APRIL 2023

Myanmar Economic Update

A MARKET INTELLIGENCE REPORT

Summary

- Prior to the February 2021 military coup, there was high optimism for Myanmar's economic future. It was spoken of as the next tiger economy, as markets opened up, banking systems improved and more transparent regulations created greater market stability.

- Optimism has faded as the country struggles under military rule, with increasingly severe economic impacts and a diversion of wealth to the military and its enablers. International sanctions and the FATF blacklisting, along with security concerns, are pain points that have seen many companies withdraw from the country.

- The economy shrank by 20% in 2021 and remains at 75% of its 2019 size. Trade flows have decreased since 2019 although a change in fiscal year timing makes comparision difficult.

- Businesses can expect frequent and unexplained changes in regulations, and ongoing issues with foreign exchange and import licenses. Demand for imported food exceeds supply due to supply chain challenges.

- The New Zealand Embassy in Yangon has reopened but MFAT's travel advisory for Myanmar is Level 4 "do not travel".

Report

Economic outlook

Myanmar's GDP is expected to grow by 2.6 percent this year (World Bank), the lowest of all ASEAN countries. The inflation rate is expected to be higher than any other member. The Asian Development Bank has forecast inflation at 8.5 percent in 2023, building on the 16% rate in 2022.

Inflation issues are compounded by a fixed official exchange rate of 2,100 Myanmar Kyats (MMK) per US dollar. This rate has not changed since July 2022 and is well below the market rate of around 2,850 MMK. The authorities are intervening in the market through banking regulations, including a forced conversion of USD to MMK. This de-dollarisation has resulted in a growing informal market in goods and services. There is widespread resistance to taxation, in part to avoid funding the military regime.

Several countries and the EU have imposed targeted sanctions against Myanmar since the coup, including on major companies and sectors that are implicated in funding the military. Sanctions have some impact domestically, but with a substantial portion of Myanmar's economy already informal, they have greater impact and increased business and reputational risk for foreign investment and trade. Many Western multinationals and investors have withdrawn from Myanmar. Some European clothing manufacturers have remained, working with local unions to ensure adequate protections for factory workers – mostly vulnerable women – while others have closed factories or sold them to firms that do not prioritise corporate social repsonsibility.

The Financial Action Taskforce (FATF) decision in October 2022 to blacklist Myanmar is a major indicator of the country's economic environment. North Korea and Iran are the only other countries currently blacklisted. The effect on international banking has not been significant as most Western banks were already applying extra diligence to transfers. However, there are reports that major banks in key economies such as the United States, Singapore and Thailand are intending to apply more stringent controls on or even cease currency transfers, which would have a major impact on business. There is no near-term prospect that the regime will be able to satisfy FATF requirements to have the designation lifted. It is reported that China, Russia, Thailand and India are building bilateral arrangements for trade with Myanmar in their respective currencies.

Transparency International ranks Myanmar 157/180 in their 2022 Corruption Perceptions Index. The extractive industries, in particular, provide a highly profitable source of revenue for the regime, including for oil and gas, logging and rare earth mining. Illicit trade, including in narcotics, arms and human trafficking is also increasing in prominence. The Myanmar Companies Office has blocked access to almost all of its online register, making it difficult to know with whom one is doing business.

Myanmar has suffered significant brain drain as many citizens, especially those 18-25 years old, have left the country. A large number from this same group are also involved in active fighting for the People's Defence Forces (PDFs) against the military. The unemployment rate has exploded, with 1.6 million people left without jobs since the coup. A large proportion of those unemployed are from the garment sector, with an estimated 300,000 people from over 200 factories losing their jobs.

Trade regulations

The military regime has established stringent and often unexplained trading rules, with a heavy use of import licences and recent announcement of export licences. The intention appears to be manipulation of the market to create a trade surplus and conserve dwindling foreign currency. Regulations are not necessarily promulgated but are advised to privileged networks, meaning that even large import licence holders may need to work through agents rather than having direct contact with authorities. Import permits must be in hand before goods land in country or they are confiscated. Receipts for exports must be shown in bank accounts prior to export: local companies are having to purchase funds at inflated rates to tide themselves over before they can be paid by buyers.

Other rules that are causing pain include the requirement that all US dollars landing in a USD bank account are immediately converted to MMK at the official rate (although import/export companies can keep 35% in dollars), and that importers show export revenue to the same value as the cost of imports. This privileges importers that are part of large conglomerates, which may have access to distribution of revenues (on paper).

Supply chain issues

Economic turmoil, lawlessness and conflict have greatly disrupted supply chains. Customs clearances are slow, combined with licensing issues, creating a lengthy and complicated process getting goods to market. Food products are no longer able to be transported by sea and can only come by land, typically from Thailand. This route can be disrupted by fighting between the military and resistance groups. Access can be impeded quickly, and when possible it remains costly. Border checks are operating reasonably but security checkpoints on the routes can be lengthy, and often require payment of a further fee to local authorities. Limited fuel availability and high cost are also a complicating factor, including because of the need to keep chillers running during delays on the road. Cold storage can be variable due to frequent power outages in most parts of Myanmar.

For imported food products, demand exceeds supply due to supply chain volatility. Supply of other consumer goods is similarly unreliable. New Zealand food and beverages are well-regarded. This is not a market for experimenting with new products. There is strong demand for private education: many international and local providers offer an alternative to government schools, which have seen an 80% reduction in the number of students taking the matriculation exam compared with before the coup.

New Zealand presence in Myanmar

The New Zealand Embassy in Yangon has reopened following its closure during the COVID pandemic. Due to the security environment, MFAT's travel advice is "do not travel". Those working within the private sector have little legal protection and can be subject to intense scrutiny and interference by authorities.

External links

The following links may provide useful information to businesses:

- FATF: Follow-up report to Myanmar's assessment of anti-money laundering and counter-terrorist financing measures
- Myanmar: Economy | Asian Development Bank (adb.org)
- Myanmar: Analysis of Farm Production Economics (worldbank.org)
- Myanmar Inflation Rate - February 2023 Data - 1998-2022 Historical - March Forecast (tradingeconomics.com)
- Myanmar - Transparency.org

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