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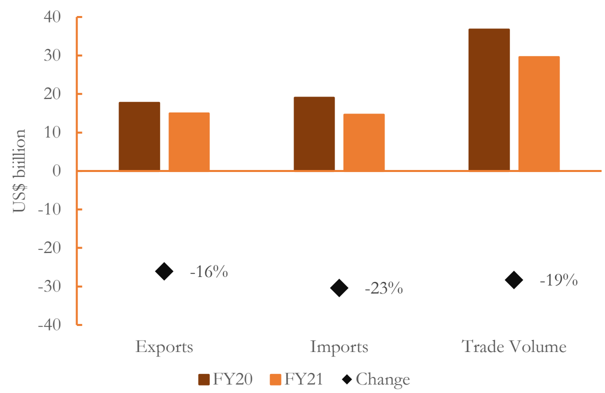
Myanmar Trade & Investment Update

With two waves of COVID-19 and the February 2021 coup, Myanmar's international trade declined by 19 percent (or US\$7.1 billion) in FY21. Compared with FY20, exports and imports declined by 16 percent and by 23 percent, respectively, in FY21 resulting in a trade surplus of US\$269 million. Along with decreasing trade volume, FDI commitments and new company registrations were 31 and 43 percent lower in FY21, respectively, compared with FY20. In the aftermath of the coup, many international firms announced a suspension or cessation of operations and investment plans.

International Trade

With disruptions caused by COVID-19 and the February 2021 coup, Myanmar's international trade significantly declined in fiscal year (FY) 21. Compared to FY20, trade volume declined by 19 percent (or US$7.1 billion) in FY21 compared with FY20. Exports and imports fell by 16 percent (or US$ 2.8 billion) and 23 percent, respectively (US$ 4.3 billion) (Figure 1) – resulting in a trade surplus of US$ 269 million. The 24 percent decline in sea trade drove the overall trade decline, while land trade decreased by 8 percent in FY21. While sea trade had suffered more disruptions due to the instability instigated in February 2021, further disruption to land border trade came by the end of June 2021 when China closed all border posts along the Myanmar-China border, and Thailand imposed temporary restrictions on border posts along the Myanmar-Thailand border due to the resurgence of COVID-19 in Myanmar.

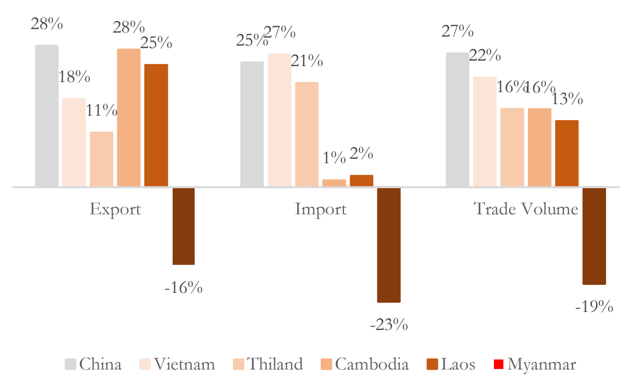
Figure 1: Myanmar trade decreased in FY21, compared with FY20



Source: Ministry of Commerce and CEIC

Myanmar's neighbors saw trade recover in FY21, in stark contrast to Myanmar. Several of Myanmar's neighbors – including China, Vietnam, Thailand, Cambodia, and Laos –experienced a significant trade increase in FY21[1] compared with FY20 (Figure 2). Trade increased by 19 percent on average in these countries in FY21, while Myanmar's trade declined by the same amount.

Figure 2: Myanmar experienced a trade decline in FY21 while its neighbors experienced a trade increase



Source: Ministry of Commerce and CEIC
Note: Chart shows the change between FY21 and FY20

The February 2021 coup further worsened Myanmar trade in FY21 – already weakened by the COVID-19 second wave in the early FY21. Despite being hit by COVID-19 in the second half of FY20, Myanmar trade increased by 3 percent in FY20 compared with FY19. However, the second wave of COVID-19 had a substantial impact on trade in early FY21. Trade declined by 22 percent between October and January of FY21, compared with the same (pre-COVID) period in FY20. Since February 2021, trade and supply chain disruptions – including those related to the third wave of COVID-19, which peaked in July – and other disturbances in the banking and financial sectors have also reduced trade. Trade declined by 25 percent in the post-February period in FY21, compared with the same period in FY20 (

Table *1*).

[1] For Myanmar's peers, data from the months of Myanmar fiscal year (October to September) was used to show year-over-year change. Data from the latest available months were used to obtain trade figures for 12-month period when data from the preferred period is not available - for Cambodia, data is from August to July, and for Laos, data is from May to June.

Table 1: Trade impacts of COVID-19 and the February 2021 Coup in FY21

	Exports		Imports		Trade Volume	
	Oct-Jan	Feb-Sep	Oct-Jan	Feb-Sep	Oct-Jan	Feb-Sep
Absolute change (US$ million)						
Compared with FY19	21	-2,737	-714	-2,714	-693	-5,451
Compared with FY20	-861	-1,893	-1,512	-2,881	-2,374	-4,773
Percent change						
Compared with FY19	0.4%	-28%	-13%	-30%	-6%	-29%
Compared with FY20	-16%	-20%	-28%	-31%	-22%	-25%

Source: Ministry of Commerce and CEIC

*Figure 3**:** Exports significantly declined after February but picked up in the late FY21*

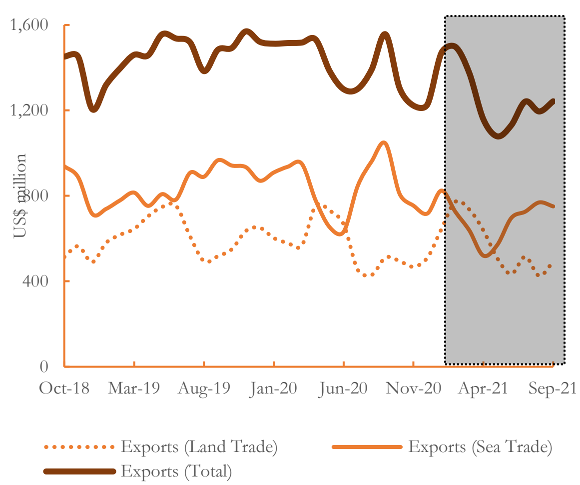
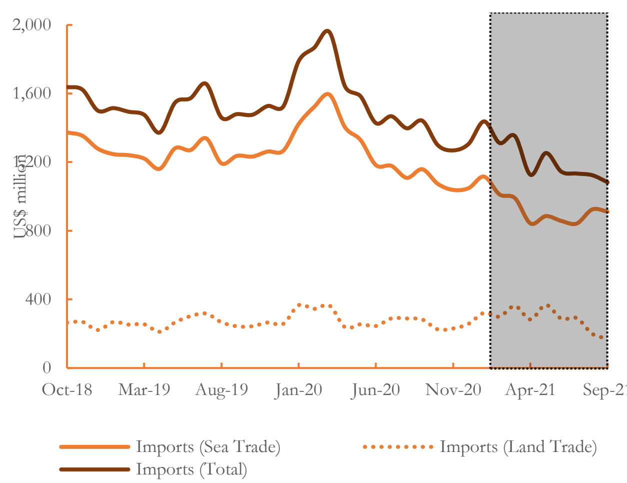


Figure 4: Imports declined throughout FY19 and further declined in the post-February 2021

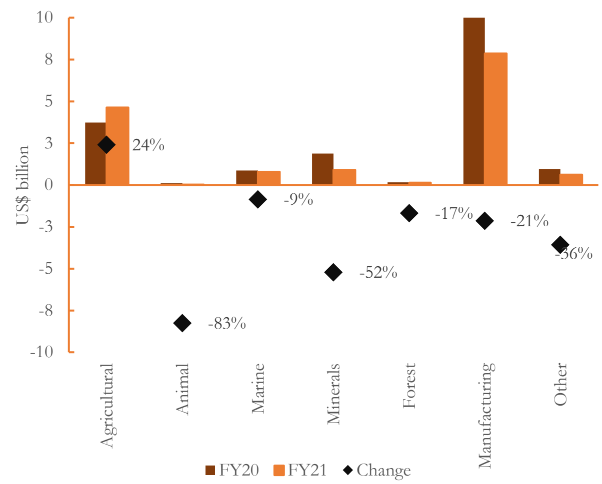


Source: Ministry of Commerce and CEIC
Note: Grey shaded area indicates the post-February period in 2021. Data reflects a 3-month moving average.

Sea-bound exports were hard hit in FY21, while border closures impacted land trade due to COVID-19. With the resurgence of the second wave of COVID-19 starting from September 2020, Myanmar's exports declined in the first quarter of FY21 (October to January), principally driven by sea trade, while land trade remained resilient against the second wave (Figure 3). Sea-bound and land trade peaked in January 2021 but declined after February 2021. In February and subsequent months, a decline in exports was partly attributable to disruptions associated with the civil disobedience movement (CDM), resulting in a limited operational capacity for trade-related activities. For instance, a reduction in port staff caused delays in documentation and clearance processes, and a reduction in banking staff contributed to payment delays. Sea-bound exports partially recovered in late FY21 – which indicated that disruptions caused by CDM lasted only a few months for logistics-related activities as truck drivers returned to work, trucking prices stabilized, and port and custom clearance processes normalized after April. Despite significant contracting manufacturing activities since February, purchasing managers' index (PMI) also suggested that Myanmar's manufacturing PMI was on an upward trend after April while there was a slight drop in July – reflecting COVID-19 impacts on the manufacturing sector. This also partly contributed to a partial recovery of sea-bound exports. Yet, exports through land trade did not fare as well – in part attributable to closures of all land border posts by China in July and subsequent months as a measure to counter the third-wave resurgence of COVID-19. China accounts for more than half of Myanmar's land trade exports. Imports through sea and land trade steadily declined after February 2021 (Figure 4), reflecting a weakening in domestic demand. Imports through land trade further declined after May – partly attributable to land border disruptions with China and Thailand and to import bans on consumer products such as beverages, soap, detergents, and motorcycles through land borders. Further sharp depreciation of Myanmar Kyat against the US dollar in the fourth quarter (Q4) may also have contributed to the partial recovery of exports and the further decline in imports during late FY21.

All export groups, except agricultural products, declined significantly in FY21. Manufacturing exports—which accounted for more than half of total exports — declined by 21 percent (Figure 5). Mineral exports fell by 52 percent, partly attributable to limitations over gem emporiums due to COVID-19 measures. Additionally, heightened security issues at major production sites such as Hpakant township in Kachin state impacted gem production — partly contributing to a decline in mineral products. Given the reliance on Chinese markets and land border disruptions with China, animal exports declined by 83 percent in FY21. With strict sanitary and phytosanitary (SPS) requirements for livestock imposed by China, livestock exports to China shifted to illicit channels. Marine (fishery) exports also declined by 9 percent due to border disruptions (especially for exports to China), increased logistics costs (for exports to Europe), and increased input costs such as fishing nets.

Figure 5: Despite a record increase for agricultural products, other exports significantly declined in FY21



Source: Ministry of Commerce and CEIC

Figure 6: While manufacturing exports regained momentum, agricultural exports sharply declined in the second half of FY21

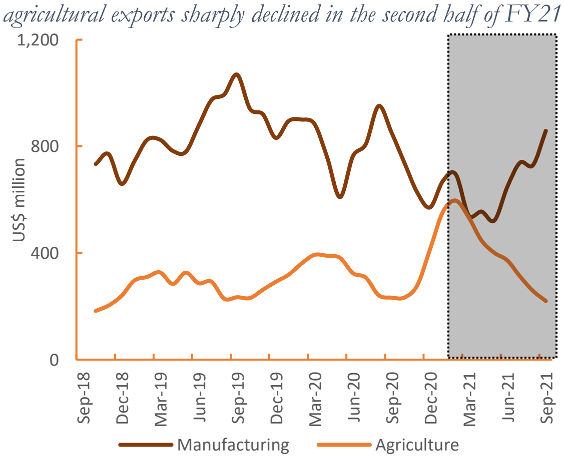
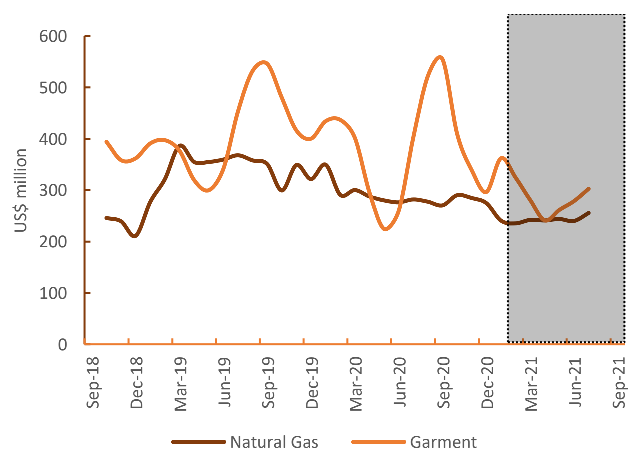


Figure 7: Garment and natural gas exports declined in FY21



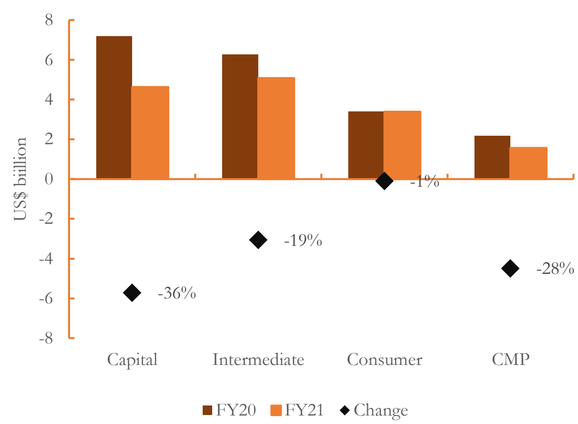
Source: Ministry of Commerce and CEIC

Note: In Figure 5, the grey shaded area indicates the post-February period in 2021, and the data reflects a 3-month moving average. Data for natural gas and garment exports are available only up to July 2021.

Agricultural exports increased by 24 percent in FY21; however, the post-coup period saw a substantial decline from the January peak. Agricultural exports—Myanmar's second-largest export category—reached record highs in early FY21. In the pre-February period, FY21's agricultural exports were 37 percent higher than last year, while the agricultural exports were only 6 percent higher in the post-February period. This could be partly attributable to the surging demand for corn from Thailand, China, the Philippines, Vietnam, and India and the diversification into new markets (for instance, the first shipment of watermelons to the United Arab Emirates (UAE)). However, agricultural exports declined after February 2021 (Figure 6) by a range of challenges for traders and farmers, such as increased logistics and input costs due to higher Kyat depreciation against the US dollar. In addition, the resurgence of COVID-19 in July and re-introduced land border disruptions caused further pressure on agricultural exports. For instance, land border disruptions with Thailand affected corn exports. Despite an increased export volume, corn exports were reportedly expected to be lower in August and September of FY21 due to lower available supplies (given an increased volume in the first eight months of FY21). Rice, which accounts for about 20 percent of total agricultural exports, experienced challenges such as a decline in summer paddy growing acreage, irrigation issues impacted by weather changes, higher input costs due to supply chain disruptions, lower demand from Europe and Africa, land border disruptions with China and higher shipping costs – resulting in a 7 percent decline in rice exports in FY21 (up to July), compared to the same period last year.

On weaker domestic demand, all import sub-groups declined in FY21. Compared with FY20, imports of cut-make-pack (CMP) goods decreased by 28 percent, capital imports decreased by 36 percent, intermediate goods decreased by 19 percent, and consumer goods decreased by 1 percent (Figure 8). A recent increase in imports of pharmaceutical and medical supplies could partly explain the relative resilience of consumer goods imports, which only fell by US$18 million in FY21 compared with FY20. With the suspensions of investment and business operations by foreign firms since February, reductions in capital imports reflect fewer investment activities. Declines in intermediate and CMP goods are associated with reductions in manufacturing activities and exports.

Figure 8: All import sub-groups decreased in FY21, compared with the last year



Source: Ministry of Commerce and CEIC

Myanmar's trade with major partners declined after February in FY21. Exports to China, accounting for about one-third of the total exports, significantly declined after February (Figure 9). While the exports picked up in May, it dropped again in June and July, attributable to China's closures of land border posts. Unlike exports to China, exports to Thailand—accounting for about 20 percent of total Myanmar exports—increased in February and the subsequent months, suggesting that exports to Thailand (mainly through land trade) were least affected by disruptions due to the coup. However, it had trended downward since June – attributable to land border trade disruptions due to the resurgence of COVID-19. While exports to the European Union (EU) declined after February, the exports picked up after May – attributable to a resumption of garment orders and shipping lines. However, exports to the EU in the last two months of FY21 could be lower given the re-closures of garment factories (either temporarily or permanently) due to the resurgence of COVID-19. Exports to other major destinations such as Japan and the United States were steadily downward, affecting Myanmar's attempts to export market diversification. Like exports, imports from China sharply declined after February, and there was no sign of recovery – indicating the impacts of both the coup and the third wave of COVID-19 (Figure 10). Despite a decline after February, imports from Singapore and Thailand – Myanmar's second and third major import partners – picked up after May 2021. Import recovery from Singapore and Thailand could be attributed to two observations. First, anecdotal evidence suggested that imports from the EU and the United States were transshipped through Singapore after February 2021; second, a noticeable partial shift from sea to land trade through the Myanmar-Thailand border to avoid sea trade disruptions such as delays in the arrival of container vessels and increased container vessels cost. An import increase from Singapore and Thailand in July could be partly attributable to a rise in medical equipment and medicines imports in response to the resurgence of COVID-19.

Figure 9: Trends of top 5 exports partners

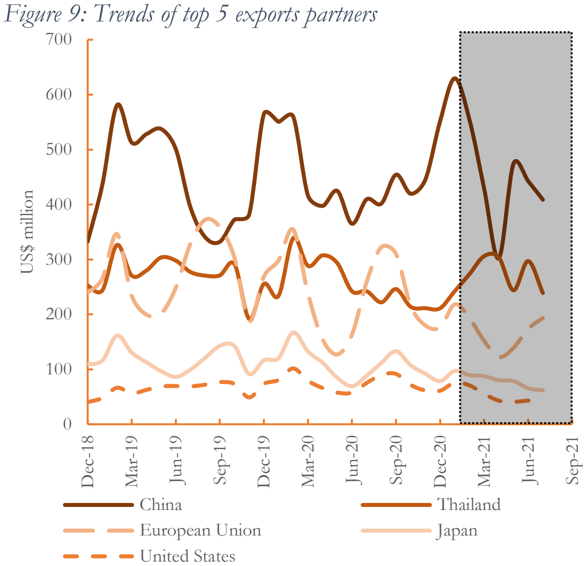
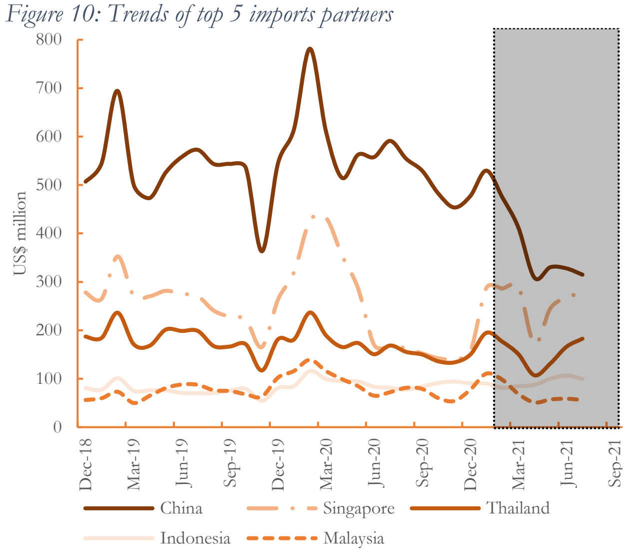


Figure 10: Trends of top 5 imports partners



Source: Ministry of Commerce and CEIC
Note: Grey shaded area indicates the post-February period in 2021, and data reflects a 3-month moving average. Data is available till July 2021.

Foreign Direct Investment

With heightened political uncertainty and COVID-19, foreign direct investment (FDI) commitments declined in FY21. Compared with FY20, FDI commitments declined by 31 percent (or US$1.7 billion) in FY21 (Figure 11). The energy and power sector contributed 82 percent of total FDI commitments in FY21 – mainly attributable to an electricity generation project valued at US$2.5 billion in May. There have been no significant FDI commitments in the months since May (Figure 12). According to data from the Directorate of Investment and Company Administration (DICA), the United Kingdom was the largest investor in FY21, with US$2.5 billion committed for the aforementioned electricity generation project.[2]

[2] It has been reported that the project was to be developed jointly by non-UK based companies Yunnan Provincial Energy Investment Group Co. Ltd., UREC, and Zhefu Holding Group Co. Ltd., and the local firm Supreme Group. This joint venture project, named as "Mee Lin Gyaing Electric Power", involves a firm reportedly listed in the British Virgin Islands.

Figure 11: FDI commitments were lower in FY21 – compared to previous years

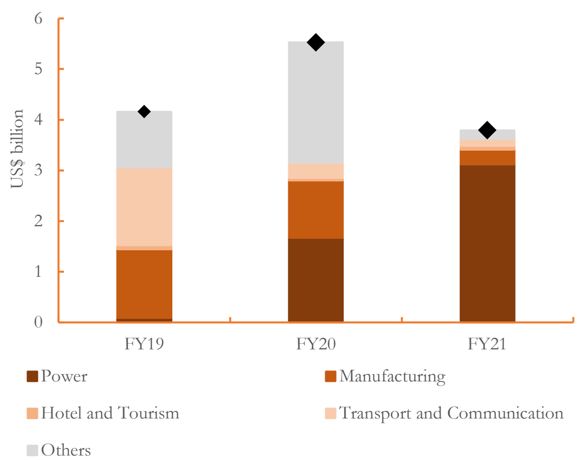
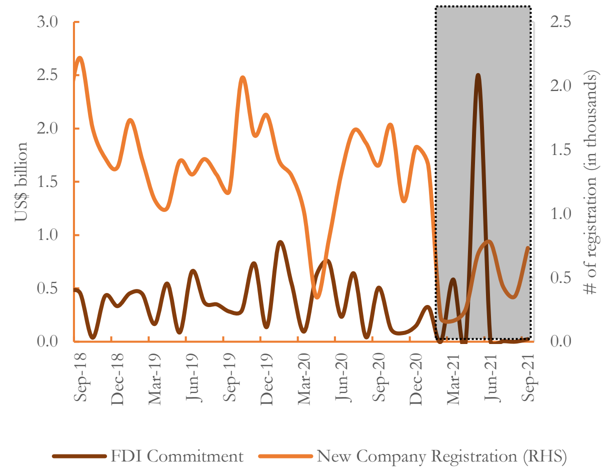


Figure 12: Investment commitments and new company registration declined after February 2021



Source: DICA
Note: Grey shaded area indicates the post-February period in 2021.

The coup resulted in a deteriorating investment and business environment. Since February, international firms have announced a suspension/termination of their operations and changed their investment plans for pipeline projects (Table 2). The list of firms leaving the country has increased throughout 2021 – with Kempinski Hotels and British American Tabaco being the latest additions. A few noteworthy suspensions or divestments include Amata Corporations suspending a US$1 billion real estate project, a Japanese retail giant AEON postponing construction of a US$180 million shopping mall, and a sales of operations by Norway's Telenor to Lebanon's M1 group and Germany's Metro ceasing its operations. An immediate impact of foreign firm departures is a reduction in employment and new job creation. In addition, nearly 30 out of the 122 factories in the Japan-backed Thilawa Special Economic Zone (SEZ) suspended operations temporarily due to declining demand, cash flow problems, and limited availability of raw materials. However, none of those companies had a plan to withdraw investment from Myanmar. The number of new company registrations also declined in FY21 by 43 percent compared to FY20 (Figure 12). While actual FDI data for FY21 is not yet available, it is expected to be lower given the uncertainty in the current environment. Actual FDI tends to trend well below FDI commitments, with actuals ranging from 22 to 67 percent of FDI commitments over the past seven years[3]. The decline in FDI commitments and the departures of international firms point to a weakening business and investment climate after February 2021.

Table 2: List of firms leaving or suspending their businesses in Myanmar in the aftermath of the February 2021 coup

Company/Individual	Origin	Industry	Description
Kirin Holdings Co. Ltd	Japan	Food and Beverage Products	Kirin Holdings Co. Ltd, a Japanese drink giant, terminated its joint venture (JV) partnerships with the military-controlled Myanmar Economic Holding Ltd (MEHL). The company holds 51 percent of Myanmar Brewery and Mandalay Brewery through the JV partnerships.
Lim Kaling	Singapore	Food and Beverage Products	Lim Kaling announced intentions to withdraw his investment from Virginia Tobacco Group, where he is a minority shareholder through RMH Singapore Pte LTD, which owns 49 percent of the firm, with the remainder owned by Myanmar Economic Holding Ltd (MEHL).
Amata Corporation	Thailand	Real Estate	Thailand's Amata corporation, a real estate developer, suspended its US$1 billion real estate project in Myanmar.

[3] Actual FDI inflow data from UNCTAD and approved FDI data from DICA – from 2013 to 2019.

Woodside	Australia	Mining and Quarrying	Woodside suspended its operations and fully de-mobilized its offshore exploration drilling team in Myanmar.
Petronas	Malaysia	Mining and Quarrying	PC Myanmar Limited (PCML), a subsidiary of Petronas, declared Force Majeure at its Yetagun field due to depletion of gas production. It holds 40.9 percent of the Yetagun gas project, along with Myanma Oil and Gas Enterprise (20.5 percent), Nippon Oil Exploration (19.3 percent), and PTTEP (19.3 percent).
Électricité de France (EDF)	France	Mining and Quarrying	EDF suspended a US$1.5 billion hydropower dam project – still at an early stage and operated by a consortium including EDF, the Japanese Marubeni conglomerate, and Ayeyarhinthar, a local conglomerate.
AEON	Japan	Retail and Wholesale	AEON postponed the construction of a shopping mall in Myanmar. The project, worth US$180 million, was approved last year. It is a joint-venture partnership with Japanese AEON owning 70 percent.
Toyota	Japan	Manufacture of Motor Vehicle	Toyota postponed the plan to open a new plant in Myanmar. It announced a plan to build the US$52.6 million production plant in 2019, and it had planned to commence operations of its first production plant in the country in February 2021.
Sembcorp	Singapore	Real Estate	Sembcorp suspended an industrial park project worth US$230 million. The project received investment approval in 2020, but the company will wait until the political situation stabilizes before proceeding.
Hongkong and Shanghai Hotels	Hong Kong	Accommodation	Hongkong and Shanghai Hotels, operator of the Peninsula chain, suspended construction of the Peninsula Yangon project for a year. The project is worth US$130 million. Hongkong and Shanghai Hotels owns 70 percent of the project.
Telenor	Norway	Telecommunications	Telenor announced that it reached an agreement to sell the entire stake of its Myanmar operations to the Lebanese M1 group for US$105 million. M1 Group committed to invest US$300 million in its telecom business acquired from Norway's Telenor, while the approval process of this acquisition from the military-controlled Ministry of Transport and Communications is still uncertain.
KOI	Taiwan	Food and Beverage Service	KOI bubble tea, a Taiwan-based bubble tea shop, closed its operations in June 2021.
Bridgestone Corporation	Japan	Manufacture of rubber products	Bridgestone Corporation, the world's largest tire and rubber company, halted its operations in July 2021.
Auntie Anne's	United States	Food and Beverage Service	After two years in the country, Auntie Anne's, a US pretzel retailer, cased its branches in August 2021.
Metro	Germany	Retail and Wholesale	Metro, a German retail and wholesale giant, announced to cease its operation starting from October 2021.
Myanmar Metals	Australis	Mining and Quarrying	Myanmar Metals, an Australian-based mining company, announced selling its 51 percent stake in the Bawdwin project.
VPower Group	Hong Kong	Mining and Quarrying	Hong Kong-listed Vpower Group announced to pull out of two of its nine power projects.
British American Tobacco	United Kingdom	Food and Beverage Products	A global cigarette giant, British American Tobacco, announced to cease its operations by the end of 2021.
Kempinski Hotels	Switzerland	Accommodation	In October 2021, Kempinski Hotels, a luxury hotel management company headquartered in Geneva, Switzerland, closed its operations in Nay Pyi Taw.

Policy Interventions

The State Administration Council (SAC) has introduced several policy interventions that have impacted trade. Since May 2021, the SAC has implemented several restrictions on imports, such as bans on certain imported consumer products such as food and beverage items through land border trade and the suspension of passenger car import permits. These interventions were reportedly introduced to reduce pressure on Myanmar Kyat depreciation and promote local businesses. The SAC has also issued notifications on how exporters must manage their foreign exchange earnings. Significant interventions include:

- temporary import bans on beverages, instant coffee, coffee mix, tea mix, condensed milk, and evaporated milk through land borders were introduced starting from May 2021;
- temporary import bans on motorcycles through land border starting from May 2021;
- temporary import bans on soap, detergent, and toothpaste through land trade were introduced starting from June 2021;
- limitations on the duration that exporters can hold export earnings in their foreign currency accounts were introduced in September and October 2021:
    - in September 2021, the Central Bank of Myanmar (CBM) issued a notification no. 33/2021 states that exporters were allowed to hold their export earnings in their foreign currency accounts for only four months and were required to sell to banks or money exchangers at the market price. After four months, exporters must use their balance in foreign currency accounts or sell it to banks and money exchangers at the prevailing market price; and
    - in October 2021, the CBM further issued another notification (no. 35/2021) that further reduced the duration that exporters can hold export earnings from 4 months to 30 days.

- passenger car import permits were suspended starting from October 2021