October 2022 – March 2023

Myanmar Trade & Investment Update

With exports declining and imports remaining stable, Myanmar returned to a trade deficit in the six months to March 2023. Manufacturing exports declined from the high levels reaching in the second half of 2022, but agricultural exports picked up in response to higher global demand and prices. Imports remained relatively stable, supported by intermediate imports (primarily fuel) and a pick-up in capital imports, while consumer imports weakened further. Foreign direct investment commitments remained weak in the six months to March 2023, at about US$400 million, 85 percent below the equivalent period three years ago. Several international firms announced they would cease their operations in Myanmar, and some global clothing brands announced a halt to sourcing from Myanmar. The trade policy environment remained restrictive, with all exports now subject to export license, effective April 1, 2023.

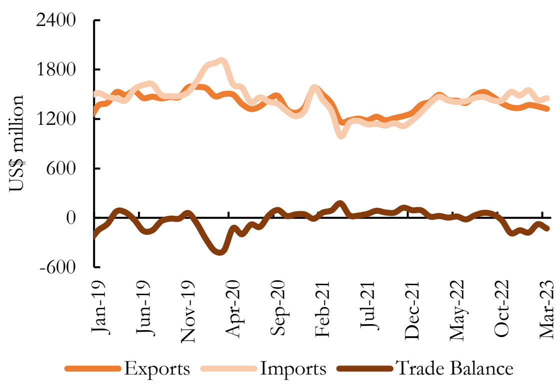
Disclaimer: The most recent data for Myanmar's trade figures used in this note is from the Ministry of Commerce's monthly and weekly aggregates. Slight discrepancy issue has been observed between the MOC's data and the Central Statistical Organization's (CSO) data, which publishes the data with a time lag. Hence, the most recent data presents in this note are best considered as trends in the recent months, rather than the exact figures.

1. International Trade

1.1 Myanmar returned to a trade deficit in the six months to March 2023

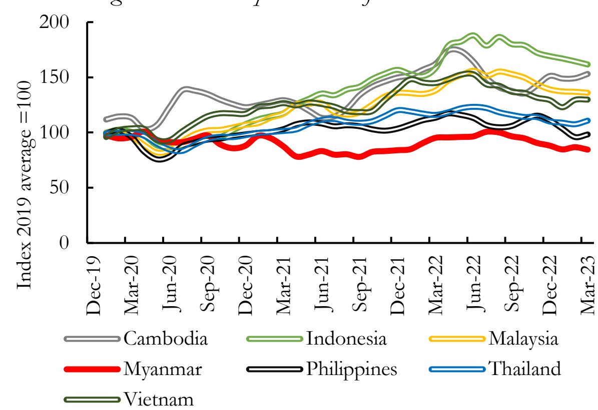
With exports declining, Myanmar returned to a trade deficit in the six months to March 2023 (Figure 1). Since reaching 2019 levels in mid-2022, the US dollar value of exports has declined. Other East Asia and Pacific regional peers have also experienced export declines over the six months to March 2023 (Figure 2), reflecting waning global demand. However, the US dollar value of imports remained stable throughout the same period—driven by intermediate imports. Consequently, the trade balance widened to a US$843 million deficit in the six months to March 2023.

Figure 1: Trade trends



Source: Ministry of Commerce and CEIC
Note: Data reflects a 3-month moving average.

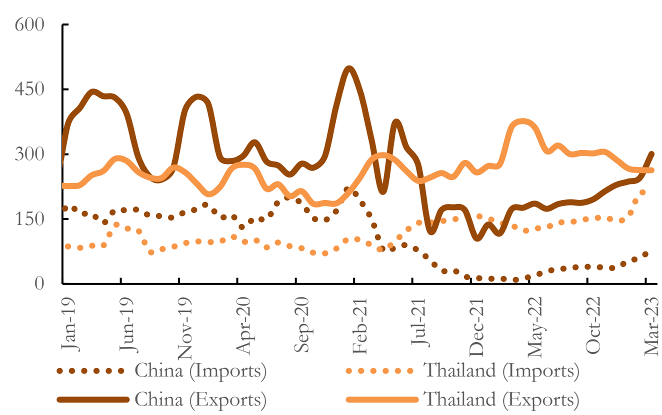
Figure 2: Good export trends of EAP countries



Source: Ministry of Commerce and CEIC
Note: Data reflects a 3-month moving average and is seasonally adjusted.

With the easing of border disruptions with China, land trade with China recovered (Figure 3). Border disruptions with China have gradually eased since January 2023, including reopening border gates at Muse and abolishing the driver-substitution system, thereby allowing Myanmar truck drivers to enter China at selected border gates, such as Muse's Kyin San Kywat gate and Kan Pite Tee gate. The Chinese New Year may also have contributed to increased exports from Myanmar. Imports from China through land borders have also increased since the beginning of 2023. However, certain border restrictions remained, such as only allowing six-wheel trucks to enter China through Muse's Man Wein gate. Moreover, traders have experienced increased trade times due to the imposition of strict inspections for goods from and to China.

Figure 3: Myanmar's land trade with major partners



Source: Ministry of Commerce
Note: Data reflects a 3-month moving average.

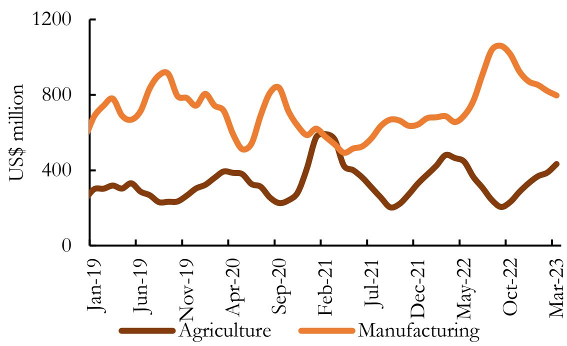
Overall, trade with Thailand has slumped since January 2023—driven by a decline in natural gas exports to Thailand, along with border disruptions due to conflict escalation (Figure 3). Despite declining exports, imports from Thailand through the land border have increased since January 2023, partly attributable to a sharp increase in imports through the Nabulae/Htee-Khee border gate in February 2023. The gate has experienced temporary closures and logistics disruptions along the road connecting Dawei and Htee-

Khee since early 2022 due to conflict escalation. Reports indicated that the Dawei-Htee-Khee road link had been closed without further notice in late January, making it difficult to explain the recorded import increase through this gate in February.

1.2 The value of manufacturing exports declined, but agricultural exports picked up.

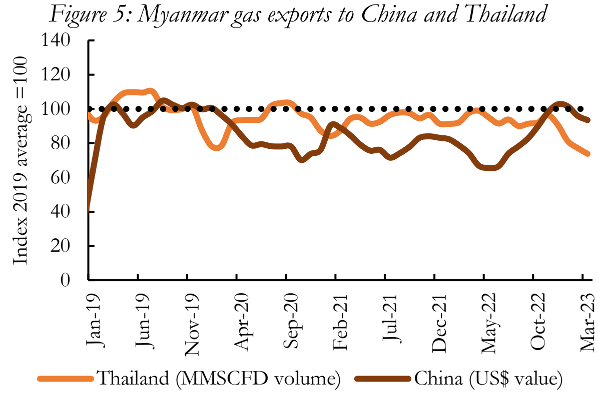
With global demand waning, manufacturing exports have weakened after peaking above the 2019 level in the September 2022 quarter (Figure 4). Myanmar's gas exports to China and Thailand – which comprise around 40 percent of total manufacturing exports – have declined since December 2022 (Figure 5). This is partly due to the declining capacity of existing gas fields and the withdrawal of international firms from Myanmar, resulting in reduced technical and industrial know-how. Myanmar's garment exports—accounting for around 50 percent of total manufacturing exports – have declined since late 2022. However, part of this is likely due to a seasonal reduction in demand ((Figure 6 and Figure 7). Altogether, garment and gas exports—accounting for more than 90 percent of manufacturing and more than half of total exports—were the main driver of the overall exports decline.

Figure 4: Manufacturing and agriculture export trends



Source: CEIC and Ministry of Commerce
Note: Data reflects a 3-month moving average.

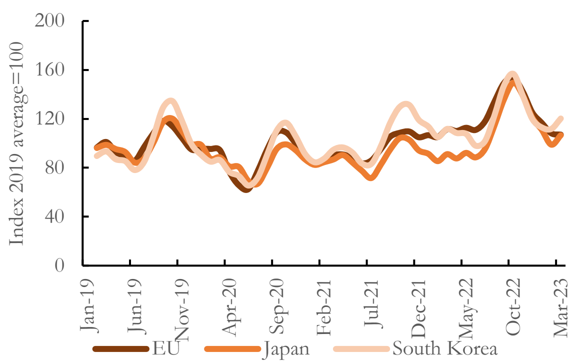
Figure 5: Myanmar gas exports to China and Thailand



Sources: China's General Administration of Customs and Thailand's Energy Policy and Planning Office (EPPO).
Note: Data reflects a 3-month moving average. Data is mirrored using natural gas imports reported by China and Thailand to proxy Myanmar's gas exports to partners with the most updated data. Given a unit difference between gas exports to China and Thailand, data is indexed at 2019 average =100. Natural gas imports reported by China and Thailand are in value (US$) and volume (million standard cubic feet per day–MMSCFD), respectively.

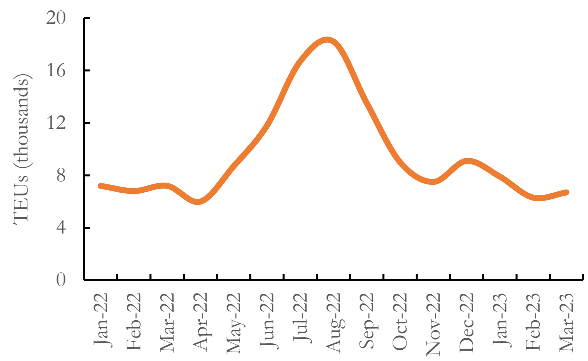
The outlook remains uncertain for Myanmar garment exports. With the global economy slowing down in 2023, the consumer demand for apparel is also expected to wane. The waning global demand is partly due to seasonal factors (Figure 6) and seems to have already impacted Myanmar's garment industry. In late 2022, some garment factories experienced temporary closures and reduced operating hours due to lower orders for spring clothing from Japan, Korea, and the European Union. The results from the BOF-McKinsey State of Fashion 2023 survey suggest that demand from Europe—a major destination for Myanmar's garments—is expected to be lower in 2023 compared to 2022. However, demand from Japan and South Korea is expected to remain resilient, which could offset lower European consumer demand. Nonetheless, several global brands announced that they would halt sourcing from Myanmar during the six months to March 2023. These included Primark, Fast Retailing (owner of Uniqlo and GU brands), Ryohin Keikaku (owner of Japanese brand Muji), and Marks & Spencer. Fast retailing and Ryohin Keikaku will halt sourcing from Myanmar in the September 2023 quarter, which marks the end of orders for fall-winter products, while Marks & Spencer already halted sourcing in March 2023. Two factories producing clothing for Primark were shut down in March 2023, resulting in the job loss of some 2,000 employees.

Figure 6: Total clothing/apparel imports from the EU, Japan, and South Korea



Source: CEIC
Note: Data reflects a 3-month moving average and represents the total clothing/apparel imports of the EU, Japan, and Korea (not just imports from Myanmar).

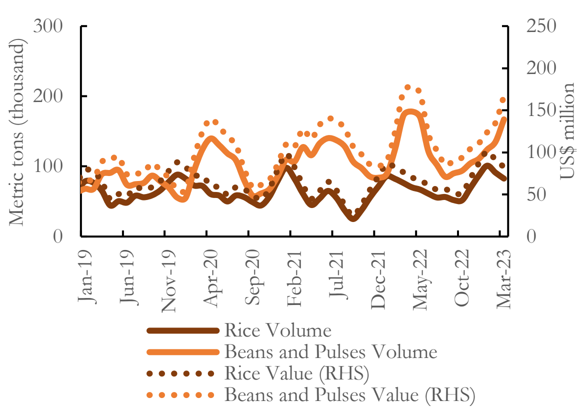
Figure 7: Garment exports via Yangon seaport (in TEUs)



Source: Shipping operators.

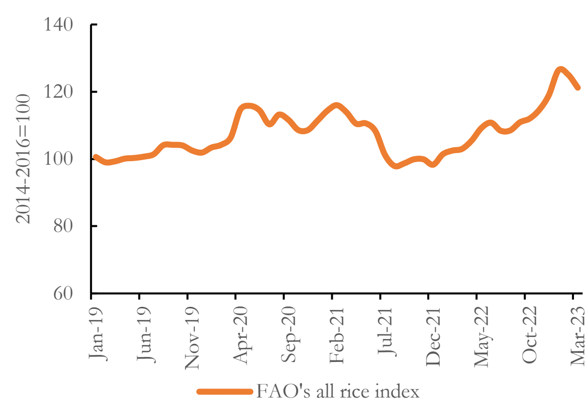
Partly due to seasonal factors, agricultural exports have increased since October 2022 (Figure 4), supported by major agricultural exports, including rice (Figure 8). According to data from Myanmar Rice Federation, Myanmar exported about 2.2 million tons of rice in the fiscal year (FY) 2023 (ending in March 2023), exceeding its 2 million ton target. A continued global rice price increase primarily supported Myanmar's rice export performance in FY23 and the six months to March 2023 (Figure 9)—contributing to an overall increase in agricultural exports and a 15 percent increase in rice exports in value terms compared to the same period last year. The ease of the border disruptions with China also partly contributed to increased rice exports, as China became the largest buyer in January and February 2023, surpassing Bangladesh in previous months. However, rice exports have declined since February 2023, partly due to seasonality and a moderating global price.

Figure 8: Myanmar's rice and beans exports



Source: Central Statistical Organization, Ministry of Commerce, and Myanmar Rice Federation.
Note: Data reflects a 3-month moving average.

Figure 9: FAO's all-rice price index



Source: FAO

Policy interventions appeared to impact the momentum of rice exports in February and March 2023. Reports suggest that foreign exchange surrender requirements for rice exports through the land border (effective from March 2023) and the suspension of export licenses for rice in February 2023 almost resulted in a virtual halt in rice exports to China through the land border in March 2023. Anecdotally, the average number of daily trucks for rice exports to China through the Muse-Ruili border declined from about 50 before March 1 to about ten after March 10 due to policy interventions.

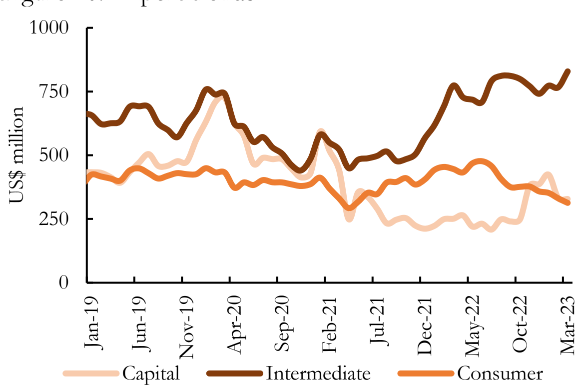
Bean and pulse exports trended steadily upward in the six months to March 2023 (Figure 8). Beans and pulses exports, in both volume and value terms, were about 8 percent higher than in the same period last year, partly contributed by growing demand from India and a memorandum of understanding (MOU) between Myanmar and India for black grams and pigeon peas signed in June 2022, up to the fiscal year 2026. With export prices to India increasing, domestic prices for beans and pulses have also increased since late February, supported by low stocks in the domestic market and declining yields. Farmers' profitability remained impacted by increased labor and other input costs despite higher prices.

According to the USDA's Grain and Feed Annual 2023, Myanmar's corn exports (in volume terms) performed well between October 2022 and February 2023, primarily attributable to increased exports in the December 2022 quarter, compared to the same period last year. Despite corn exports trending upward in late 2022 and early 2023, they were much lower than in February 2021 and 2022. Anecdotally, delayed transport times due to increased checkpoints along the road connecting Yangon and Myawaddy contributed to reduced corn exports in February 2023, the first month Thailand imposed a zero import tariff for corn. With the export price for corn declining, the escalation of conflict along the Myanmar-Thailand border, and a recent halt in corn exports to China through sea trade, corn exports will likely decline in the near term.

1.3 Intermediate imports continued to support overall imports.

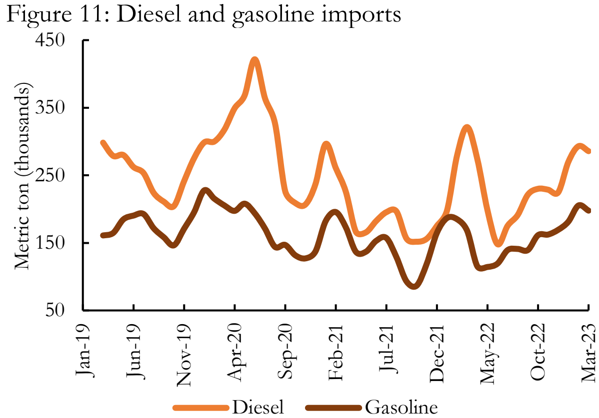
Overall, imports remained stable in the six months to March 2023 (Figure 10). An increase in intermediate and capital imports was broadly offset by a decline in consumer imports. With cut-make-pack (CMP) imports slowing due to the weaker global garment demand, the pick-up in intermediate imports was likely driven by an increase in the value of refined mineral oil and fuel imports. Since early 2022, fuel imports have accounted for more than half of intermediate imports and a quarter of total imports (in value terms). Consumer imports remained weak, partly reflecting weak demand for consumer products and the impacts of import restrictions. In late 2022, capital imports reached the highest level since February 2021 but remained lower than pre-COVID-19 levels.

Figure 10: Import trends



Source: Central Statistical Organization, Ministry of Commerce, and Myanmar Rice Federation.
Note: Data reflects a 3-month moving average.

Figure 11: Diesel and gasoline imports

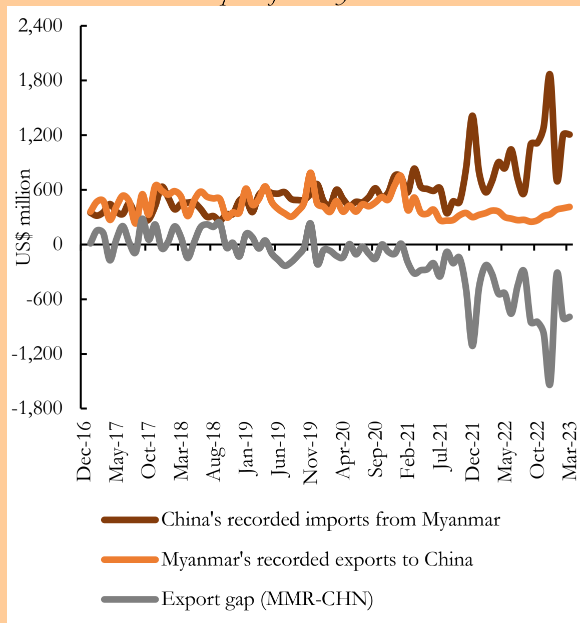


Source: Shipping operators

Box 1: Myanmar's missing jade exports

Analysis of mirror data suggests that Myanmar's official export data significantly under-reports exports of jade. As mentioned in the previous trade and investment update, the gap between Myanmar's recorded exports to China and China's recorded imports from Myanmar has diverged significantly since late 2021 (Figure 12). In 2022, Myanmar's recorded exports to China were 68 percent lower than China's recorded imports from Myanmar. Mirror analysis using data from China's General Customs Administration suggests that jade[1] appears to be a primary product contributing to this difference, as jade exports to China increased from US$1 billion in 2021 to US$3.9 billion in 2022. In contrast, Myanmar's official data indicates that Myanmar's total jade exports were a negligible US$9 million in 2022—equivalent to about 0.2 percent of China's recorded jade imports from Myanmar and suggesting that jade alone attributed to about 50 percent of the gap in 2022. Tin and "other" (unspecified) imports from Myanmar accounted for most of the remaining differences (Figure 13 and Figure 14).

Figure 12: Gap between Myanmar's exports and China's recorded imports from Myanmar



Source: The General Administration of Customs of China (GACC), the Ministry of Commerce of Myanmar, and the Central Statistical Organization of Myanmar.

Figure 13: China's recorded imports from Myanmar

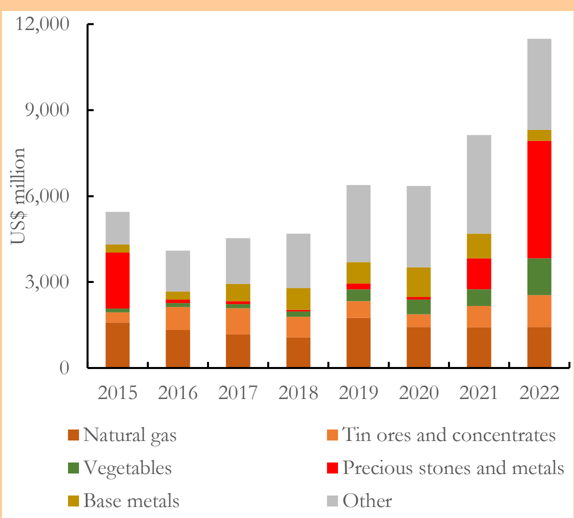
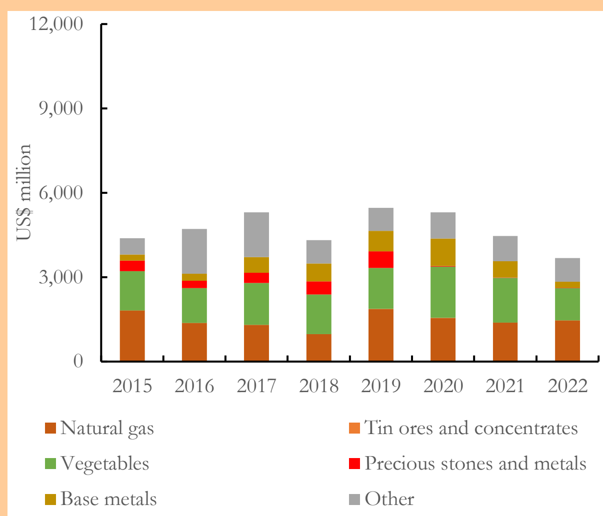


Figure 14: Myanmar's recorded exports to China



Source: The General Administration of Customs of China (GACC)

Source: The World Integrated Trade Solution (WITS)

Note: The GACC data indicates that jadeite jade (HS 71039910) accounts for around 90 percent of precious stones and metals. While data from the GACC is available at the HS-digit level, data from the WITS is available only up to HS 6-digit level. With this limitation, precious stones and metals (HS 71), a broader classification of jadeite jade, are presented in Figures 13 and 14.

The actual amount of Myanmar's jade exports to China could also be significantly greater than the official estimates from Chinese customs. According to the findings of a Global Witness report in 2015,

[1] Jade refers to minerals called nephrite and jadeite. In this note, jade refers to jadeite (HS 71039910 – Jadeites, further worked than sawn or rough shaped), the variant of mineral which Myanmar exports.

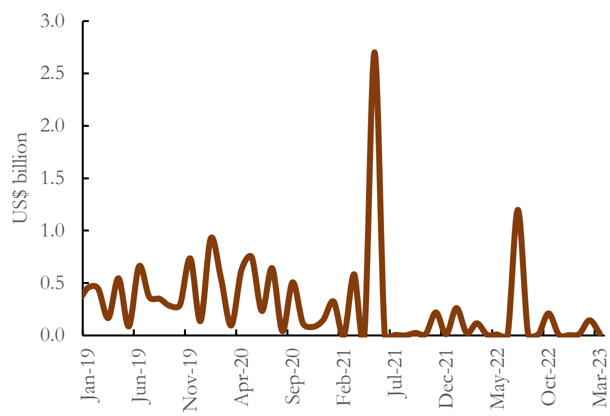
China's recorded jade imports were about US$12 billion in 2014, while the estimated total production of Myanmar was worth about US$31 billion in the same year.[2] The report also stated that about 50-80 percent of this estimated total production was smuggled through the Myanmar-China land border. Anecdotally, jade smuggling increased after the February 2021 coup. In a recent report in 2021, Global Witness estimated that up to 90 percent of all jade mined in Myanmar was smuggled to China.[3] Despite the authorities' order to suspend mining activities for jade and gems in December 2021, mining operations continue illegally in Hpakant, where most of Myanmar's jade is mined.

2. Investment

2.1 Foreign direct investment commitments remained low.

Foreign direct investment (FDI) commitments remained low at US$400 million in the six months to March 2023 (Figure 15) as international firms continued to exit. The manufacturing industry dominated the total FDI commitments with 36 percent (or US$143 million across 35 projects), followed by services (32 percent across three projects) and power (29 percent across five projects) (Figure 16). Hong Kong was the top investor in the six months to September 2022, with 25 percent (or about US$99 million) of the total FDI commitments across six projects, followed by Thailand (with 24 percent or US$95 million) (Figure 17). Well-known international firms announcing exits from Myanmar in the six months to March 2023 include Singapore-based Swiss petroleum company Puma Energy, Australian-based ANZ bank, Thailand's PTT Oil and Retail Business (PTTOR), American energy giant Chevron, Swiss food company Nestle, and Singaporean urban developer Keppel Land. In addition, reports suggest that the Thilawa Special Economic Zone (SEZ) rental income declined by 70 percent in 2022 compared to last year, further signaling a weak investment climate.

Figure 15: FDI commitments



Source: Directorate of Investment and Company Administration (DICA)

Figure 16: FDI commitments in value term by industry in the six months to March 2023

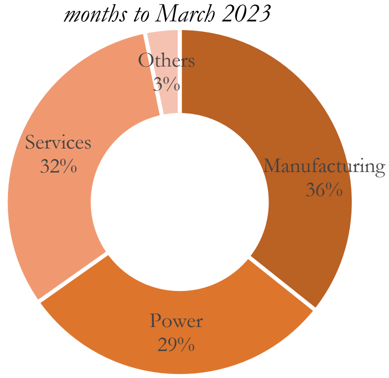
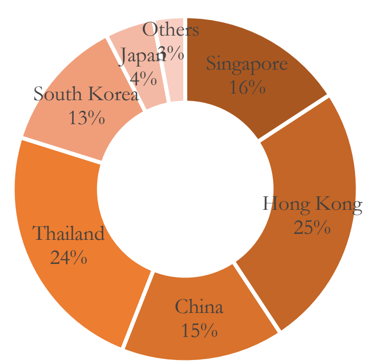


Figure 17: FDI commitments in value terms by country in the six months to March 2023



Source: Directorate of Investment and Company Administration (DICA)

[2] Global Witness. 2015. Jade: Myanmar's "Big State Secret".
[3] Global Witness. 2021. Jade and Conflict: Myanmar's Vicious Cycle.

3. The policy environment

3.1 Further restrictions were introduced in the six months to March 2023

All export items are now subject to export licenses. The MOC issued newsletter no. (6/2023) on March 22, 2023, announcing that all export items require licenses from April 1, 2023. This announcement was a modification of newsletter no. (3/2023), which required export licenses for 87 percent of tariff lines at the 10-digit harmonized system (HS) level through land borders.

Further administrative procedures were introduced. Effective November 1, 2022, only bank transactions are allowed for imports through land borders. Importers must acquire foreign exchange through export earnings or other incomes (such as salary and remittances of Myanmar nationals working abroad) via banks to pay for the imports.[4] From February 2023, cargo trucks exporting goods through land borders required cargo transport permission.[5] To obtain permission, traders must first apply for export licenses through the Myanmar TradeNet 2.0 system. After receiving the export license, traders must register details of cargo trucks at the Vehicle Monitoring System. Effective March 1, 2023, rice exporters exporting through the land border, previously exempted from the foreign currency surrender requirements, are now required to convert 65 percent of their export earnings into kyat at the official reference rate.

[4] The Ministry of Commerce's Newsletter No. 10/2022.
[5] The Ministry of Commerce's Newsletter No. 2/2023.