UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

A synthesis of the Vulnerability Profile

MYANMAR

This publication has not been formally edited. The synthesis paper is based on extracts from the Vulnerability Profile for the Republic of the Union of Myanmar.

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/ALDC/INF/2021/3

Notes

This publication was prepared by the United Nations Conference on Trade and Development (UNCTAD) in anticipation of the 2021 review by the Committee for Development Policy of the United Nations of the list of least developed countries.

The $ sign refers to the United States dollar.

A hyphen (-) indicates that the data are either not available or not applicable.

Introduction

This paper presents a summary of the context in which Myanmar is expected to graduate from the least developed countries (LDC) category, based on an assessment of the country's performance against the United Nations Committee for Development Policy's (UNCDP)[1] graduation criteria, which is supplemented with additional indicators on potential areas of vulnerability. The findings highlight the complementary support needed to mitigate country vulnerabilities, as informed by the structural and development trajectory of Myanmar. A strong economic and social development performance in 2011–2020, as well as its reduced vulnerability, has put the country on a solid path towards LDC graduation. This progress is a product of several interrelated factors that have propelled the country's development, including its abundant natural resources, a growing population and rising exports supported by its strategic location in Southeast Asia.

Areas of vulnerability based on LDC graduation criteria

The following section denotes the performance of Myanmar, according to three criteria related to LDC graduation, namely income per capita, human assets index, and economic and environmental vulnerability. [2]

1. Income per capita criterion[3]

Myanmar first reached the income criterion in 2018 when its gross national income (GNI) per capita was 102 per cent of the threshold required for graduation. This achievement is noteworthy considering that the country was at 34 per cent of the threshold in 2009. Before 2011, the natural resource sector was the main contributor of economic growth. The progressive lifting of political and economic sanctions from 2011-2019 also contributed to the country's strong growth performance. Better access to capital and foreign markets has helped Myanmar expand its economic activities. Tourism, manufacturing and construction made positive contributions to gross domestic product (GDP) growth as private-sector investment and aid inflows increased. Infrastructure and a series of large offshore liquefied natural gas projects, such as the Shwe fields, came on stream in 2013, contributing to GDP growth and exports (World Bank, 2015).

Myanmar's economic potential has attracted diverse sources of foreign direct investment (FDI). During the period 1988/1989 to 2010/2011, China, Thailand and Hong Kong SAR contributed over 70 per cent of total approved FDI in Myanmar, which focused on the extractive and power sectors. However, between 2011/2012 and mid-2019, these countries' shares declined by 37 percentage points, as FDI from Vietnam, Japan and Singapore rose, with the latter being the main investor, holding 44 per cent of FDI stock in Myanmar. The distribution of FDI is moving away from the natural resource sectors and towards new sectors, including transport, manufacturing and tourism, accounting for 61 per cent of FDI approved projects since 2011. Growth in special economic zones (SEZs), such as the Thilawa SEZ, are also drivers of rising FDI (Tun, 2020). Similar to the increases in FDI, Myanmar has also seen a rise in both international trade flows and partners. The country is trading with more countries beyond the Association of Southeast Asian Nations (ASEAN) region and with a more diversified export basket. Preferential trade access to the European Union through the reinstated Everything but Arms initiative has seen Myanmar's exports more than double since 2013. Despite increased exports and the recovery of the manufacturing sector, trade has not had a strong impact on poverty reduction, which is likely due to insignificant employment creation in manufacturing, and concentration in narrowly defined tradable export sectors.

2. Human assets

It is important to note that Human Asset Index (HAI)[4] components (under-five mortality rate, prevalence of stunting, gross secondary enrolment ratio, adult literacy rate, and gender parity index for gross secondary school enrolment) have improved across developing countries, making Myanmar's experience non-exclusive. Since 1991, Myanmar has consistently had a HAI performance above the threshold level, except for 2000 and 2003. The country's HAI performance over the last decade has been positive with a steady increase from 63 in 2010 to 72 in 2020.

a. Education

Gross secondary enrolment ratio increased by 34 percentage points from 2000 to 2020, reaching 64 per cent in 2020. However, the adult literacy rate decreased from 89 per cent to 76 per cent in the same 20-year period. 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. Improvements in the education sector are due to increased government expenditure in the sector, which reached 7.75 per cent of the national budget in 2017/2018, a 4.09 percentage point increase from 2011/2012 (United Nations Children's Fund and Government of the Union of Myanmar, 2018). The government announced

1 The Committee for Development Policy is a subsidiary body of the United Nations Economic and Social Council. The Committee is responsible for deciding which countries can be considered least developed countries.

2 UNCTAD Vulnerability Profile of Myanmar, January 2021.

3 GNI per capita provides information on the income status and overall level of resources available to a country. The inclusion threshold is set at the three-year average of the level of GNI per capita, as defined by the World Bank for identifying low-income countries. The graduation threshold is set at 20 per cent above the inclusion threshold. At the 2018 review, it was US$1,230 (https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html).

.

4 The HAI is a measure of level of human capital, comprising a composite index of education and health used as an identification criterion for LDCs by the UNCDP.

free education for primary, middle and high school by 2015/2016, including school grants for operating costs. In 2019, Myanmar's government expenditure on education was 10.5 per cent, a significant increase from previous years, but a small feat compared to other Asian countries, such as Thailand, Singapore and Indonesia, where expenditure on education is valued at 20 per cent.

b. Health

The 2020 update of the CDP's timeseries data shows that the under-five mortality rate has decreased from 94 in 2000 to 46 in 2020. A 2015-2016 survey conducted by the country's Ministry of Health and Sports reinforces this progress by reporting a reduction of the under-five mortality rate, from 103 to 50 deaths per 1,000 live births in the previous decade. Additionally, the survey confirms progress in maternal mortality, which has declined from 340 per 10,000 in 2000 to 289 in 2010, and 250 in 2020. Challenges remain due to rural and urban, as well as ethnic disparities, and alarming healthcare worker shortages, as 87 per cent of States and Regions function below the World Health Organization's (WHO) recommended minimum number of 1 per 1,000 population for medical doctors.

Between 2010 and 2018, Myanmar recorded a decline in the prevalence of stunting among children under five from 35.1, 29 and 26.7 per cent in 2010, 2016 and 2018, respectively. The prevalence of undernourishment has also declined by 23.6 percentage points between 2000-2002 and 2017-2019. Improved access to healthcare due to the increase in government expenditure on health from 1.8 per cent of GDP in 2010 to 4.7 per cent in 2017, has allowed Myanmar to better its incidence of diseases, although more is required to be on par with other countries within the region. Although investment in service delivery tools has been made, the country still needs public health system improvements to reach Sustainable Development Goal (SDG) 3.

3. Economic and environmental vulnerability

Before the pandemic, Myanmar was set to enjoy robust growth in the medium-term. Mega-projects geared towards power generation and infrastructure development led to increasing investment to GDP ratio. Nonetheless, Myanmar will need to focus on resilience building and guard against risks expected from investment cycles.

Economic vulnerabilities in Myanmar are connected to: (i) high reliance on natural-resource based activities against limited export destination markets; (ii) the loss of trade-related support measures and preferential access to developed countries' markets after graduation; and (iii) large investment needs in health, education and infrastructure, which could risk macroeconomic stability and debt sustainability. The country's disposition to disasters and weather-related hazards also increases its economic vulnerability.

The economic vulnerability index (EVI)[5] performance is below the graduation threshold of 32. After a rapid decline from 161 per cent to 111 per cent of the graduation threshold in 2000 and 2006 respectively, Myanmar first met the criterion in 2009 with an EVI at 98 per cent of the threshold. This was due to the growth in the share of Asian countries in world trade, which reduced the remoteness component of the EVI. There were also declines in the share of the primary sector in GDP alongside export instability and agricultural instability. Between 2009 and 2011, economic vulnerability increased due to a rise in disaster victims and populations living in disaster prone areas, such as low-lying coastal areas, and increases in export concentration driven by recoveries in the manufacturing and industry sectors. Cyclone Nargis saw the EVI increase from the threshold (100) in 2009 to 141 per cent of the threshold in 2012; however, this rapidly decreased to 105 per cent in 2015 and further to 99 per cent in 2018.[6] Considering modifications to the EVI composition, Myanmar's economic and environmental vulnerability index score is projected to reach 79 per cent of the threshold in 2021. To achieve this, the country will need stronger trade linkages beyond the ASEAN market that include productivity-enhancing measures, productive capacity building and labour efficiency improvements where it lags behind other ASEAN countries, particularly in the manufacturing and industry sectors.

Evaluation of vulnerabilities and policy entry points

According to data from UNCTAD, Myanmar has increased efforts to expand trade links beyond developing countries, as evidenced by an increase in the share of developed countries in total exports — from 4 per cent in 2010 to 28 per cent in 2018. By 2019, developing Asian economies accounted for 66 per cent of Myanmar's exports, developed European economies 19 per cent and developed Asian economies 8 per cent. Growth in merchandise, fuel and manufacturing exports led to an increase in the export concentration index from 0.32 in 2013 to 0.40 in 2014, before declining to 0.25 in 2019 due to a commodity market downturn. China and Thailand are the top two destinations for Myanmar's exports, contributing 50 per cent of total merchandise exports in 2019. This presents an economic risk, as the probability of transferring domestic shocks from either country to Myanmar through trade is high. Other export destinations for Myanmar include the Quadrilateral Security Dialogue (QUAD) countries (Japan, the United States, India and Australia), where trade is driven by manufactured goods — 76 per cent of Myanmar's manufactured goods exports are sent here. The share of non-ASEAN countries in

[5] The EVI is a measure of structural vulnerability to economic and environmental shocks. It is a synthetic index of the magnitude of shocks and the exposure to shocks that an LDC could face.

[6] The EVI subcomponents are rigid environmental and demographic factors that do not radically change from year to year. The revision to the criterion aside, the drop from 141 to 99 in 6 years is quite rapid, and it is due mainly to the brief rise in the number of victims of disasters following Cyclone Nargis.

trade is mainly due to preferential treatment. This is also the case with ASEAN countries where Myanmar profits from duty-free access to markets. However, upon LDC graduation and transition, Myanmar could lose preferential access previously enjoyed from the QUAD countries. Nonetheless, Myanmar could potentially leverage the Regional Comprehensive Economic Partnership (RCEP) as a harmonised trade agreement covering trade in goods and services among the countries.

1. Trade in lower value chain goods

From 2000, Myanmar has reported a tenfold increase in exports and imports from $1.6 billion and $2.4 billion. However, the country has reported a $496.6 million merchandise trade balance deficit in 2019, likely due to faster import growth since 2012. Myanmar also contributes 0.1 per cent of world trade and in 2018, exported 1,708 products, with a quarter belonging to textiles and clothing and a fifth to fuel, each worth $4.2 billion and $3.6 billion, respectively. In addition to vegetables, worth $2.7 billion, 60 per cent of merchandise exports in Myanmar were due to these three products. While Myanmar is an exporter of consumer goods, which have consistently contributed over 50 per cent of exports since 2014, it is a net importer of capital goods and intermediate goods, with the latter being the least exported goods rising by 3.9 percentage points from 2010 to 2018.

Myanmar has relatively weak involvement in global value chains (GVCs), with a forward global value chain share of 35 per cent in 2015, high domestic content in exports (99.8 percent) but low sectoral backward participation in the global value chain (0.16 per cent). The forward participation 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. At 1.2 per cent, only the private household sector has backward participation above 1 per cent. Domestic value addition in Myanmar is derived from the use of its intermediate exports as inputs to importer country or ultimately absorbed by other economies. Mining and quarrying form 56 per cent of Myanmar's domestic value in GVCs, followed by electrical and machinery at 40 per cent and wholesale trade at 38 per cent.

Despite a heavy reliance on agricultural activities, which contributed 50 per cent of total value added from 1990 to 2003, Myanmar cites industrialisation as a priority. Efforts towards industrial development are reflected in the growth of value added in the industrial sector, which reached 35 per cent in 2018, compared to 26 per cent from the primary sector and 39 per cent from the tertiary sector. To accelerate industrialisation, the United Nations Industrial Development Organization (UNIDO) and Myanmar's Ministry of Industry cited the following as key challenges to be mitigated in the *Myanmar Summary of Industrial Development Strategy 2017:* an undifferentiated industrial structure, weak infrastructure for business, and a poor institutional policy framework and governance mechanism.

2. Declining labour productivity

Myanmar's growth has slowed down since 2011, jeopardising labour productivity in the country. Labour force quality, weak linkages between sectors and low rural economy growth are causal factors of the growth decline, the latter being the most significant. In rural areas, child labour has been a persistent problem leading to increased poverty and school dropout rates. In fact, Myanmar reported just 66 per cent of its population having basic education in 2019, further adding to the low quality of the country's labour force.

Employing 50 per cent of the labour force, the agriculture sector is characterised by low productivity. Industries with rapid growth and moderate productivity, such as the services sector, harbour lower shares of the labour market. Structural transformation is expected to be possible due to positive economic reforms the country has undertaken. More labour from the agriculture sector is expected to move into the industry and service sectors with higher productivity. As it stands, labour market shifts have occurred from agriculture to services, as the growth and job creation ability of the manufacturing sector has been dull. Further progress in structural transformation should be underpinned by the abundance of skills, technology and spatial development; the absence of which has limited Myanmar's economic development.

Overall, even though low labour productivity and internal imbalances have limited structural transformation, Myanmar could focus on increasing investment in education, particularly technical and vocational training, to harness long-term gains from human capital and social development. Ensuring the closure of the human capital development gap is important for sustained and inclusive economic growth. Policies and investment targeted towards education should be sector-specific, and focused on the rural and underserved areas of the country.

Conclusion and policy recommendations

Successful LDC graduation and transition depend on strong human capital development, structural transformation and economic reforms. Additionally, the establishment of a strong domestic environment with political stability and functioning democratic institutions cannot be ignored. The economic and political sanctions imposed on Myanmar in 2003 negatively impacted tourism development, FDI and official development assistance (ODA) received by the country. Support for economic and political reform processes will require peaceful spaces that attract foreign investment and ODA from external donors.

The following two policy areas deserve particular attention:

1. Private sector and enterprise development.

- Reduce barriers to economic activities that hinder the efficiently and competitiveness of enterprises.
- Accelerate economic development by building electricity infrastructure, which ensures reliable electricity supply.
- Improve human capital development to mitigate low labour force quality.

2. Mitigating and adapting to environmental shocks.

- Build resilience against disaster through foresight of emerging and long-term needs, as well as increased financial capacity.
- Build a climate-proof economy by reviewing the climate action of Myanmar's Nationally Determined Contributions of 2015.

References

UNCTAD (2021) Vulnerability Profile of Myanmar, January 2021.

World Bank (2020) Ease of Doing Business rankings, accessed December 2020. Available at

https://www.doingbusiness.org/en/rankings

Tun S (2020). Myanmar FDI approval misses target, but huge projects expected this year. The Myanmar Times. Available at https://www.mmtimes.com/news/myanmar-fdi-misses-target-huge-projects-expected-year.html (accessed 16 November 2020).

United Nations Children's Fund and Government of Myanmar (2018). Myanmar 2018 Education Budget Brief. Available at https://www.unicef.org/myanmar/media/1901/file/Myanmar%202018%20Education%20Budget%20Brief.pdf (accessed 18 November 2020).