.0		0.3	0.0
2019	Textile fibres, yarn, fabrics and clothing (SITC 26 + 65 + 84)	0.2	1.9	22.01	7.6	0.0	2.8	46.2
2019	Primary commodities, precious stones and non-monetary gold, excluding fuels (SITC 0 + 1 + 2 + 4 + 68 + 667+ 971)	0.1	52.1	1.47	1.0	0.0	20.8	2.5
2019	Ores, metals, precious stones and non-monetary gold (SITC 27 + 28 + 68 + 667 + 971)	0.0	64.3	0.7	0.8		19.3	0.1

Abbreviation: SITC, Standard International Trade Classification.
Source: UNCTAD calculations, based on data from the UNCTADstat database.

reduction strategy for the foreseeable future, but there is scope for exports to Europe to compete strongly, in particular in manufactures.

4.2 Trade diagnostics

The Country Policy and Institutional Assessment trade rating for Myanmar is 3.5, a medium value for an index that ranges between 1 (lowest) and 6 (highest) (World Integrated Trade Solutions database). Myanmar is ranked 165th of 189 countries in the world in the ease of doing business and 168th in trading across borders. In 2018, Myanmar exported 1,708 products classified at the six-digit level of the Harmonized System (Standard International Trade Classification revision 2) to 138 country partners globally and imported 3,876 products from 183 country partners. The Hirschman Herfindahl market concentration index that measures the dispersion of trade value across an exporter's partners averaged 0.14 for Myanmar in 2014–2018, a value closer to 0 (perfectly diversified trade portfolio) than 1 (imports and exports concentrated in a few markets). The index of export market penetration measures the extent of the reach of Myanmar in proven export markets and 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 in that year; the index of Myanmar in 2014–2018 was 4.69.

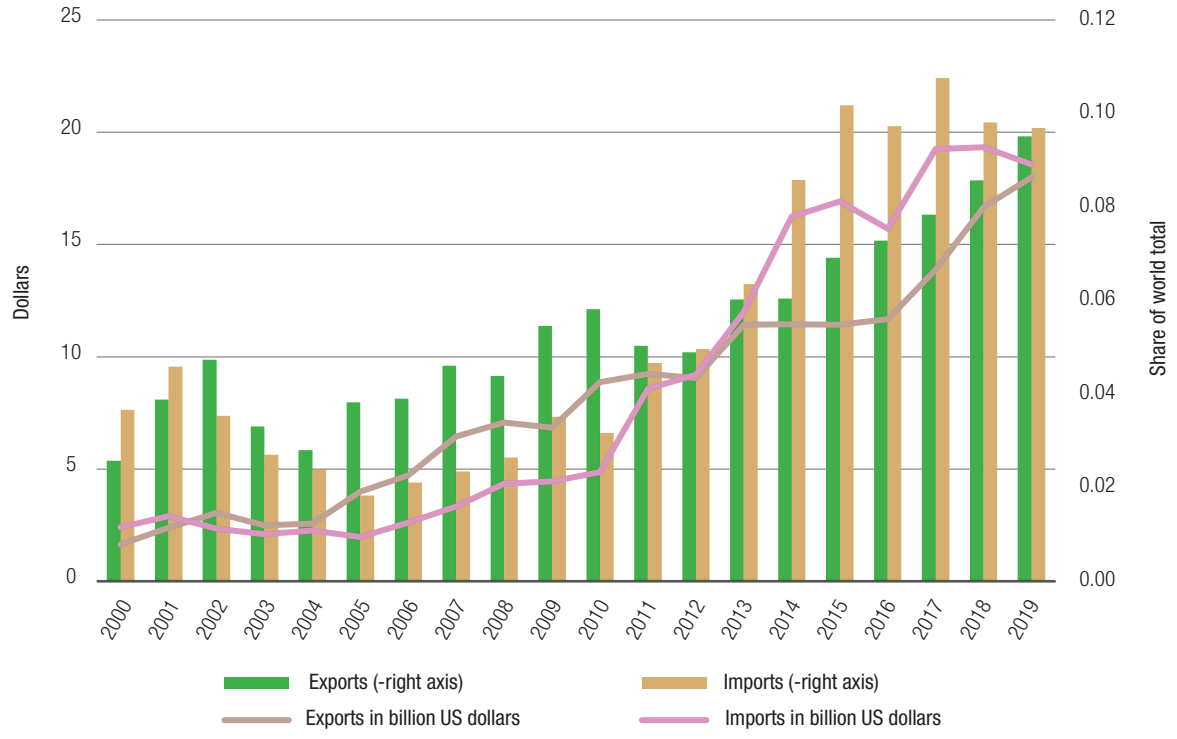
Myanmar had seven trade agreements in 2015 and a merchandise trade balance deficit of $496.6 million in 2019. Imports have been growing faster than exports since 2012 but, in 2002–2011, Myanmar achieved a positive trade balance. In 2000–2019, the imports and exports of Myanmar increased tenfold (figure 22). Merchandise exports grew from $1.6 billion in 2000 to $18.1 billion in 2019, an average annual increase of 13.5 per cent, and imports increased from $2.4 billion to $18.6 billion, an annual average increase of 11.5 per cent. The share of world trade of Myanmar is low, at most 0.1 per cent, or one thousandth of world trade. However, the share grew in 2000–2019. In 2000, the import and export shares of world totals were 0.025 and 0.36 per cent, respectively.

The 1,708 products exported by Myanmar in 2018 can be divided into 16 product groups (figure 23). Myanmar exported $4.2 billion in textiles and clothing and $3.6 billion in fuels; the former represented more than one fourth of total merchandise exports and the latter, about one fifth. Myanmar exported $2.7 billion in vegetables, which represented 16 per cent of total exports. These three products accounted for more than 60 per cent of total exports. Live animals and animal products, food products, metals, and stone and glass each represented over 5 per cent of exports. The other nine product groups combined, namely chemicals, footwear, hides and skins, machinery and electric products, minerals, plastic or rubber, transportation, wood and miscellaneous, only accounted for 12.3 per cent of total exports.

Import and export products can also be classified into four groups according to the stage of processing and final use, namely, capital goods, consumer goods, intermediate goods, and raw materials. Whether imports or exports, consumer goods are the most traded in Myanmar. In 2018, consumer goods exports accounted for 57 per cent of exports. In value terms, Myanmar exported $9.5 billion in consumer goods and imported $8.3 billion. In 2018, raw material exports accounted for 18 per cent of exports, exceeding corresponding imports. In value terms, Myanmar exported almost $3 billion in raw materials and imported only $565 million. However, Myanmar was a net importer of capital goods and intermediate goods, exporting $668 million in capital goods and importing $4.6 billion and exporting $3.5 billion in intermediate goods and importing $5.8 billion.

Figure 22

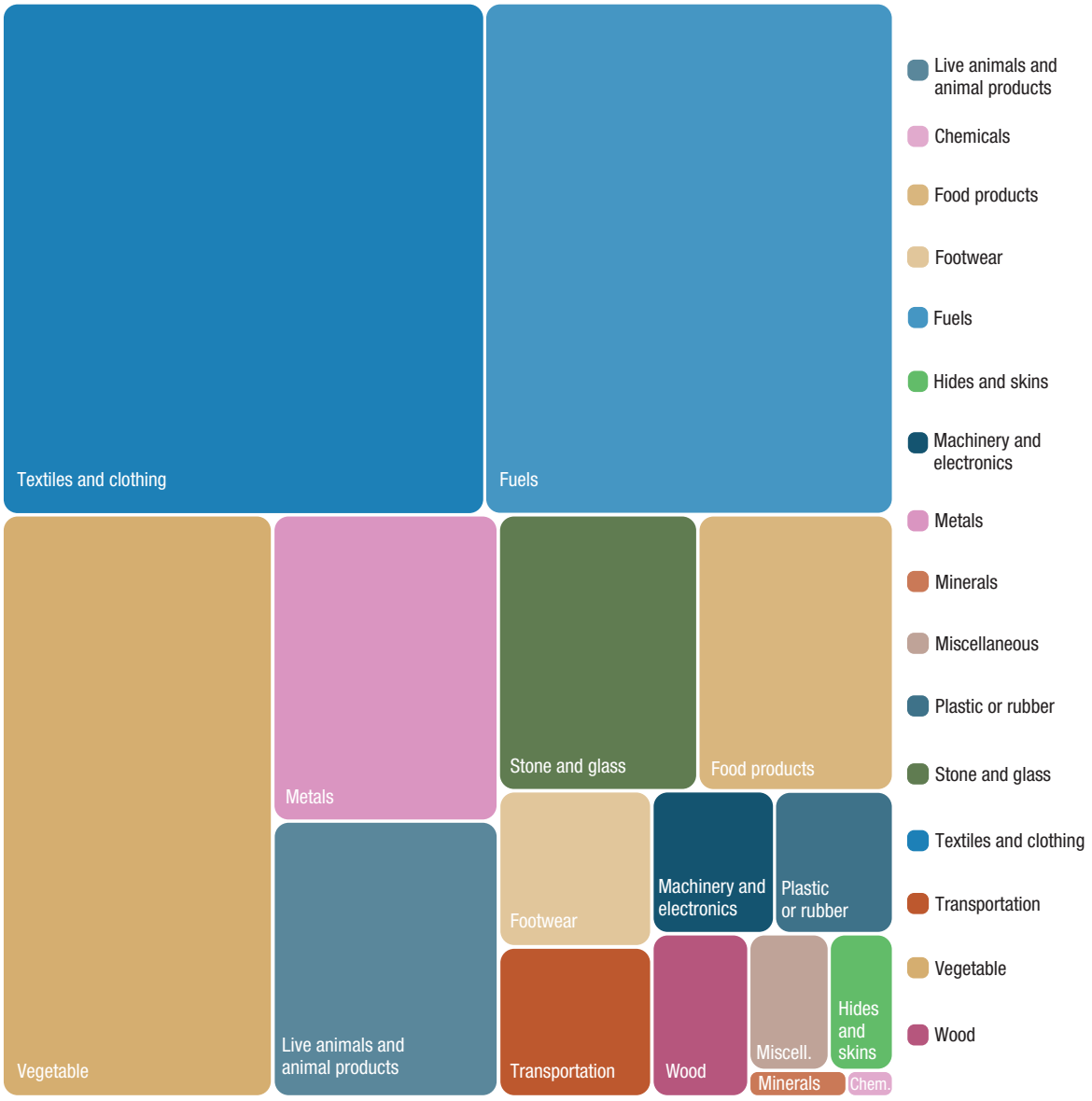
Merchandise trade



Source: UNCTAD calculations, based on data from the UNCTADstat database.

Figure 23

Share of exports by product group



Source: UNCTAD calculations, based on data from the World Integrated Trade Solutions database.

With regard to the evolution of export product share by stage of processing, the proportions vary over time, as Myanmar has gone through various stages of development. However, capital goods are still the least exported. The proportion is low, yet increased after 2010, rising from less than 0.1 per cent to 4 per cent in 2018 (figure 24). Consumer goods have had the highest share in exports since 2010 except in 2012 when their share was slightly less than that of raw materials. The only year in which the share of consumer goods was below 45 per cent, at 37.5 per cent, was 2012. Since 2014, more than half of exports have been composed of consumer goods.

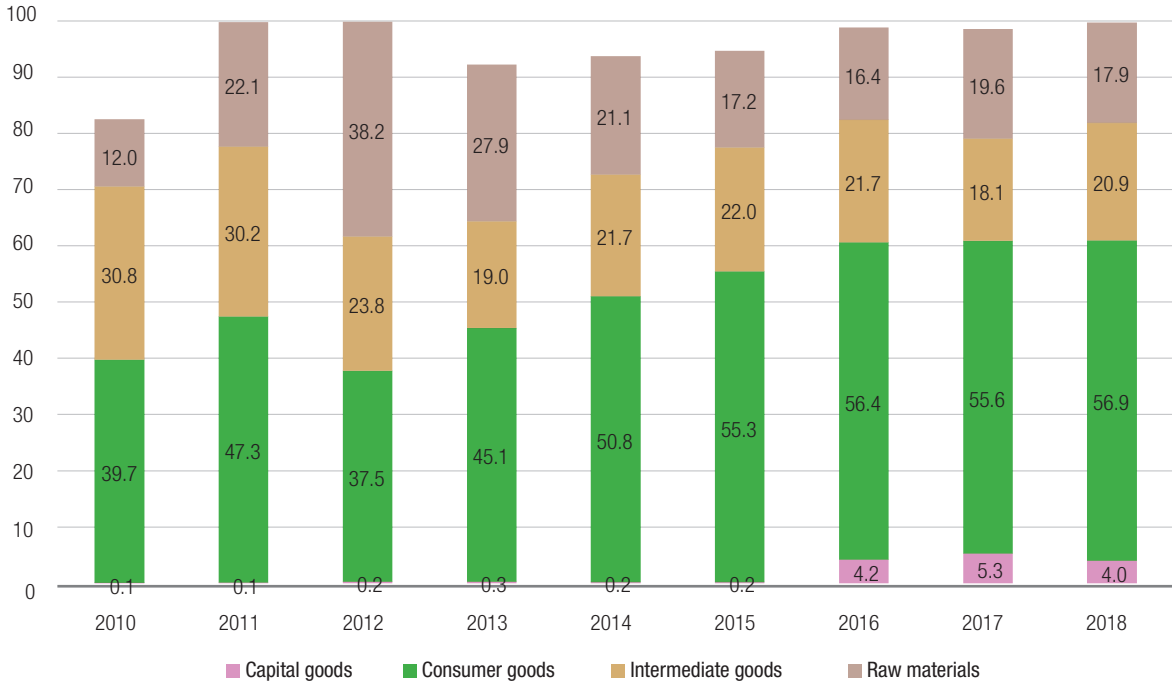
In 2012–2018, the share of intermediate goods in total exports was around 20 per cent. In recent years, the share of raw materials in exports has been slightly lower than that of intermediate goods.

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 weak backward participation by 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 low. Only

Figure 24

Export product share by stage of processing

(Percentage of total exports)



Source: UNCTAD calculations, based on data from the World Integrated Trade Solutions database.

Table 4

Decomposition of exports by domestic and foreign value added, 2015

	Millions of dollars	Percentage of exports
Gross exports	5 210.69	100.0
Domestic content	5 202.34	99.84
Domestic value added	5 202.34	99.84
Value added exports -> domestic value added absorbed abroad	5 202.33	99.84
Reflection	0.01	0.0
Domestic double counting	0.0	0.0
Foreign content	8.35	0.16
Foreign value added	8.35	0.16
Foreign double counting	0.0	0.0
Global value chain-related trade	1 822.14	34.97
Global value chain, backward	8.35	0.16
Global value chain, forward	1 813.79	34.81

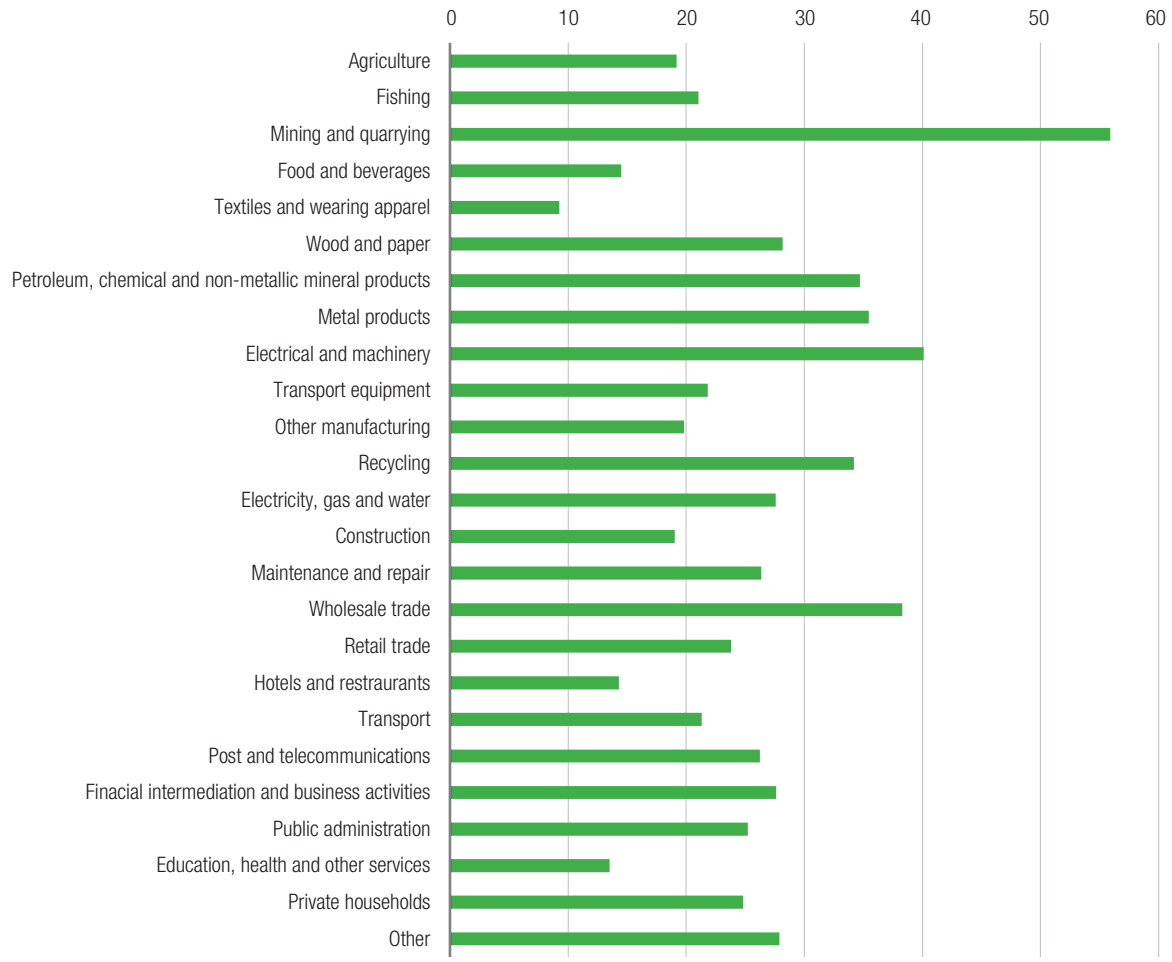
Source: UNCTAD calculations, based on data from the UNCTAD Eora database.
Note: Gross exports are often less than observed exports as gross exports only take into account the first exportation of a product.

the backward participation of the private households sector is above 1 per cent, at 1.2 per cent. The analysis of Myanmar's immersion into the global value chain consists mainly of forward participation, which corresponds to domestic value added by Myanmar embedded in its intermediate exports, used by the direct importer country to produce finished goods exports, or absorbed by other economies.

The domestic value of Myanmar in global value chains is dominated by mining and quarrying, at 56 per cent, followed by electrical and machinery products at 40 per cent and wholesale trade at 38 per cent (figure 25). Metal products, and petroleum, chemical and non-metallic mineral products each have a global value chain share of around 35 per cent. Textiles and wearing apparel

Figure 25

Global value chain shares by sector



Source: UNCTAD calculations, based on data from the UNCTAD Eora database.

have the lowest share, at 9 per cent. It is important to note that the data are only available up to 2015 and changes in the structure of the export market shares and export basket of Myanmar may therefore have some implications for the analysis.

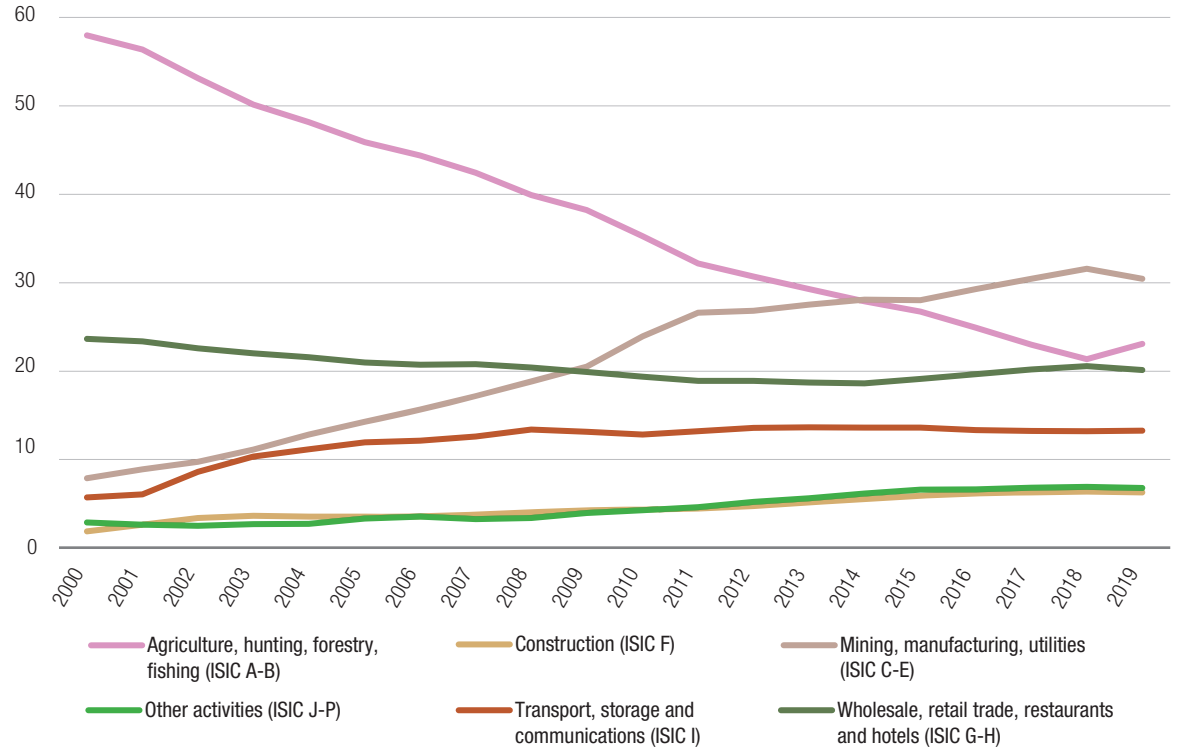
The economy of Myanmar is dominated by agricultural activities. Until 2003, the gross value added by agriculture, fisheries, forestry, and hunting had been over 50 per cent of total value added. In the same period, the contribution of the mining, manufacturing, and utilities to GDP was less than 15 per cent. However, the country rates industrialization among its priorities in the National Comprehensive Development Plan (UNIDO and Government of Myanmar, 2017). The share of gross value added by mining, manufacturing and utilities is increasing and reached 32 per cent in 2019 (figure 26). The contribution of the agriculture, fisheries, forestry, and hunting was reduced considerably in 2000–2019.

The country faces the following three main challenges on its current industrial development path: the low level of diversification in the industrial structure; the weakness of the business-enabling infrastructure; and a poor institutional policy framework, as well as a non-existent governance mechanism (UNIDO and Government of Myanmar, 2017). Myanmar aims to develop industrialization to sustain agricultural development. One of the four economic policies of Myanmar is "sustaining agricultural development towards industrialization and all-round development". The vision of the Government is "to establish a new peaceful and modern developed democratic nation" and the vision in the industrial policy is "to establish a new modern industrial nation" (Government of Myanmar, 2016a). The

Figure 26

Gross value-added shares

(Percentage, current prices)



Source: UNCTAD calculations, based on data from UNData, United Nations Statistics Division.

industrial policy is structured on six objectives and 11 plans, with the establishment of rural industries part of the priorities. Industrialization is also part of the forward-looking national priorities.

4.3 Labour productivity and structural transformation

The slowdown in economic performance in 2011–2020 compared with in the previous decade points to structural constraints that pose risks to the economy of Myanmar. The most obvious of these risks is declining labour productivity, indicative of the limits of the growth path that the country 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 resource sectors and the low level of growth in 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 of primary school or lower secondary school. In rural areas, where employment is concentrated in agriculture, the problem of child labour has been a recurring issue, linked to the higher levels of poverty and the large number of school-age children that drop out.

Although the reported unemployment rate in Myanmar is low (less than 1.6 per cent in 2019), the rate at which jobs are being created in formal employment is lower than the growth rate of the working-age population. Based on these differences, in 2011–2020, there were roughly four formal jobs created for every 10 potential jobseekers, which is significantly low for an economy of this size. The informal economy is significant, estimated to be larger than the formal economy and employing 4 out of 5 workers (De et al., 2020). In a sample of 88 developing countries, the informal economy of Myanmar was smaller than only those of six other countries (Amin, 2016). Informality engenders vulnerable employment and poverty, to the extent that the competitive wage structure in Myanmar compared with that in neighbouring China and Thailand may be a reflection of the costs that workers pay for being in the informal sector. In addition,

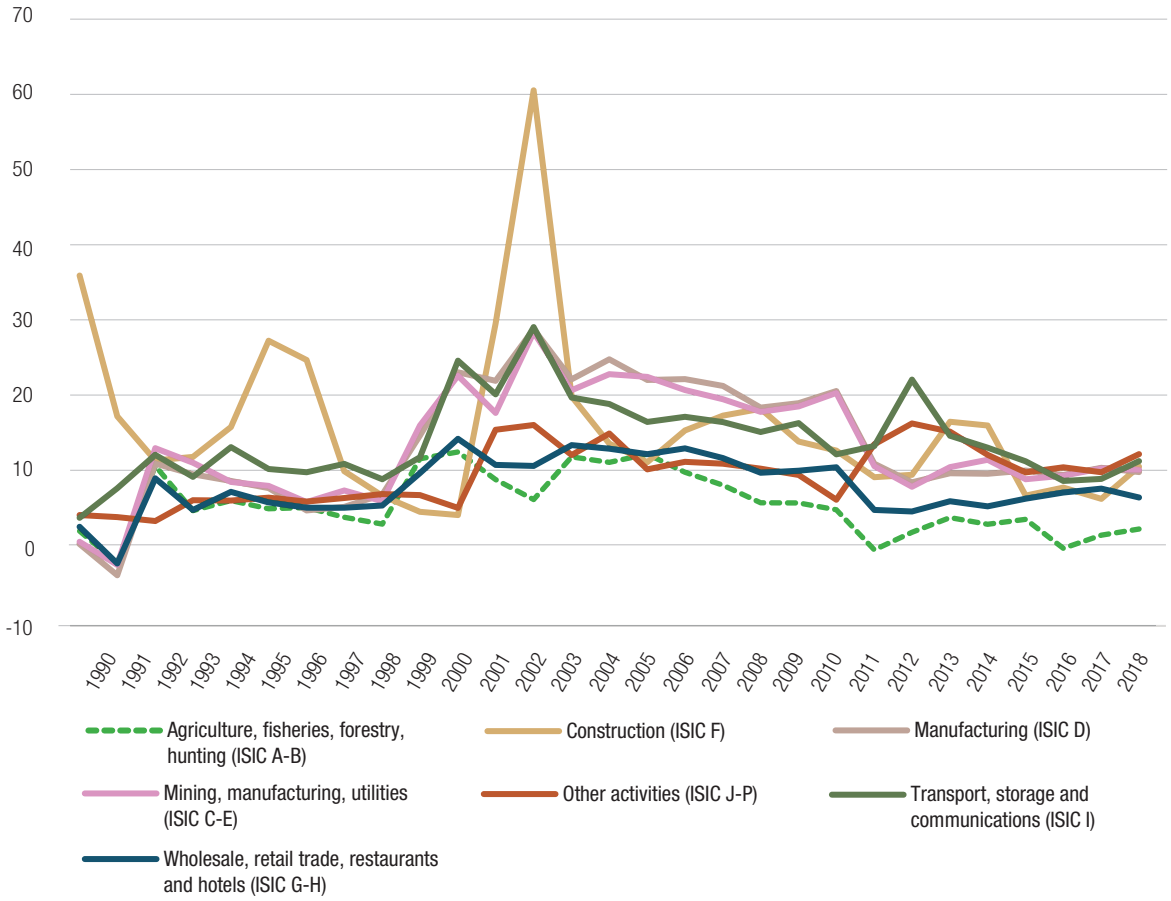
declining labour productivity may also induce a slow growth in the compensation of workers, whose skill level and quality are in decline. This suggests a critical gap in human capital development. Improved government investment in education, particularly in rural areas, may assist the country to increase the quality of human capital. Policies such as liberalization and allowing private investment in the education sector may also help meet the growing need for skills in various sectors of the economy. However, there is a concern that such investments will be concentrated in major cities and urban areas. Therefore, interventions aimed at improving the training of teachers for public schools in rural areas, increasing the quality of results and building inclusive education systems, are critical.

Myanmar has undergone various phases of economic reform that have changed the growth patterns of several economic activities (figure 27). These changes could lead to structural transformation, with the more productive industry and services sectors expected to attract labour from agriculture. Such a shift from agriculture to services has taken place, but the manufacturing sector has not generated enough jobs. The most volatile phase was at the beginning of 2001 and again in 2011, when the resumption of economic relations led to unprecedented growth in many sectors, including tourism. The growth spurt has passed, however, and, for example, a decline of 30 per cent in foreign tourism in Shan (South) State in 2018 was attributed to the humanitarian crisis in Rakhine State (International Labour Organization, 2019). Although domestic tourism is up by 25 per cent, the recovery of the tourism sector remains restrained in the context of the pandemic and the political situation in Myanmar. In addition, sectors that relied on a vibrant tourism sector have been affected, including agriculture, transport, and other services. For example, one concern with

Figure 27

Value added growth rate by sector

(Percentage)



Abbreviation: ISIC, international standard industrial classification.
Source: UNCTAD calculations, based on UNData, United Nations Statistics Division.

manufacturing jobs is their geographic delimitation, such as garments, textiles and footwear, in which three quarters of jobs are concentrated in only three regions, namely, Mandalay, Sagaing and Yangon (Huynh, 2016). Labour productivity challenges can be overcome by, among others, vocational training, and improvement in the education sector. However, structural impediments that determine industrial location and growth in the industrial sector could deepen uneven growth across the country. Special economic zones, for example, encourage such enclave types of development, which have specific socioeconomic and environmental challenges. For example, most businesses prefer to be located in the city of Yangon due to proximity to Asia World Port Terminal, the major maritime export terminal, and Myanmar International Terminals Thilawa. Historically, Yangon also served as a host of industrial production, but there are smaller industries in Mandalay and others increasing along the China–Myanmar highway and in the Myanmar-China border region, as well as in the Myanmar–Thailand border region (Flintrop, 2020; Kudo, 2007). If successful, the new special economic zones could diversify the manufacturing base, help create interlinkages with periphery states and facilitate growth in agriculture and business services. For example, the economic cooperation zones in Kachin State and Shan State in Myanmar, along the border with China, could strengthen trade and facilitate productivity growth in agriculture.

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

5. Policy coherence and recommendations

Based on the performance against the graduation criteria, Myanmar is on course to graduate from the LDC category. However, the political situation casts fresh uncertainty on the future after all that was achieved particularly in 2011–2020. It is likely that the same economic vulnerabilities and growth patterns will continue to prevail. However, momentum and post-graduation performance will largely depend on strong human capital development. The economic foundation is strong, although structural transformation and economic reforms are incomplete. Although agriculture has lost ground compared with industry and services, it continues to dominate in employment. The productivity of the sector is, however, significantly low compared with agricultural sectors in other countries in the region. The rapid structural shift 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 economic relations after 2011. Industrial sector growth has been strong but without concurrent employment creation in the sector. Trade diversification, which has been progressive since 2011, is the only positive outcome the industrialization drive, but domestic interlinkages, and competitive businesses are needed to unlock the sector's job creation potential. Export destinations should be further diversified, and the export basket shielded by effective trade and industrial strategies aimed at overcoming the challenges posed by the expected erosion or loss of trade preferences. Graduation with momentum and the resilience of the economy require a coherent policy focus on building productive capacities and improving the competitiveness of Myanmar.

5.1 Private sector and enterprise development

The private sector is a driver of growth and development. An enabling business environment is a prerequisite for robust private sector growth and job creation. A transparent and simple regulatory and legal framework, an efficient public administration, the availability of financial services, a skilled and educated workforce, and sustainable infrastructure are crucial in reducing obstacles to economic activities and improving the efficiency and competitiveness of enterprises. It is therefore important to consider the state of the private sector and enterprises and determine which obstacles limit their growth.

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

Substantial progress has been achieved over the past decade, yet a lack of reliable electricity supply constrains economic development. Myanmar still lags significantly behind neighbouring countries in the region in all dimensions related to electricity infrastructure. Of enterprises surveyed in Myanmar, 95 per cent 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 resorted to using electric generators (35 per cent in the region).

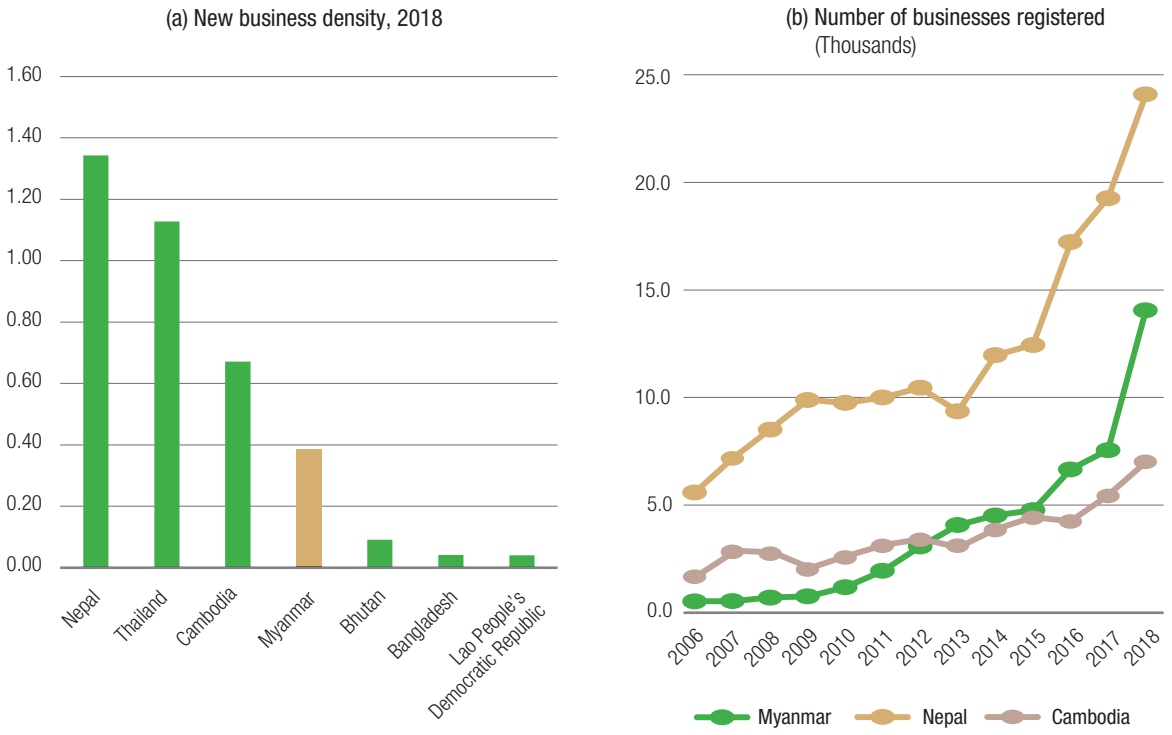
Another constraint to competitive growth is with regard to labour productivity. Progress has been achieved in recent years, yet overall labour productivity in Myanmar remains low. Myanmar needs to accelerate the pace of human capital development to impede a low skill level becoming a major obstacle to economic progress. About 30 per cent of production workers are low skilled, compared with 20 per cent in developing countries in East Asia and the Pacific, and 4 in 10 hiring employers find that the workforce is inadequately educated (World Bank, 2018).

5.2 Mitigation of and adaptation 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 in 2008 and the floods in 2015. Building resilience to disasters requires foresight and adequate financial resources to address emerging

Figure 28

Myanmar and other countries in Asia: Business activity



Source: UNCTAD calculations, based on data from the World Development Indicators database of the World Bank.

and long-term needs. The climate actions in the initial nationally determined contribution should be revised in line with the ambition to build a resilient economy that is climate proofed. The risk of not comprehensively addressing climate change within the development agenda is that mitigation and adaptation programmes will not add value to the structural transformation objectives in the national development programme and therefore not obtain the necessary funding in the national budget or from development partners.

5.3 Conclusion

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

The recently concluded RCEP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the free trade agreements between non-LDC ASEAN members and the European Union create important markets for export growth. The concern in Myanmar is the potential erosion of preferences and the loss of trade-related support measures from the largest markets for its manufacturing exports following graduation from the LDC category. However, the streamlined RCEP free trade agreement may offer better returns for growth and, considering that the European Union has a free trade agreement with Japan and has been negotiating free trade agreements with Thailand and Viet Nam (UNCTAD, 2019c), the more inclusive agreement under RCEP reinforces the need for harmonized negotiations with the European Union. Immediate attention should be paid to 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 with those in neighbouring countries and this could reflect past policies of central planning in key sectors. As economic reforms continue, there is a need for targeted business development with private sector-led investment playing a key role. There is also a need to improve the business environment, to unleash the potential of the private sector for trade and development. This will require lifting the binding constraints faced by enterprises in Myanmar, with the most-cited obstacles in surveys being an inadequately educated workforce and issues related to access to finance, land, and a reliable electricity supply.

The momentum to graduate with all three criteria met is a positive reflection of efforts made in the past to adhere to policy reforms and of the importance of regional partnerships. The domestic environment is a critical focus area with regard to unleashing the full productive potential of Myanmar, in line with the growing productive capacities that the country has already demonstrated an ability to harness and utilize, as well as the growing population, whose competitive advantage is in its youth. 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

The vulnerability profile of Myanmar highlights the progress achieved during decades of policy reforms under political and economic sanctions. The resumption of economic relations has contributed to the acceleration of progress towards graduation from the LDC category. Graduation is a milestone in the development process, but 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 LDC-specific treatment and, eventually, the withdrawal of international support measures and other concessions. It is critical for eligible countries to formulate and implement smooth transition strategies, the overall aim of which is to prepare for the transition phase and the post-graduation period.

The specific objectives of a transition strategy should, among others, include the following:

(a) Guide the transition process through appropriately defined plans to make the best possible use of LDC-specific support measures while they are accessible.

(b) Comprehensively prepare for the post-graduation period in line with national sustainable development plans.

(c) Identify the challenges and opportunities and respond to the lingering vulnerabilities highlighted in the vulnerability profile and other country diagnostics.

(d) Mobilize international support for the transition phase and the post-graduation period, including bilateral and multilateral partnerships, public–private partnerships and civil society participation.

Several factors raise the economic and environmental vulnerability of Myanmar. Its geographic location is in a zone susceptible to a wide range of natural hazards including cyclones, floods, landslides, and earthquakes. Although the economic performance of the country remained strong in 2011-2019, there are concerns about the general decline in labour productivity, the low intersectoral linkages in the economy, increasing informality and low levels of job creation in the formal sector. In addition, the political situation casts uncertainty over the future of economic reforms dependent on a sustained inflow of foreign direct investment which may recede as a result of the situation, The country should prioritize productive capacities, in particular human capital, energy for productive uses, transport infrastructure and services, business interlinkages and ICT. Investment in industrial capacity and the structural diversification of the economy should also be strengthened. Because of these vulnerabilities, the following issues are paramount and may require immediate action:

(a) Re-invigorating the economy through industrialization and boosting intersectoral linkages particularly between the natural resources sectors, industry, and services.

(b) Increasing investment in education, vocational training, and industry placements with the focus on creating a productive labour force fit for the present and future needs of industry.

(c) If approved for graduation, request an extended transition phase and access to preferential LDC treatment and international support measures, in view of the impact of COVID-19 on Myanmar's economy.

(d) Renegotiating bilateral trade agreements and new international support measures from international partners; and

(e) Mobilizing adequate domestic resources to cover the increasing demand for public investment and public services.

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