HIGH FREQUENCY INDICATOR REPORT | № 2

Mired in Uncertainty

The trend of high frequency indicators in Myanmar (December 2021-January 2022)

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Introduction

On 1st of February 2021, the Myanmar military staged a coup d'état, declaring a state of emergency and the commander-in-chief purporting to take all executive, legislative and judicial power. The events that ensued in the wake of the military takeover exacerbated the already challenging economic situation, driven by the ongoing COVID-19 pandemic. The civil disobedience movement and widespread strikes meant that many workers could not or refused to attend to their jobs, effectively bringing to a halt the production in many sectors (manufacturing, in particular, which, until the military takeover, significantly contributed to the overall Myanmar GDP). This was coupled with a gradual withdrawal of foreign investors, depleting the foreign direct investment, which significantly supported Myanmar's growth over the last few years. Moreover, initial evidence pointed out to cash shortages, log-jammed transport and logistics networks, rising fuel prices and inputs shortages, further exacerbating the overall macroeconomic situation in the country. As a result, the international financial institutions forecasted up to eighteen percent contraction of the economy for 2021. Nevertheless, an overview of the economic performance of Myanmar on a more frequent and sectoral-differentiated basis is scant, not least due to lack of data on high frequency indicators to measure the full extent of the crisis. To meet this need, UNDP has established a mechanism to collect such data through an innovative approach based on panel expert data, including business owners and business leaders. This report presents the second round findings of this initiative covering the period December 2021-January 2022.

Methodology

The report produced for the first round of the indicators includes a detailed methodology that was employed in the conceptual design, data collection and analysis of the high frequency indicators (HFI). More specifically, in the process of data collection, we have recruited a panel of one hundred experts (e.g., business owners, leaders of business associations) to solicit information about the rate of economic activity (e.g., production, demand, employment) in their relevant sectors. In selecting the panel, we paid particular attention to its representativeness, by including respondents from all of Myanmar's Regions and States. Furthermore, we have ensured that the sectors which are the biggest contributors to Myanmar's value added (e.g., manufacturing - with a special focus on garments, agriculture, construction) are well represented. Finally, we followed a mixed-method approach, consisting of both quantitative and qualitative questions. The data collection occurred between end of December 2021 and beginning of January, 2022.

With that said, there are couple of amendments that were made between the first and second round of the data collection process. First, going beyond just providing a snapshot of the economic activity in the country, in this round of the HFI we specifically focus on the ports/logistics sector (while still providing a summary of the changes in economic activity on a sector by sector level). In order to achieve this objective, the panel of one hundred experts was replenished to include experts from the ports sector (e.g. logistics companies). Second, the qualitative survey was updated to include additional probes into the overall situation in the ports/logistics sector as well as its spill-over effect on the rest of the sectors.

This report is organized as follows. In the next section we provide an overview of the economic situation in the port sector, followed by a section which explores the impact of the economic situation in the ports sector on other parts of the economy (e.g. garment manufacturing, other manufacturing and agriculture). Building on the findings from the first round of HFI data collection, the last part provides a snapshot of the economic activity in the main sectors of Myanmar economy over the period Nov/Dec, 2021.

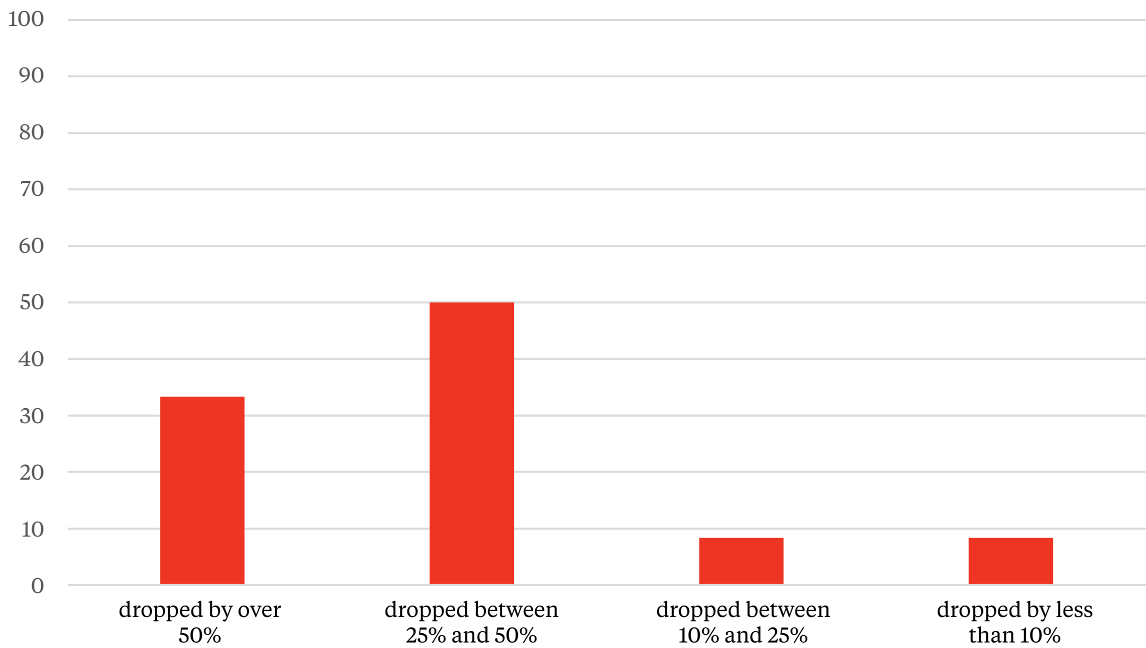
Ports in Myanmar – what has happened since 1st of February, 2021

The overall situation in the ports sector – a story of ships and containers

Since 1st of February there has been a significant reduction in number of ships as well as the overall traffic in the Myanmar ports. Qualitative interview with a Yangon port representative indicates that before the coup, the port handled about 25 ships per month. Between February and May 2021 that number has dropped to 7, while gradually increasing to 20 over the last few months. However, it is still lower compared to the number of ships handled prior to the political crisis. Overall, as suggested by the data form our quantitative survey, about half (45%) of respondents with sufficient knowledge in ports dealings, reported reduction in ports traffic. More specifically, as Chart 1 shows, among experts reporting drop in port traffic, a fairly high share reported a sizeable drop (of over 25%).

The reduction in number of ships has resulted with under-utilization of ports capacity. Our panel experts indicated that each of the 5 ports in Yangon has daily container handling capacity of between 500 – 700 with some ports handling about 700 containers a day during high season and prior to the coup. However, these numbers have dropped by about 40% since 1st of February (with some experts pointing an even sharper decrease of about 60%). One of the interviewed experts stated that they have closed their offices for about two months (February 2021-April 2021), resuming work only for most urgent cases. And while there has been some slight increase (of about 5-10%) in the number of containers in December, the ports have not reached the capacity numbers registered prior to the coup. This slight increase in traffic, however, is mostly due to the need to complete business before the Christmas holiday season, rather than a genuine improvement in the sector. Evidence from the qualitative interviews indicate that one of the Yangon ports handled about

Chart 1 Reduction in port traffic over Nov/Dec, 2021, % of respondents who reported reduction in traffic



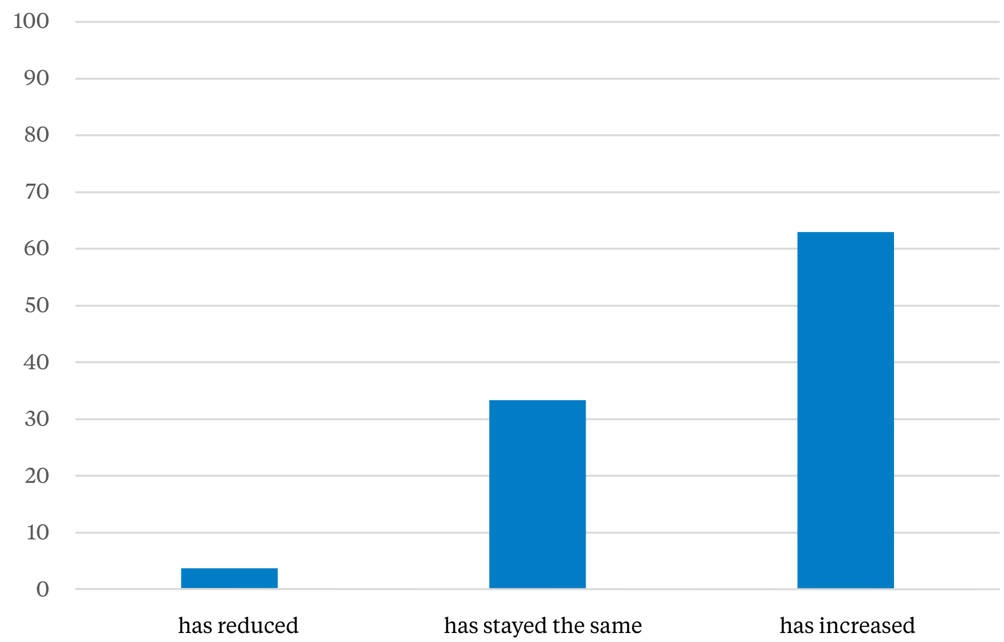
1,700 TEU (twenty-foot equivalent unit) in the autumn 2021, which has steadily increased to 2,000 TEU in December, 2021. However, in January 2022, the flow has slightly dropped to 1,200-1,500 TEU and further decrease is predicted in February 2022 due to the Chinese New Year.

The reduction in number of ships and handling capacity at the ports has resulted with two major bottlenecks. First, the imbalance between supply and demand of containers had led to challenges in booking places on ships. As indicated by the panel experts, when spaces cannot be booked, containers must be kept at the port until the arrival of another ship, leading to higher costs. Second, freight charges have soared to a record high level. About two years ago, a 40 feet container to China would cost us about 600 – 700 USD only, now it can hardly be booked even at 3,500 USD. This is further compounded by the fact that some shipping lines want to avoid Myanmar as a destination altogether, due to security concerns. This, inevitably, is associated with higher freight insurance premiums, further increasing the total cost. It is also worth emphasizing that some of these findings are consistent with a recent World Bank report on the outlook of the Myanmar economy, which also suggests shortages of shipping containers. Moreover, as the report indicates, the imbalance of imported and exported containers has resulted in a shortage of containers and consequently higher charges for exporting container freight[1].

The reduction in handling capacity and number of ships has been coupled with additional costs of doing business. For example, with the curfew in place, working hours had to be adjusted. In the past, container/truck loading/unloading could be done at night. However, now that trucks cannot be operated during curfew hours (10pm – 4am), they have to wait past the curfew hours for loading the next day. All of this results with longer lead time and higher costs. In the words of one of the interviewed experts, the port processes now take 50% longer time than it used to (see Chart 2, for example). Furthermore, since a few months ago, all traded goods must be photographed, and the photos must be submitted to officers in charge at ports. Thus, it takes 2-3 more hours to complete the process.

There are, furthermore, hidden charges associated with handling goods at ports. While in the past, the clearance process used to be fully-automated and very smooth and efficient due to intensive reforms over the past few years, now it is only partially automated, leaving more room for corruption.

Chart 2 Change in port turnaround time, % of respondents



1 World Bank (2022). "Myanmar Economic Monitor", January 2022.

The reasons: Covid-19 or the military takeover, or both?

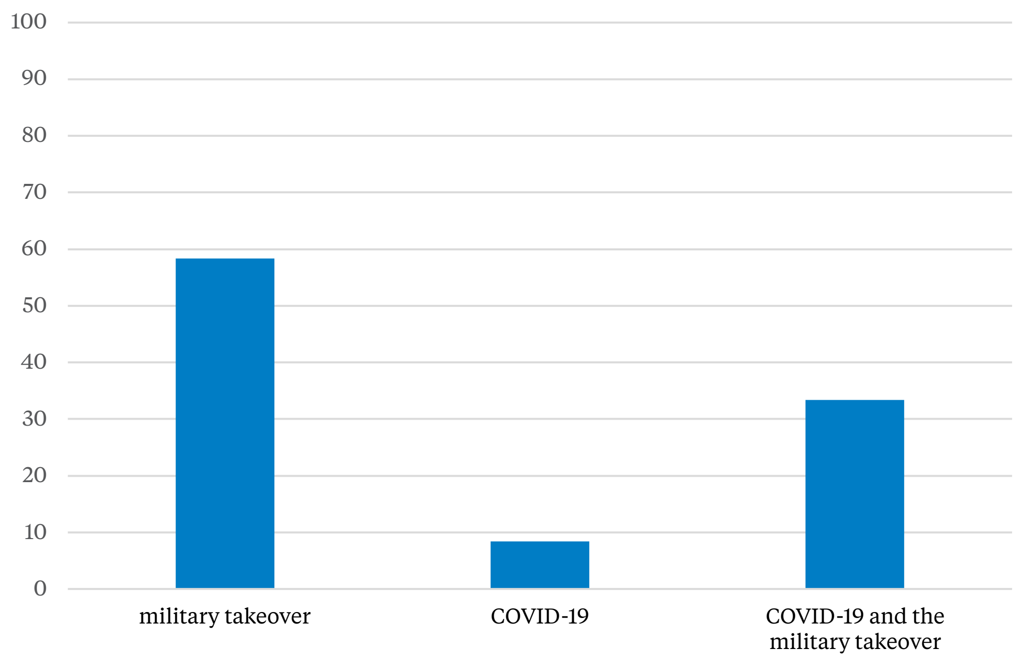
The overall shrinking of the Myanmar economy is what lies behind this reduction in handling capacity of the ports. In addition, traders have reduced their trade volumes due to the fluctuating exchange rates, which further impacts upon the overall port traffic. Moreover, as recently announced by the Ministry of Commerce, importing licenses are being introduced for goods that formerly did not need import licenses, leading to longer waiting time and higher costs.

When asked to compare the effect of Covid-19 to that of the coup d'état, experts state that the events in the wake of 1st of February were more impactful (see Chart 3).

Implications in the short and (possibly) long run

Most of the experts consider that the political stability is a *sine qua non* for improvement in the overall port situation in the country. However, despite that some of our panel experts call for trade financing and trade policy relaxation, their outlook, in the short-run is bleak. For example, as it has been recently announced, many of the non-license items will now need license to be imported, which will inevitably impact upon the overall outlook of the port business. Many other experts do not see a full recovery in the short-run. Some of them fear that there will be significant medium-to-longer run implications of the ongoing situation.

Chart 3 Main reasons that impact upon the overall ports situation, % of respondents



Impact of the situation in ports on other sectors

Before presenting the performance of the main sectors of Myanmar economy, in this section we briefly discuss the impact of the ports/logistics situation on three specific sectors: garment manufacturing, other manufacturing as well as agriculture.

Garment manufacturing

The ongoing challenges associated with the work of the ports (and logistics more generally) have had an impact on other sectors, most notably the garment manufacturing. The expert panel stated that shipping delays have impacted the work of the firms that operate in the garment manufacturing sector (which shows some signs of stabilization, further described in the next section). In addition, there have been various changes to the documentation process which, in turn, have increased the overall cost of doing business. For example, a recent policy change requires import license for many items which did not require a license in the past, resulting with red-tape and delays. Other challenges mentioned by the panel includes the reluctance by some buyers to place orders from Myanmar during the early months of the coup.

Other manufacturing

As in the case of garment manufacturing, the increase in overall turnaround time has had an impact on the work of the firms in the rest of the manufacturing sector (the outlook of which we discuss in the next section). In addition, shipping challenges with a shortage of container space and skyrocketing costs, have caused some businesses to cancel sales contracts. More specifically, as shipping companies have to consider risk factors to enter Myanmar, logistics costs have increased by three- to fourfold posing challenges to both exporters and importers. As suggested by the panel, while the two shocks (COVID-19 and the coup) have acted jointly, it is the effect of the coup which outweighs that of COVID-19.

Agriculture

The ongoing situation in port business is also impacting agricultural production (which also shows some signs of stabilization as further described in the next section). More specifically, as suggested by the panel of experts, political instability, the increasing price of agricultural inputs and fuel as well as non-tariff barriers such as container insufficiency, the limited number of ships available for cargo shipments are the challenges for the agriculture sector (including agricultural trading). In particular, the panel has pointed to the following obstacles: (a) shortage of shipping containers; (b) container carrier insufficiency; (c) limited number of shipyards. While (due to the closure of the China-Myanmar border), many firms have re-oriented their imports/exports though sea route, lower number of ships operating at the Myanmar ports results with difficulties in booking space, ultimately leading to higher cost of shipping.

Performance of Myanmar's economy main sectors: An Overview

Garment manufacturing

The results from the quantitative interviews (see Panel 1 below) suggest that things in the garment manufacturing have been slowly stabilizing. For example, about a third of experts from our quantitative panel suggested that production has remained the same, relative to Nov/Dec 2021. Moreover, as evidenced by the qualitative surveys, some respondents state that production could even go up during February-March 2022 period, as garment factories will be closed in April for Thingyan. As Panel 1 and as the qualitative interviews reveal, however, there is a split in production between Yangon and the rest of Myanmar. As the majority of factories have resumed, some of them (especially the Chinese owned and those outside of Yangon) have shifted to easy and large quantity (and thus higher paying) orders. Yangon remains more vulnerable than the rest of the regions.

Panel 1 also reveals stabilization in the overall employment, with two thirds of respondents stating no change in employment in their firm compared to Nov/ Dec 2021. However, garment employers remain wary. Some of them are hesitant due to the political situation and the pandemic which could drive down demand and disrupt the production process. Thus, employers have resorted to using two additional measures: increase in daily wages (about 5% increase as indicated by some of the interviewed experts) as well as hiring temporary workers. These findings are in sync with a recent macroeconomic outlook published by the World Bank[2].

The World Bank indicates some degree of stabilization in the manufacturing sector (thus including garment manufacturing) can be inferred, albeit at much lower levels of output and employment than was the case in mid-2020[3].

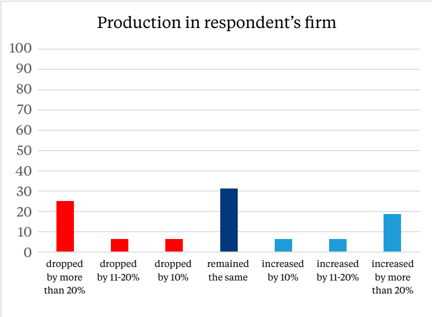
This 'bottoming out' seen in the main indicators above, is also reflected in the balance of payments indicators (see Panel 2). Garment exports have steadily recovered after falling in the immediate aftermath of the February coup, with a corresponding increase in the import of cut-make-pack (CMP) products over the same period[4]. In addition, there is some hopeful outlook for the sector among the interviewed experts. While some of the experts consider that exports of garments manufacturing will go up, the effects of some of the orders are yet to be seen in the January-March 2022 period. In the meanwhile imports have also increased because of increasing orders and using of sea routes for importing products from China.

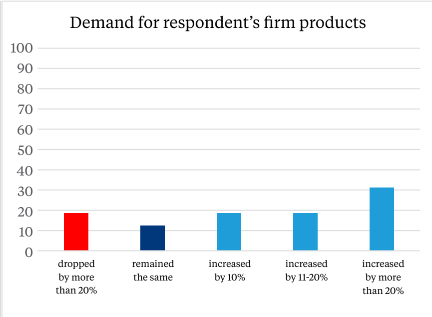
Finally, the results from the qualitative surveys reveal additional reasons for this stabilization in the garment manufacturing. Myanmar's garment production is still competitive because of a few reasons. First, the minimum wage is much lower compared to some of the countries in the region. Second, the ongoing weakening of the kyat further reduces the overall cost of the garment products. This allows firms to increase the quantity of goods sold, thus offsetting the high logistics fees and the rising input prices.

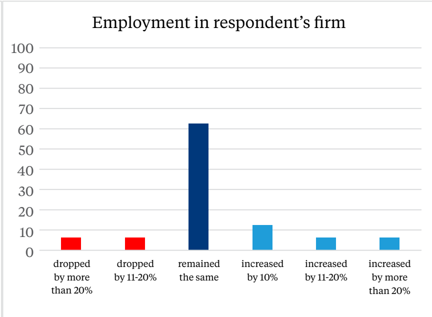
2 World Bank (2022) Myanmar Economic Monitor, January 2022.
3 World Bank (2022). "Myanmar Economic Monitor", January 2022.
4 World Bank (2022). "Myanmar Economic Monitor", January 2022.

Panel 1 Myanmar garment manufacturing: change in main indicators relative to Nov/Dec, 2021, % of respondents

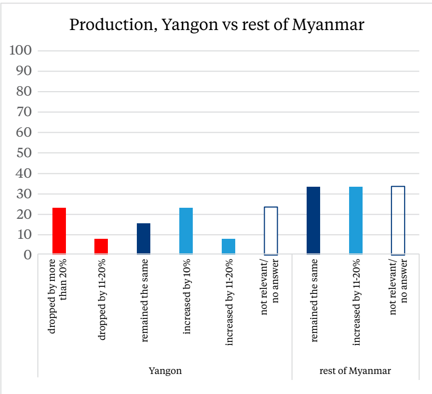
Production, demand and employment changes in respondent’s firm since Nov/Dec, 2021, % respondents

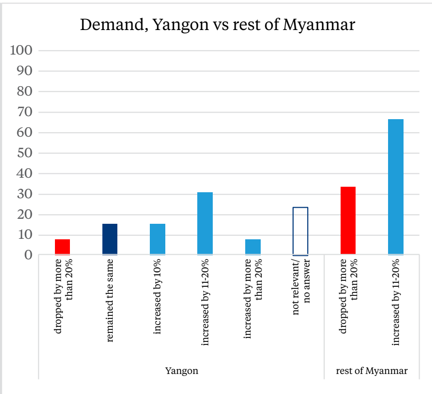


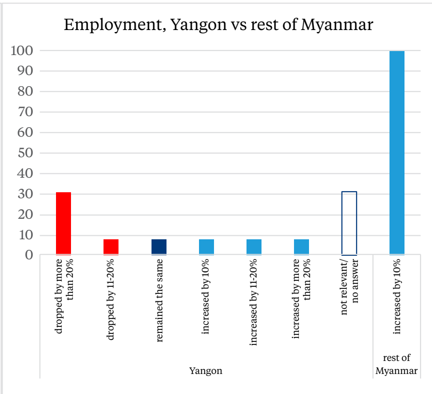




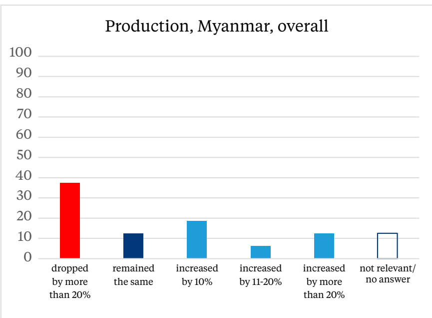
Production, demand and employment changes in Yangon vs. rest of Myanmar since Nov/Dec, 2021, % of respondents

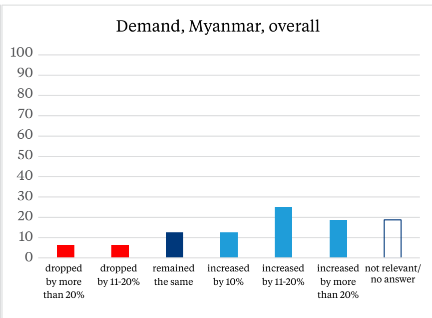


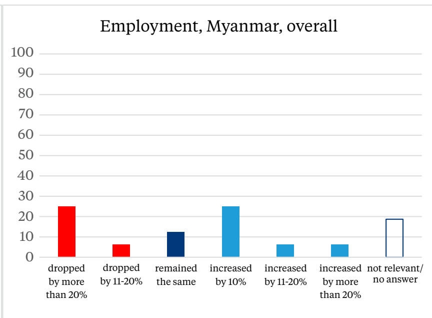




Production, demand and employment changes in Myanmar, since Nov/Dec,2021, % of respondents

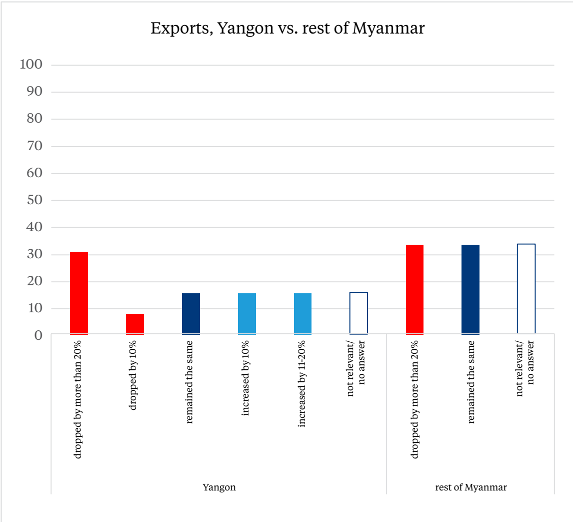


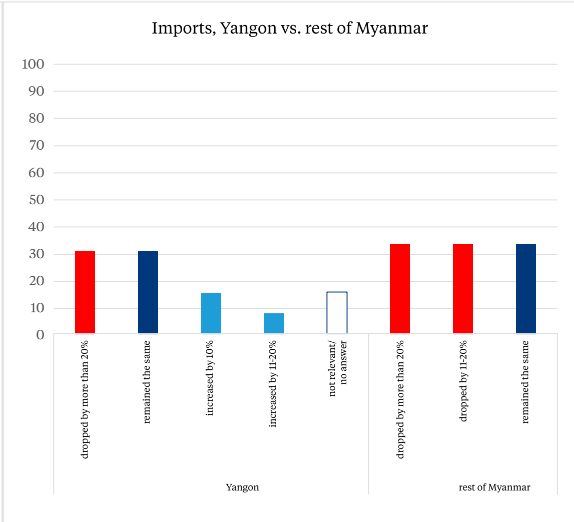




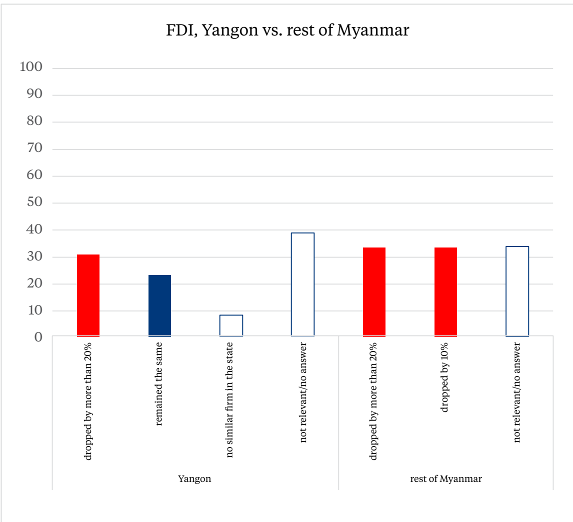
Panel 2 | Myanmar garment manufacturing: change in BoP indicators relative to Nov/Dec, 2021, % of respondents

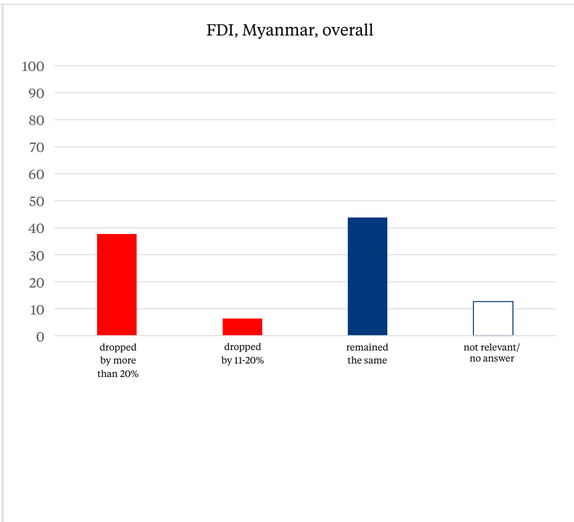
Exports and imports change since Nov/Dec, 2021, % respondents





FDI change since Nov/Dec, 2021, % respondents





Other Manufacturing

Consistent with the findings for the garment manufacturing, there is overall incipient stabilization in the rest of the manufacturing sector (see Panel 3). Recent manufacturing data indicate that the rate of contraction in the sector has continued to ease since July, with output and employment now stabilizing, albeit at low levels[5,6].

In addition, manufacturing exports have recovered in recent months. Some border crossings with China have reopened although cross-border trade remains subject to restrictions. Foreign direct investment (FDI) commitments have risen modestly, as well as the number of company registrations (see Panel 4). Nevertheless, there are some persisting challenges in the sector. First, not enabling free flow of people,

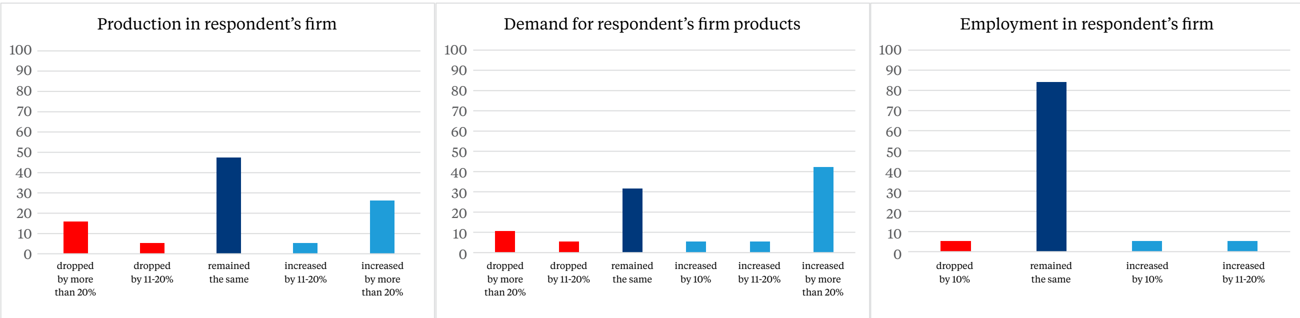
5 World Bank (2022). "Myanmar Economic Monitor", January 2022.

6 While there are obvious complementarities to the work done by the World Bank and the HFI, there are two particular points in which the HFI add additional value to understanding short-term dynamics to the macroeconomic picture in the country. First, they are of higher frequency compared to the World Bank Economic Monitor. Second, in each of the specific issues we go into more in depth analysis of a specific sector.

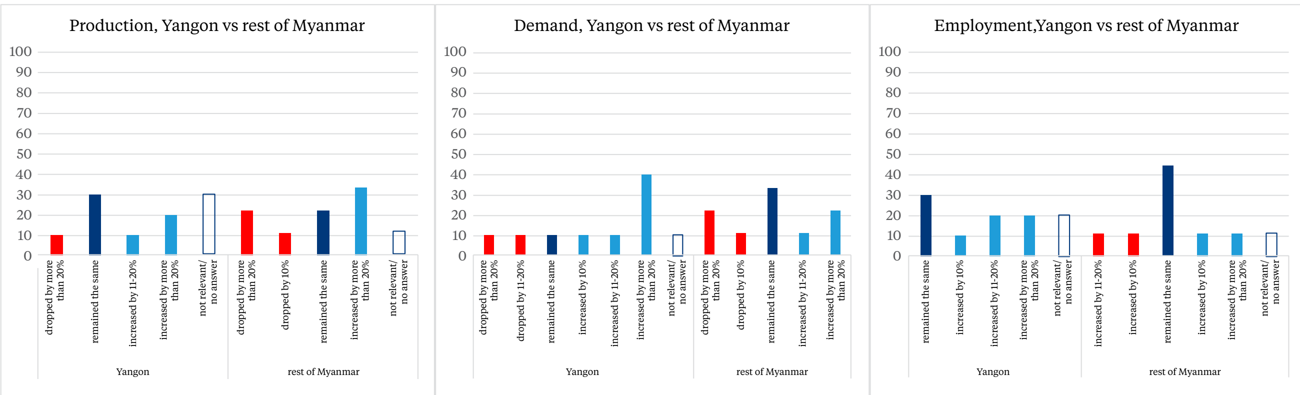
cars and goods occasionally amid political instability impacts upon the overall production. Second, there is particularly large illegal trade, which has been increasing since the coup d'état. Third, as further suggested by the HFI qualitative survey, there is some growing evidence of export earning controls by the government. More specifically, as per the most recent announcements, export businesses are able to keep their dollar earnings for two weeks only, requiring to import the same value or sell them to importers. If not, the dollars will have to be sold to banks which determine the exchange rate always lower than the market price. This requirement indirectly encourages the grey market because, as suggested by our qualitative panel, exporters through illegal channels do not need to follow such terms. Finally, issues around the inefficient banking system and cash crunch issues continue to impact the manufacturing sector.

Panel 3 Myanmar other manufacturing: change in main indicators relative to Nov/Dec, 2021, % of respondents

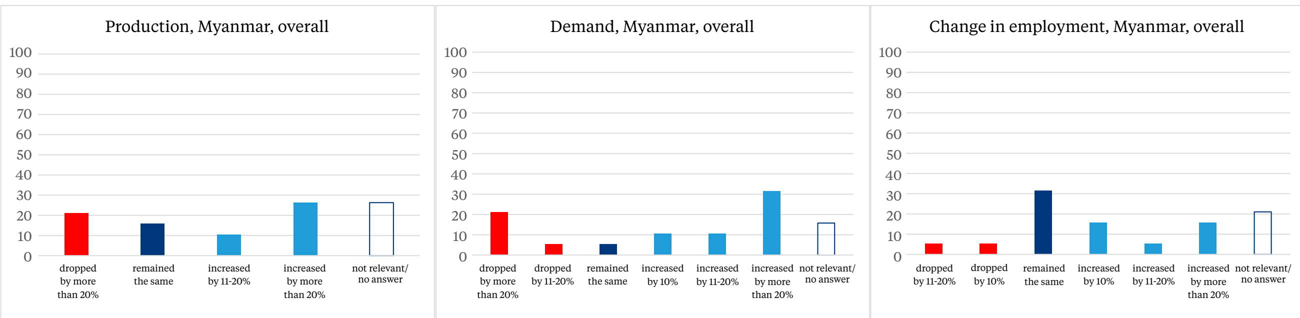
Production, demand and employment changes in respondent's firm since Nov/Dec, 2021, % of respondents



Production, demand and employment changes in Yangon vs. rest of Myanmar since Nov/Dec, 2021, % of respondents

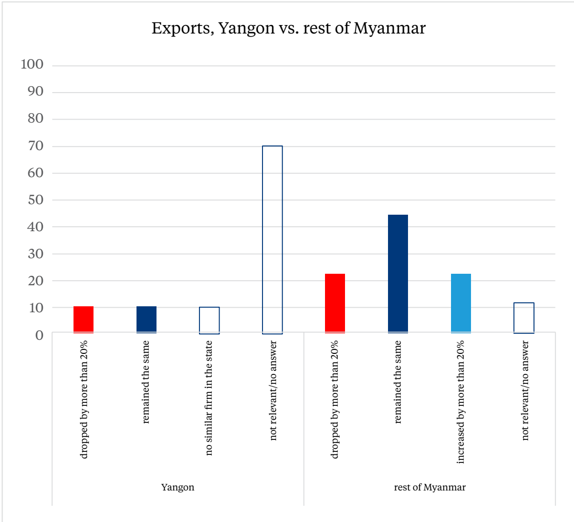


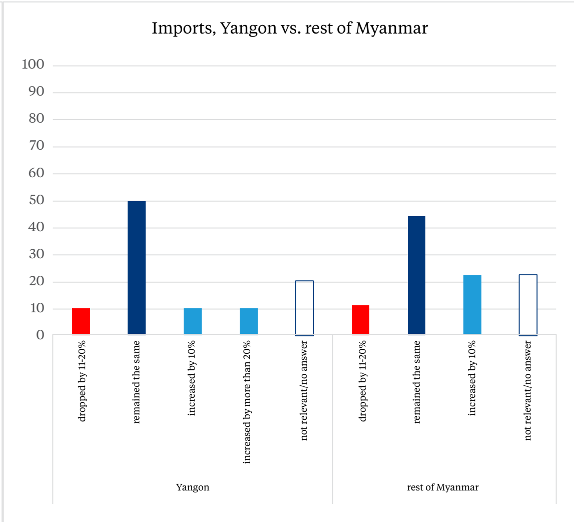
Production, demand and employment changes in Myanmar, since Nov/Dec, 2021, % of respondents



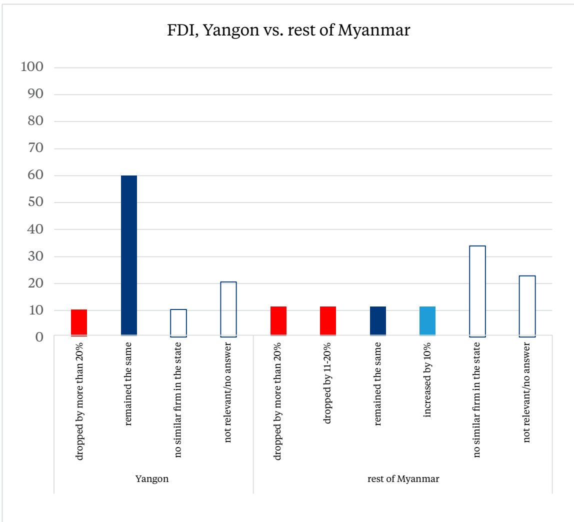
Panel 4 Myanmar other manufacturing: change in BoP indicators relative to Nov/Dec, 2021, % of respondents

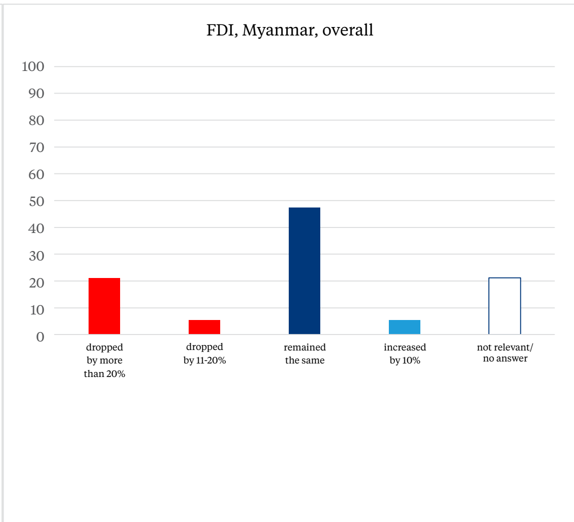
Exports and imports change since Nov/Dec, 2021, % respondents





FDI change since Nov/Dec, 2021, % respondents





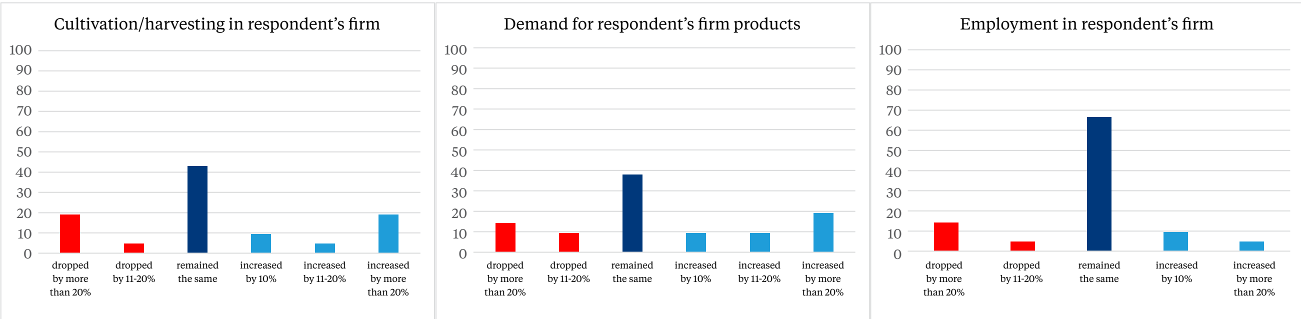
Agriculture

As indicated by the quantitative survey (see Panel 5), there have been some signs of stabilization in the agricultural sector, although the panel experts expect that the production is going to be lower compared to the 2020 output level. In other words, after the initial reduction (further elaborated in round 1), there are some signs of rebound, including in the exports and imports of agricultural products (see Panel 6). Some of the reasons for this stabilization of indicators in the agricultural sector include: (a) a slight increase in demand for local producers; (b) export orders from new buyers. Fortunately, some local traders received maize orders from the new buyers (e.g. Philippines); (c) export contracts to Thailand - Some local companies have signed maize export contracts with Thailand. According to the negotiated contracts, maize will be exported to Thailand starting from February 2022 because Myanmar corn exports are exempted from tax between February and August 2022.

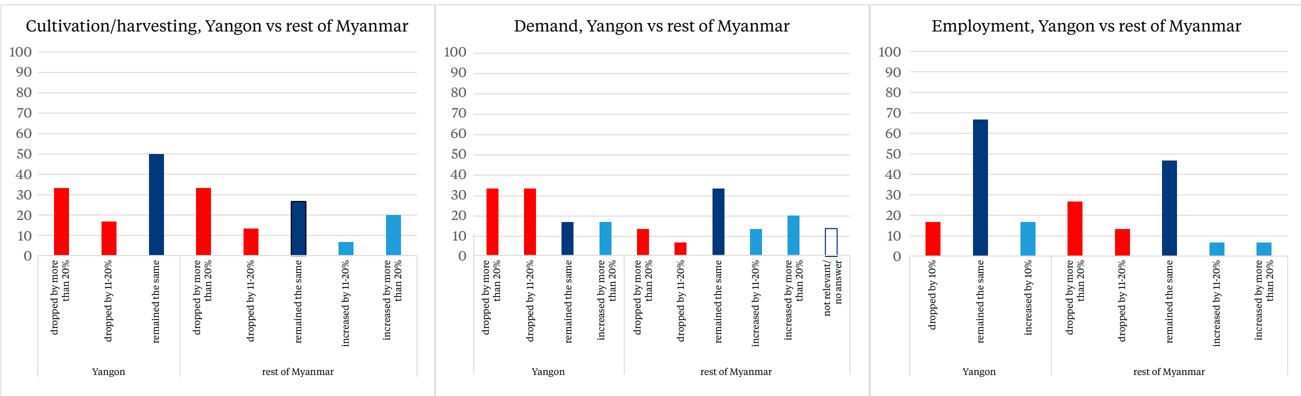
Nevertheless, the agricultural sector is continuously impacted by the regional instability and closure of border gates. The low price for agricultural outputs as well as the increase in prices of inputs (including fuel and fertilizers) is continuing to plague the agricultural production in the country. The panel suggested a few remedial measures. According to one of the interviewees, financial support such as agricultural loan as well as providing agricultural inputs would be the best solutions. Relying on use of organic fertilizers or natural fertilizers will probably be the solution in the long term. The use of natural fertilizers such as cow dung is expected to lead to lower production costs and the use of organic fertilizers will reduce the risk of nutrient burn in soil. Moreover, it would be beneficial to both farmers and traders if fertilizers can be produced locally in Myanmar[7].

Panel 5 Myanmar agriculture sector: change in main indicators relative to Nov/Dec, 2021, % of respondents

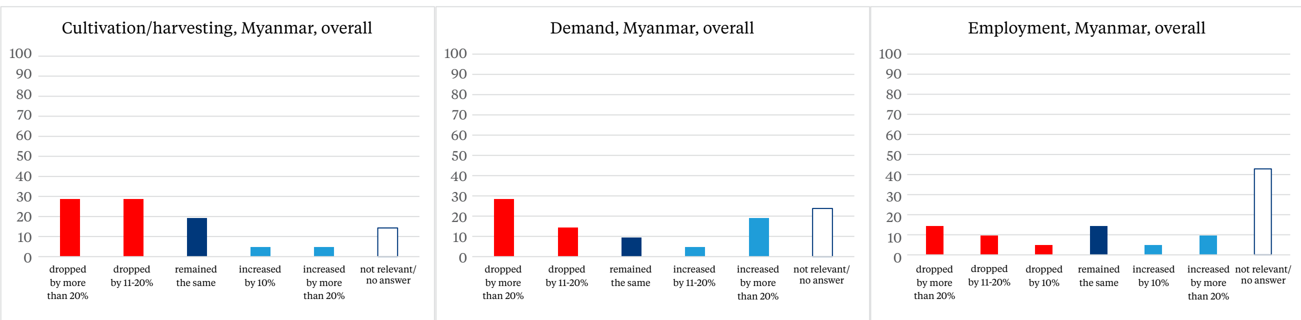
Cultivation/harvesting, demand and employment changes in respondent's firm since Nov/Dec, 2021, % respondents



Cultivation/harvesting, demand and employment changes in Yangon vs. rest of Myanmar since Nov/Dec, 2021, % of respondents



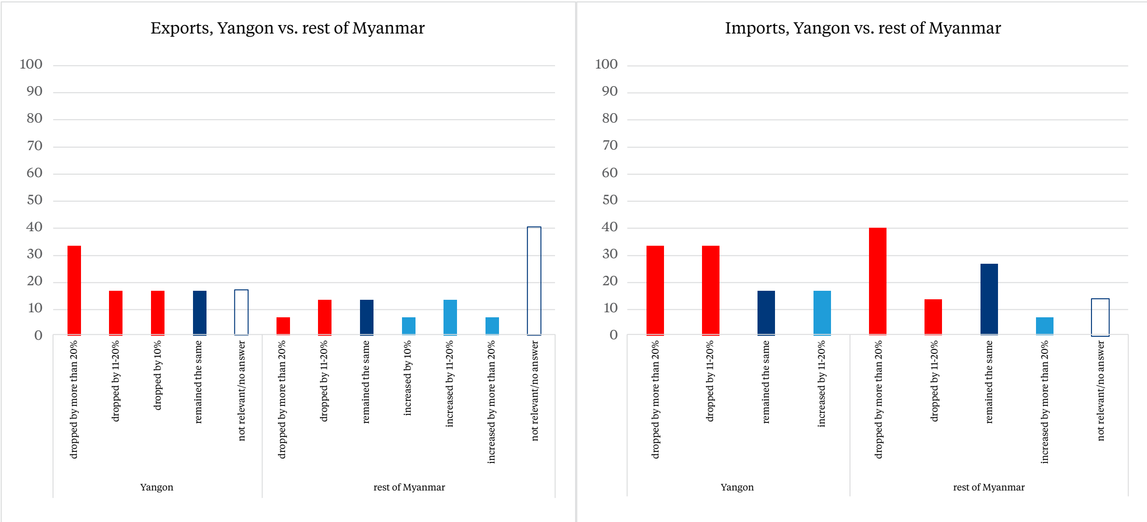
Cultivation/harvesting, demand and employment changes in Myanmar, since Nov/Dec, 2021, % of respondents



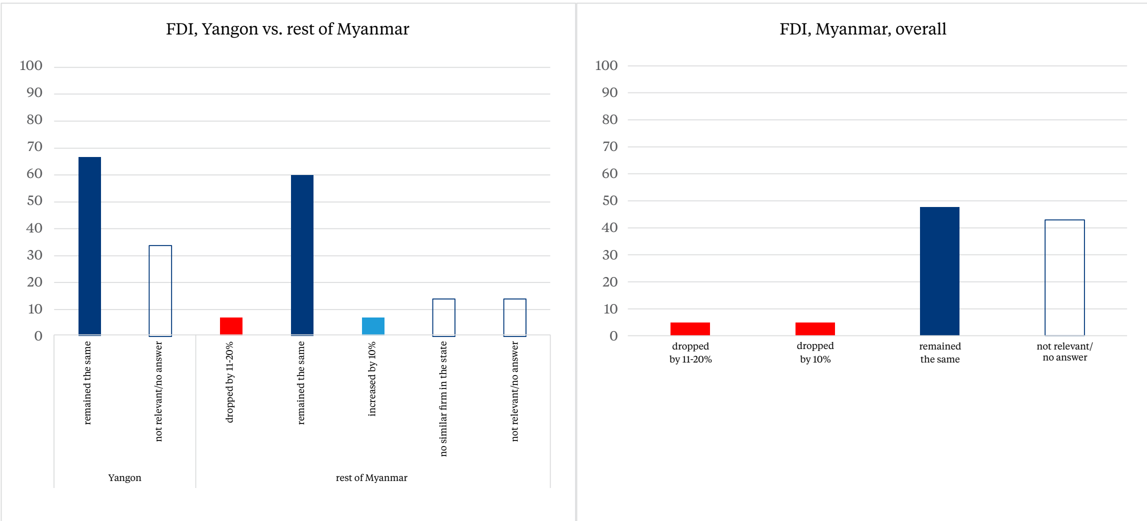
7 We ought to emphasize that one of the objectives of the HFI series is to also provide an account of the panel experts' expectations for the short and medium term (as well as their suggested way forward). Thus, it is not that the report is making this recommendation per se, but it's rather what the interviewed experts think the way forward should be.

Panel 6 | Myanmar agriculture sector: change in BoP indicators relative to Nov/Dec, 2021, % of respondents

Exports and imports change since Nov/Dec, 2021, % respondents



FDI change since Nov/Dec, 2021, % respondents

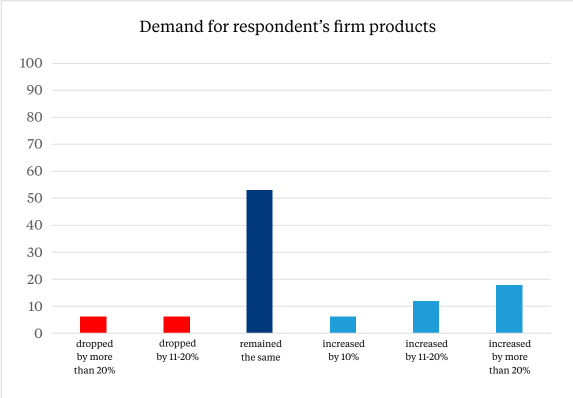


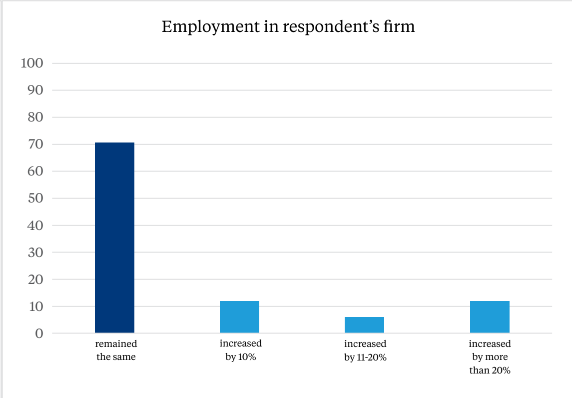
Infrastructure

Some stabilization is also evident in the construction sector (see Panel 7 and Panel 8). After a long pause, some construction companies have resumed their operations of some minor projects such as residential buildings. However, the construction projects funded by the foreign investment have been halted by the political instability. Moreover, the infrastructure companies are hesitant to resume the ongoing projects or start a new project due to the fluctuating prices of raw materials that are to be imported. In addition, although the Government has called many construction tenders within this mini-budget year (from October 2021 to December 2022), the infrastructure companies still hesitate to resume or start the construction and infrastructure projects owing to the political instability, banking limitation and cash crunch issues, and the fluctuating prices of raw materials that are to be imported. Overall, political instability, safety concerns, banking limitations, cash crunch issues and the fluctuating raw material costs are the main reasons that have hindered the operations in the construction industry. More specifically, cash crunch is still the most pressing issue for the construction industry.

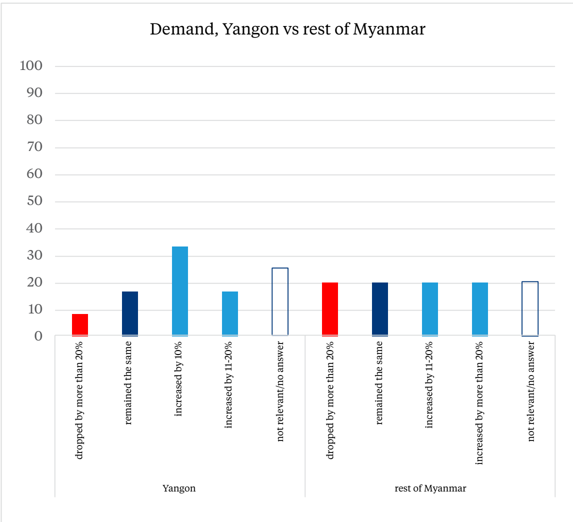
Panel 7 Myanmar infrastructure sector: change in main indicators relative to Nov/Dec, 2021, % of respondents

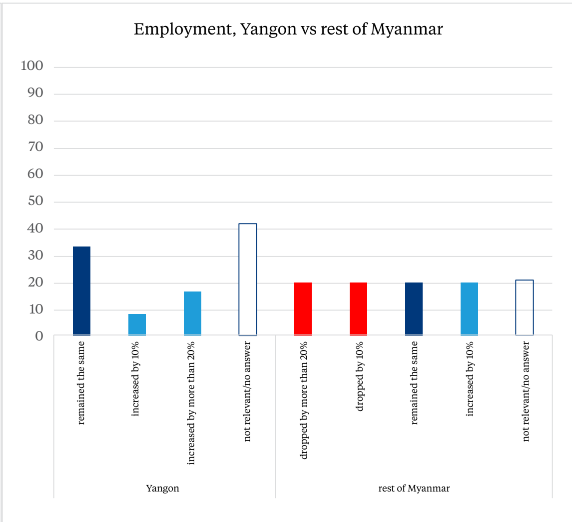
Demand and employment changes in respondent's firm since Nov/Dec, 2021, % respondents



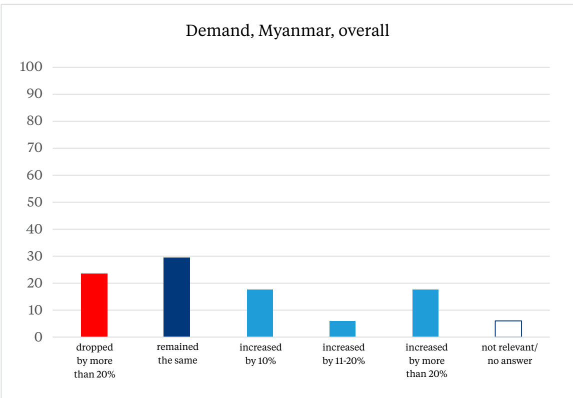


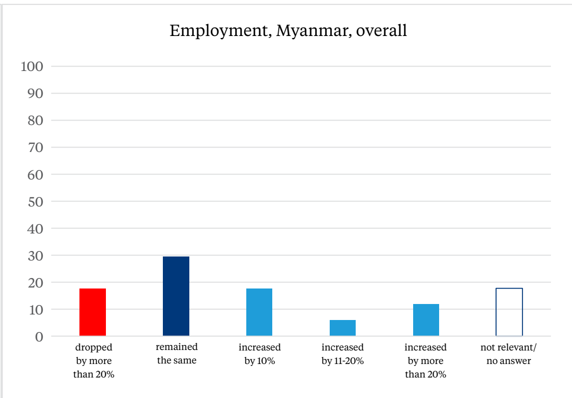
Demand and employment changes in Yangon vs. rest of Myanmar since Nov/Dec, 2021, % of respondents





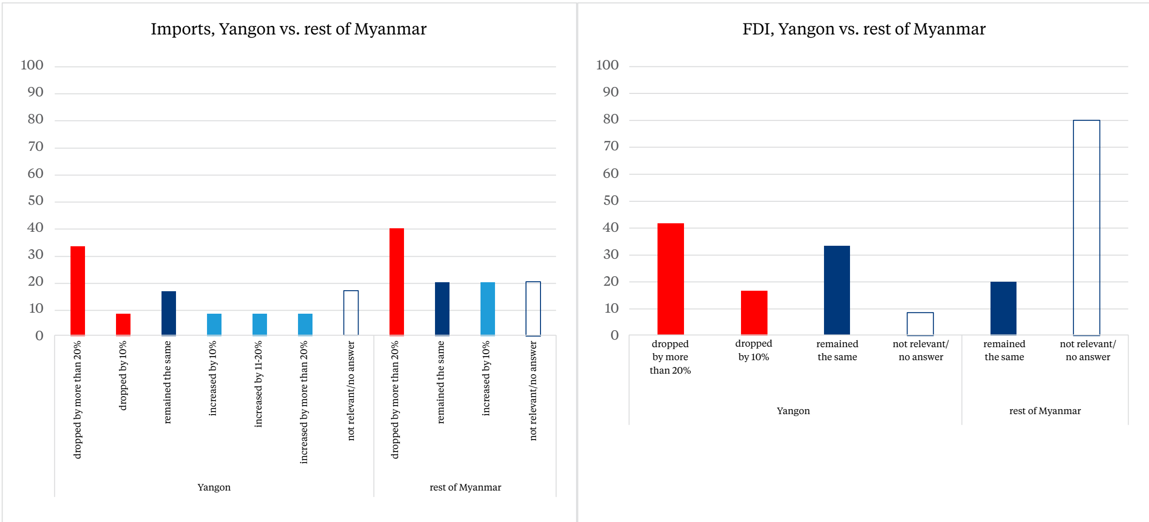
Demand and employment changes in Myanmar, since Nov/Dec, 2021, % of respondents





Panel 8 Myanmar infrastructure sector: change in BoP indicators relative to Nov/Dec, 2021, % of respondents

Imports and FDI change since Nov/Dec, 2021, % respondents



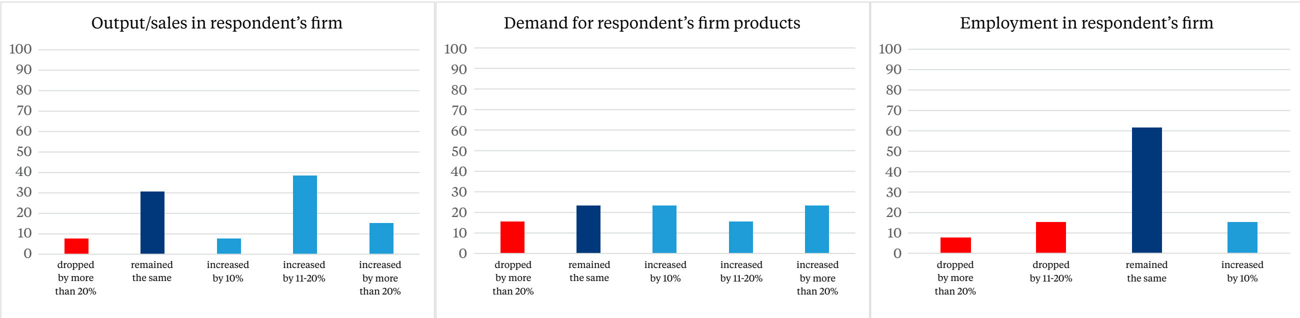
Transport

The stabilization is also evident in the transport sector, as well (see Panel 9 and Panel 10). However, as indicated by the qualitative survey, there are issues that remain such as political and regional instability, banking limitations and cash crunch issues. Moreover, there is no guarantee that the goods will be delivered safely from place to place. People are still hesitant to travel due to the armed conflicts and army checkpoints along the way.

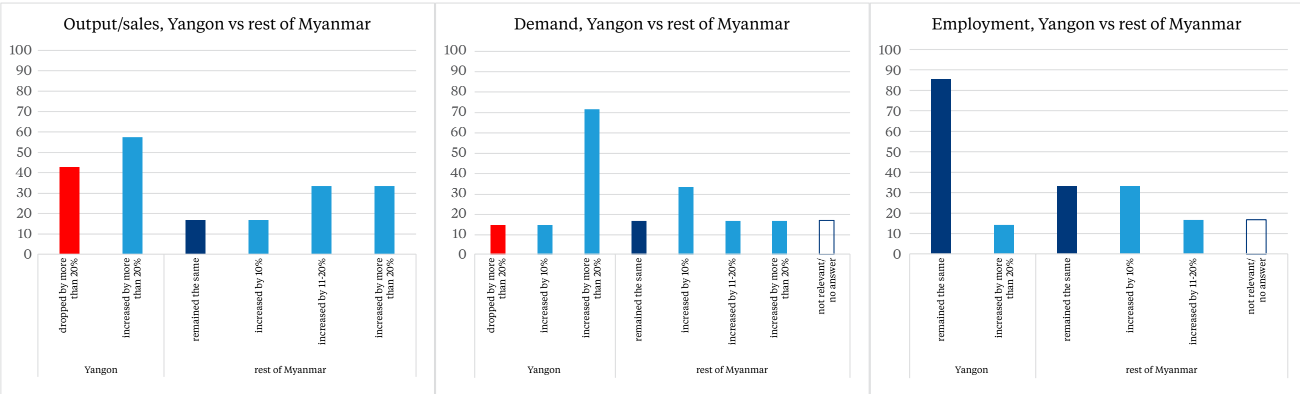
Against this background, some transport businesses try to find a solution. Some of them started accepting bank payments without additional charges for passenger tickets as well as cargo transport. However, with the political instability and curfew still in place, many businesses are not able to resume their business optimally. Due to road insecurity, businesses are not fully able to resume most of their routes.

Panel 9 Myanmar transport sector: change in main indicators relative to Nov/Dec, 2021, % of respondents

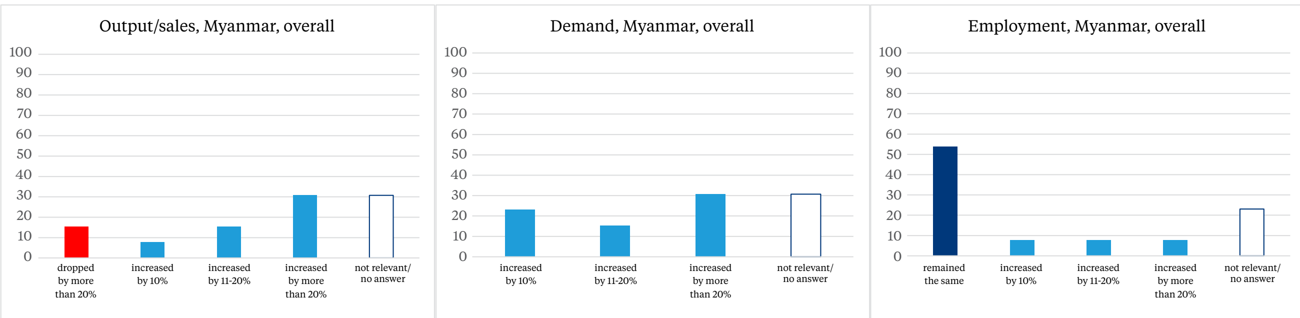
Output/sales, demand and employment changes in respondent's firm since Nov/Dec, 2021, % respondents



Output/sales, demand and employment changes in Yangon vs. rest of Myanmar since Nov/Dec, 2021, % of respondents

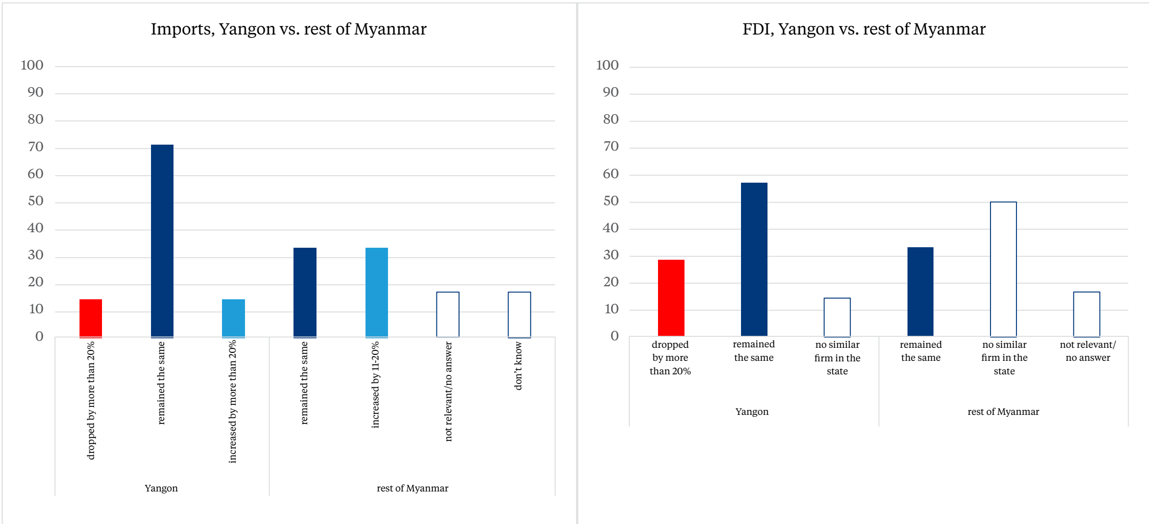


Output/sales, demand and employment changes in Myanmar, since Nov/Dec, 2021, % of respondents



Panel 10	Myanmar transport sector: change in BoP indicators relative to Nov/Dec, 2021, % of respondents

Imports and FDI change since Nov/Dec, 2021, % respondents

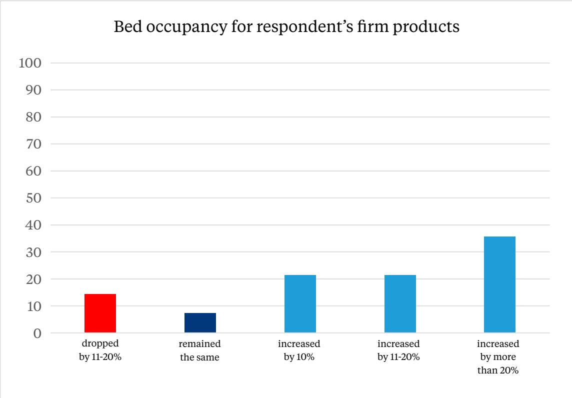


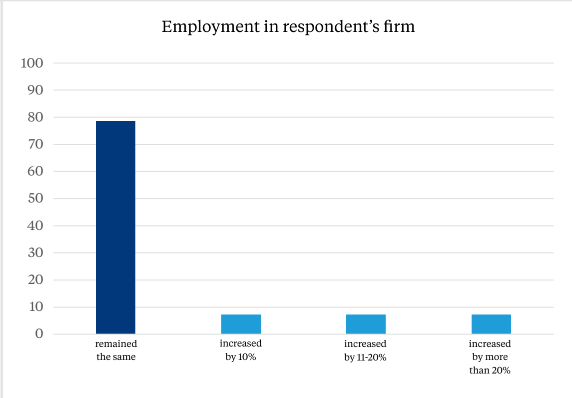
Tourism

Overall, tourism is the most vulnerable sector with the ongoing COVID-19 pandemic and political situation and, while there are some signs of stabilization (see Panel 11 and Panel 12), it is far from stabilization. As indicated through the qualitative survey, one of the experts mentioned increased in bed occupancy rates. However, this increase has been achieved due to the significant reduction in prices. Furthermore, this approach of reducing prices has only covered operational expenses. While October, November and December 2021 saw gradual increases in bed occupancy rates, the trend is expected to go down once the holiday season has ended.

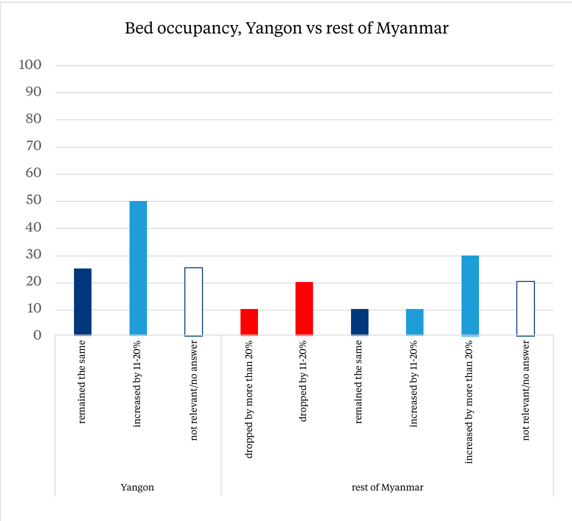
Panel 11	Myanmar tourism sector: change in main indicators relative to Nov/Dec, 2021, % of respondents

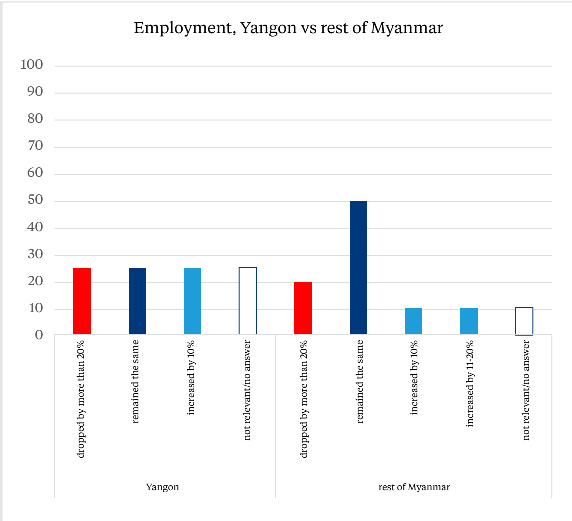
Bed occupancy and employment changes in respondent's firm since Nov/Dec, 2021, % respondents



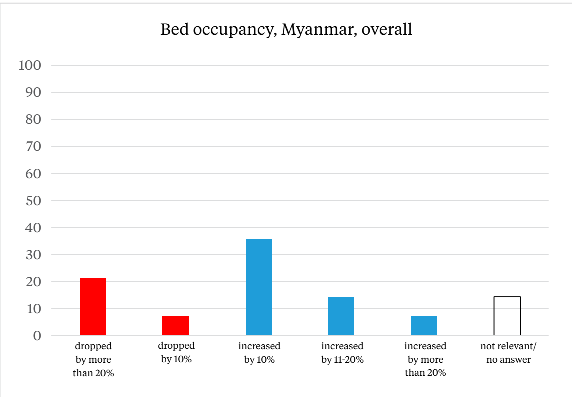


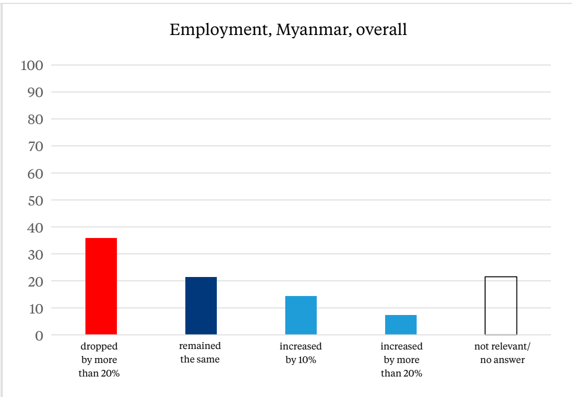
Bed occupancy and employment changes in Yangon vs. rest of Myanmar since Nov/Dec, 2021, % of respondents





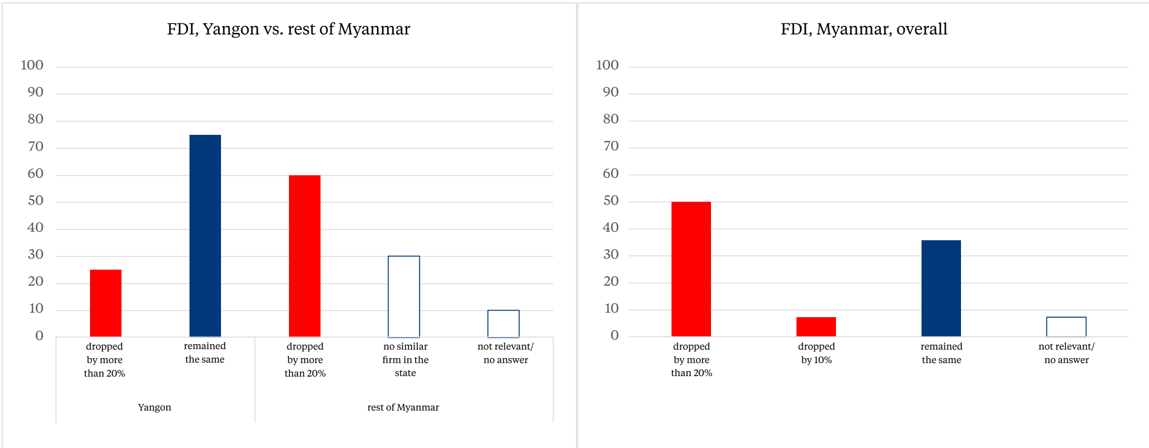
Bed occupancy and employment changes in Myanmar, since Nov/Dec, 2021, % of respondents





Panel 12 Myanmar transport sector: change in BoP indicators relative to Nov/Dec, 2021, % of respondents

FDI change since Nov/Dec, 2021, % respondents



Conclusion

Building on the findings from the first round of HFI, this report presents an overview of the macroeconomic performance of Myanmar's main sectors over the period Nov/Dec, 2021. Moreover, and going beyond simply presenting a snapshot of the overall economic activity, the report zooms onto the performance of the ports sector as well as the cross-sectoral implications of the ports sector performance.

There are a few findings that stem from this second round of the high frequency indicators. First, the events around the global pandemic as well as the coup d'état, have had a significant ramification in the operations in Myanmar's ports. Overall, as indicated both by quantitative and qualitative interviews, the traffic has slow-down significantly since 1st of February, 2021 leading to under-utilization of the ports' capacity. And while the end of the year saw a slight increase in the overall activity, as indicated by the experts' panel, this is closely related to end of the year pick-up rather than to a genuine recovery in the sector. The reduction in number of ships and handling capacity at the ports has resulted in two major bottlenecks. First, the imbalance between supply and demand of containers had led to challenges in booking places on ships. Second, freight charges have soared to a record high level. In other words, firms using ports logistics have been hit twice, first by the overall slowdown of the economy and second by the increase in the logistics costs. The experts' panel consider the events associated with the coup as more impactful on the port operations, compared to the Covid-19 pandemic, and do not have a positive outlook for the sector in the short run.

As further outlined in this report, these developments in the port sector have had an impact on some of the main sectors of Myanmar's economy (e.g. manufacturing, garment manufacturing and agriculture). Nevertheless, based on both, the quantitative and qualitative data gathered, the report posit a stabilization of production, demand and employment in some of Myanmar's economic sectors: garment manufacturing, other manufacturing, agriculture, transport and infrastructure. The so-called 'bottoming out' in these sectors is also evident by the stabilization of the balance of payment indicators (e.g. exports, imports, foreign direct investment). Finally, the analysis closely corresponds to the available evidence gathered by other development partners, suggesting that real time indicators of mobility, manufacturing activity, and exports are showing signs of recovering.
To what extent these are signs of recovery remains an open question and the High Frequency Indicator series will aim to assess the continuous developments in Myanmar's economy.

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