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Trends in Southeast Asia

WHITHER MYANMAR'S GARMENT SECTOR?

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ISEAS YUSOF ISHAK INSTITUTE

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FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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THE EDITORS

Whither Myanmar’s Garment Sector?

By Nick J. Freeman

EXECUTIVE SUMMARY

- The EU has threatened to suspend Generalized Scheme of Preferences (GSP) status for Myanmar, under which the country’s exports can enter Europe without any tariffs or quotas. The official reason cited by the EU is a growing concern over human rights violations and issues around labour rights in Myanmar.
- If this threat were to be carried out, the business sector that will be most affected is Myanmar’s burgeoning garment sector, which employs around 700,000 people, most of whom are women.
- The principal worry in Myanmar is that if EU buyers and brands have to start paying tariffs to import Myanmar-made garments, then they will opt to shift their sourcing to other countries. Without GSP, Myanmar’s garment exports may no longer be price competitive.
- As one of the few manufacturing sectors in Myanmar to employ semi-skilled women, many of whom migrated from poor rural areas, the garment sector has come to play an important socioeconomic role in the country.
- Whether or not the EU decides to withdraw GSP status, Myanmar’s garment sector faces a number of challenges. How Myanmar’s policymakers and garment industry leaders respond to global industry trends will be just as important, in the long run, in determining the sector’s commercial sustainability.

Whither Myanmar's Garment Sector?

By Nick J. Freeman[1]

MYANMAR'S GARMENT SECTOR AND THE EU'S THREAT TO SUSPEND GSP PREFERENCES

In 2013 Myanmar was reinstated into the EU Single Market's "Generalized Scheme of Preferences" (GSP), under which goods from the country — and forty-six other least developed countries — may enter the EU duty- and quota-free, in conformity with the "Everything But Arms" (EBA) trade scheme.[2] This followed the positive progress that

[1] Nick J. Freeman is an independent development consultant and Associate Fellow of ISEAS – Yusof Ishak Institute, Singapore.

[2] The GSP scheme comprises of three trade preference arrangements: standard GSP, GSP+, and EBA. The EBA scheme is portrayed as "the EU's flagship trade instrument designed to help the world's poorest and weakest countries take advantage of trading opportunities". In 2016, imports worth €62.6 billion entered the EU under the GSP scheme, of which €23.5 billion (38 per cent) was from EBA countries. Bangladesh alone accounted for €15.6 billion (25 per cent of all GSP imports), most of which would have been garments, and Vietnam accounted for €7.1 billion (11 per cent), of which 40 per cent was footwear alone. Of just the EBA-eligible countries, Bangladesh accounted for 66 per cent of the total, Cambodia was 18 per cent (€4.2 billion) and Myanmar just 4 per cent (€0.8 billion). In 2016, Myanmar's utilization rate of the EU's GSP/EBA scheme was 94.5 per cent, as €971 million in goods was exported to the EU, €876 million of this was deemed GSP eligible, and €827 million was imported into the EU under GSP preferential terms. See European Commission, "Report on the Generalised Scheme of Preferences covering the period 2016–2017", 19 January 2018. Myanmar's GSP status was initially revoked by the EU in 1996, after just three years of operation.

Myanmar had recently made in transitioning away from a military-led government, and served as "recognition of [Myanmar's] efforts to launch ambitious political, social and labour reforms".[3] However, in October 2018, following a fact-finding mission to Myanmar, the EU cautioned that Myanmar's GSP privileges might be suspended because of "deeply worrying developments highlighted in various United Nations reports, in particular as regards human rights violations in Rakhine, Kachin and Shan States and concerns around labour rights".[4]

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[3] European External Action Service, "EU-Myanmar Relations" factsheet, Brussels, 25 June 2018.

[4] See European Commission press release, 31 October 2018. The October 2018 mission "was part of the broader engagement that the European Commission has launched to monitor Myanmar's respect of 15 fundamental UN and International Labour Organization (ILO) conventions. In order to continue to benefit from duty-free, quota-free access to the EU market through the Everything But Arms (EBA) scheme, Myanmar must uphold and respect the principles enshrined in these conventions. … If they do not act, Myanmar authorities are putting their country's tariff-free access to the EU market in danger — a scheme which has proved to be vital for the economic and social development of the country, providing thousands of jobs to workers in sectors such as textiles, agriculture and fisheries. … The EU has reiterated at several occasions its serious concerns about the disproportionate use of force and widespread and systematic grave human rights violations committed by the Myanmar military and security forces, in particular in Rakhine State but also in Kachin and Shan States. [The mission] … provided the opportunity for an open dialogue with Myanmar on key issues such as: ensuring constructive cooperation with relevant UN bodies; supporting international efforts to investigate and prosecute individuals suspected of having committed crimes against humanity; ensuring full humanitarian access notably in Rakhine, Kachin and Shan States; ensuring implementation of the recommendations of the Advisory Commission on Rakhine State, creating conditions for a voluntary, safe and dignified return of Rohingya refugees in Bangladesh to their places of origin. The EU mission also discussed its concerns regarding the continued use of forced labour in parts of the country, in particular by Myanmar's armed forces, including child recruitment, as well as the need for further reforms as regards freedom of association and collective bargaining." The threat of suspending GSP for Myanmar has not been the only response by the EU. In April 2018, the Council of the European Union enacted a "framework of targeted restrictive measures" against individuals believed to have been

In 2017, Myanmar exported goods to the EU collectively valued at €1.55 billion, of which the largest proportion by far, 72 per cent, was ready-made garments. Not coincidentally, one of the few manufacturing sectors to display significant growth in Myanmar over the last five years has been the garment sector. Some of that growth has been domestically generated, but a significant proportion stems from foreign investment in the sector, bringing in not just capital, but also non-financial inputs, such as global industry knowledge and expertise, and the all-important networks and relationships with international buyers.[5]

Thus, the dynamics that lie behind Myanmar's recent garment sector growth is multifaceted, and comprises the following elements:

- Significant foreign investment inflows from Asian manufacturing companies (such as those from China and South Korea), leading to newly established export-oriented garment factories in Myanmar, and particularly in and around Yangon's industrial zones.[6]
- A marked reduction in the number of domestically owned garment companies in Myanmar, which are unable to compete and therefore

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"perpetrators of serious and systematic human rights violations by the military (Tatmadaw) and the border guard police". These restrictive measures were further expanded in December 2018. Council of the European Union, "Myanmar/ Burma — Council Conclusions", 10 December 2018.

[5] In a remarkable illustration of poor analysis, a senior official in Myanmar's directorate of investment and company registration argued that, should the EU suspend GSP, it would not impact much on FDI inflows to the country, as Europe has not been a leading investor in the country. Such an assertion completely fails to understand the dynamics of international trade and cross-border production networks, and the fact that without orders from the EU for garments and other products, foreign-owned manufacturers — mostly from Asia — will not wish to locate production facilities in Myanmar. See Xinhua News Agency, "EU's withdrawal of GSP not to affect foreign investment flows in Myanmar: Official", 28 October 2018.

[6] As of September 2018, the Myanmar Garment Manufacturer's Association (MGMA) had 518 companies listed as members. The vast majority of these are located in and around Yangon, with markedly smaller clusters in locations like Mandalay, Bago, Pathein, and Hpa-An.

effectively shut out of the export market. Most are typically left supplying cheap garments and uniforms to the relatively modest domestic market.

- An increase in export volumes for garments, principally to the EU, that is partly dependent on GSP privileges that allow Myanmar-based (but not necessarily Myanmar-owned) garment producers to compete with overseas rivals on the in-store prices for garments sold in the EU market.
- The growth of a sector that has also been one of the few areas of job creation in Myanmar manufacturing, particularly for women.
- Foreign donor assistance to improve the capabilities of Myanmar garment sector, including EU co-funding support for an International Labour Organization (ILO) programme that supports the Myanmar Labour Rights Initiative and other aspects of the labour law reform process in the country.

As a result, a significant number of women workers in Myanmar are employed as seamstresses on the production lines of various garment producers in the country. This employment provides an important source of income, not only for families in and around Yangon's industrial zones, but also for families from as far away as Chin, Kachin and Rakhine States that rely on remittances from members who have migrated to the industrial zones for work. The garment industry thus provides a much-needed alternative to searching for informal and largely unregulated work opportunities in neighbouring countries.[7]

It is in this context that the prospect of GSP privileges being suspended is a worrisome one for Myanmar, not only for garment manufacturers and

[7] As a number of articles have noted, whole rural communities in Myanmar have been "hollowed out", as people of working age migrate overseas in search of incomes, leaving just the old and young behind. For example, see, David Levene, "Myanmar's Absent Generation", *The Guardian*, 29 September 2016 <https://www.theguardian.com/world/ng-interactive/2016/sep/29/myanmars-absent-generation>.

their 700,000 employees, but also from a macroeconomic perspective, notably in terms of jobs and foreign exchange earnings.[8] The valid concern is that, if Myanmar were to lose its GSP privileges, it would be at a distinct competitive disadvantage with rivals in producing garments for the EU market that are also part of the EBA scheme.[9] These include not only less developed Asian countries like Bangladesh and Cambodia, but also a number of African countries.[10] After the garment sector,

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[8] The EU itself notes that "… the EBA arrangement has brought important benefits to the economy of Myanmar. Preferential exports to the EU have risen sharply in recent years from €535 million in 2015 to €1.3 billion in 2017. In 2017, 72.2 per cent of Myanmar's exports to the EU could be attributed to [garments], leading to particularly strong job creation and growth in this sector. The EU is the 3rd largest export market of Myanmar, absorbing around 8.8 per cent of Myanmar's total exports in 2017." European Commission press release, "Myanmar: EU mission assesses human rights and labour rights situation", 31 October 2018. Estimates vary as to how many jobs might be imperilled by the suspension of GSP, although some estimates put it at 200,000, or that "more than a half" of the total workforce is "at risk of losing their jobs". See "Hanging by a Thread", *Bangkok Post*, 29 October 2018.

[9] Some Myanmar garment manufacturers recall when the U.S. imposed trade sanctions on Myanmar in July 2003, resulting in a marked and adverse impact, as at that time around half of Myanmar's total garment exports were for the U.S. market. Some estimates suggest that prior to the sanctions, in 2001, there were around 400 garment manufacturers in Myanmar, but this number dropped to around 180 by 2005. More worryingly, "there was a significant uptick in sex trafficking of unemployed garment workers, an almost inevitable and tragic outcome when thousands of impoverished young women with little education and few skills end up on the street with no other way to support themselves and their families." See "Ending EU perks to hurt human rights", *Myanmar Times*, 2 November 2018. Also see Toshihiro Kudo, "The Impact of United States Sanctions on the Myanmar Garment Industry", Institute of Developing Economies, Discussion Paper No. 42, December 2005.

[10] Bangladesh is the world's second largest exporter of garments, with a 6.4 per cent share of the global market, followed by Vietnam with 5.8 per cent, both well behind top-placed China with 30 per cent. Garments and textiles account for 80 per cent of Bangladesh's total exports and generate around 20 per cent of its GDP. Garments account for around 60 per cent of Cambodia's total exports.

the other major sector in Myanmar that would be adversely impacted by the EU's suspension of GSP would be the fisheries sector, which is thought to employ around 400,000 people.

It is important to note that the threat of withdrawing GSP status for Myanmar is particularly — although certainly not exclusively — a function of the EU's displeasure with Myanmar's recent treatment of the Rohingya, and the resulting emergence of large refugee camps in Cox's Bazar, in neighbouring Bangladesh.[11] In this respect, it differs markedly from the EU's announcement in mid-January 2019 that it was imposing "safeguard measures" on rice imports from Myanmar and Cambodia. This latter move was entirely driven by economics, as significant increases in Indica rice exports from Cambodia and Myanmar into the EU market have squeezed the producers in Italy, Spain, France, Portugal, Greece, Hungary, Romania and Bulgaria. For that reason, the EU is using a safeguards mechanism within the GSP to reintroduce import tariffs on rice from Cambodia and Myanmar.[12]

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[11] Much has already been written about the persecution of the Rohingya in Myanmar, the events in Rakhine state since August 2017, and subsequent developments both there and in the refugee camps in Cox's Bazar, Bangladesh. It is therefore not necessary to detail these here, but for a good overview of the current situation, see "The Rohingya Crisis", Council on Foreign Relations, December 2018 <www.cfr.org/backgrounder/rohingya-crisis>. It is important to note that the European Commission's view is by no means an isolated one. In December 2018, the U.S. House of Representatives passed a declaration declaring the "the atrocities committed against the Rohingya people" in Rakhine to have been "genocide". In a rare display of bipartisan unity, the vote was passed by 394 to 1. However, the U.S. State Department has not as yet made the designation of genocide. See U.S. Foreign Affairs Committee press release, 13 December 2018. Similarly, a UN fact-finding mission used the term "genocide" in an August 2018 report, and the UNHCR described events in Rakhine as "a textbook example of ethnic cleansing" in September 2017.

[12] The suspension of GSP would also not be regarded as an economic sanction per se, as Myanmar would still be able to export to the EU, but have to abide by the kinds of duties and other requirements demanded of non- EBA/GSP countries. The action would technically be a loss of trade benefits or preferences, rather than the imposition of punitive measures.

In contrast, the EU's threat concerning the garment sector is much more akin to the announcement made in mid-February 2019 that the EU had started the process of temporarily suspending Cambodia's inclusion in the EBA trade scheme, citing a "deterioration of democracy, respect for human rights and the rule of law" in the country.[13] To judge from the Cambodian example, if the European Commission were to announce a similar move concerning Myanmar, then the process would likely entail: (i) a six-month period of intensive monitoring and engagement with the government; (ii) followed by a three-month reporting period; and (iii) after twelve months had elapsed, a final decision by the European Commission on whether to withdraw GSP preferences, including details on the scope and duration of the suspension. The suspension would likely come into force a further six months after the decision and announcement.

GARMENT INDUSTRY PROFILE AND GLOBAL TRENDS

Before discussing the merits of the EU's threat to suspend Myanmar's GSP privileges, it is important to review a number of critical elements and dynamics of the global garments (or "apparel") industry.

First, the industry is broadly divided into two modes of production: (i) cut-make-pack (CMP), also known as cut-make-trim (CMT), and (ii) free-on-board or freight-on-board (FOB). The former is perhaps the most common mode, and essentially entails basic contract work for a chosen garment producer to cut and sew fabric, according to a given design, and then pack it ready for export. As the barriers to entry for CMP/CMT are lower, and the number of eligible suppliers outnumbers

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[13] See the European Commission press release of 11 February 2019, "Cambodia: EU launches procedure to temporarily suspend trade preferences". The process "does not entail an immediate removal of tariff preferences, which would be the option of last resort. Instead, it kicks off a period of intensive monitoring and engagement".

the buyers, the profit margins for this mode can be wafer thin, and price competition is often intense.[14]

The FOB mode sees the producer take on much greater responsibility (and risk), from sourcing fabric through to packaging and shipping buyers' orders, with far less involvement or support from the buyer, and requiring greater financial and non-financial resources on the part of the producer. This mode tends to have higher barriers to entry, and therefore tends to feature less intense price competition and greater profit margins, as the number of eligible suppliers is markedly smaller. However, Myanmar's garment producers are virtually all CMP/CMT producers due to a number of host country factors, including a somewhat bizarre and extremely misguided import tax exemption scheme that actually disincentivized the development FOB production in the country.[15]

Second, and largely as a function of the above realities, on the supply side the industry is dominated by manufacturing facilities located in less developed and developing countries where the costs of production are competitive. For CMP/CMT in particular, a substantial proportion of the total cost of a garment is a function of seamstresses' salaries, and so there is a tendency for garment facilities to locate in countries with low wage rates. But wage rates and cost competitiveness are not the sole determinants of which producer will win an order. As pricing is typically set on a per-piece basis, the skills and efficiency of workers are

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[14] It is important to note that price competition, usually per piece manufactured, is not a function of the final cost at the point of making and packing, but at the point of entering the retail store in the overseas market. Therefore, if it costs more to ship a particular garment from producer country A to consumer market Z than it does to ship the same garment from producer country B to the same consumer market Z, then that additional cost will need to be absorbed in some way by the country A producer, typically by agreeing to a lower contract price (per piece) with the buyer. It is in this context that having no import tariff to pay, as is the case for eligible imports under the EU's GSP/EBA scheme, can provide a distinct competitive advantage. And conversely, poses a competitive disadvantage to a producer located in a country where GSP privileges do not exist, or have been withdrawn for whatever reason.

[15] Also, in order to become eligible to apply for the much-needed import tax exemption, all garment companies were obliged to become members of the Myanmar Garment Manufacturers Association.

an important variable in a manufacturer's ability to win and order, as is the speed with which an order can be fulfilled and shipped to a particular market.

The seasonal cycles of the fashion industry have also becoming increasingly short, leaving no room for production back-logs — due to power outages, for example — or delays in shipping.[16] Thus, while a major buyer may be attracted to a supplier that is able to quote costs for an order that are cheaper than rivals, in terms of per-unit costs at the factory gate, this advantage stands for nought if the cost and/or speed of shipping the order to the end-market is far greater. Tellingly, the most recent iteration of the World Bank's Doing Business survey (2019) ranks Myanmar 168th in the component for trading across borders, versus 100th for Vietnam, 115th for Cambodia, and 176th for Bangladesh.[17]

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[16] If garment manufacturers are obliged to install large generators in case of frequent power outages, then this adds to the cost of production, not only in buying the generator, but also keeping it fuelled. In the World Bank's most recent Doing Business survey (2019), Myanmar ranked 144th for "getting electricity", behind Vietnam (27th) and Cambodia (141st), but ahead of Bangladesh (179th).

[17] The Doing Business survey provides a means by which the ease of conducting business in different countries can be compared, principally through objective measures of the cost and time necessary for a local firm to comply with existing laws and regulations. It does this by scoring and then ranking countries across ten elements of conducting business, from starting a new company through to resolving the insolvency of a firm. Other measures include getting credit, accessing electricity, paying taxes, etc. The scores and ranks are then aggregated to provide an overall score and rank for each country. One of the ten elements is trading across borders (both importing and exporting), measuring the time and cost needed to meet all of the various steps required by the authorities. The 2019 results for this survey indicate that the time required for "export border compliance" in Myanmar is 142 hours, compared with 55 hours in Vietnam and 48 hours in Cambodia. "Export documentary compliance" necessitates 144 hours in Myanmar, versus 50 hours in Vietnam and 132 hours in Cambodia. Clearance and inspection at the border in Myanmar are calculated at 107 hours, compared with 13 hours in Vietnam and 28 hours in Cambodia. Overall, Myanmar has ranked 171st in the Doing Business survey rankings for 2019 and 2018, on a par with Iraq, and well below that of Cambodia, Laos, Vietnam, Malaysia, the Philippines, and Thailand, but slightly ahead of Bangladesh at 176th. The government aspires to be in the top 100 rankings by 2020.

And the World Bank's latest (2018) Logistics Performance Index paints a similar picture, with Myanmar ranking 137th, compared with Vietnam at 39th, Cambodia at 98th, and Bangladesh at 100th.[18]

On the buy side, the industry is dominated by a relatively small number of large-volume buyers that represent the garment brands commonly seen on the high streets and in the shopping malls of advanced economies. However, each market has its own characteristics, and they are not uniform. For example, some buyers require their garments to be shipped as folded items (e.g., the EU), while others will want them on hangers (e.g., the US). Some markets will place greater emphasis on large volumes and low prices (e.g., the US), while others may focus more on smaller volumes and markedly higher quality standards and consistency (e.g., Japan).

Third, buyers in the garment industry have increasingly faced, and sought to respond to, criticisms surrounding the conditions under which garments are produced, and the overall sustainability of the industry. Activist shareholders and increasingly discerning consumers have obliged the major buyers to "raise their game" across a spectrum of metrics. These include, but are not limited to: (i) environmental sustainability issues, such as the treatment of dyes and other waste; (ii) a strict avoidance of forced or child labour; (iii) social protection and occupational health and safety practices; and (iv) workers' rights and freedom of association.[19] The country provenance of garments has also become an issue, with retail customers effectively imposing their own individual sanctions against products from particular countries,

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[18] The LPI's subcomponents include a number of measures, including for customs, international shipments, and timeliness, among others. Across all three metrics, Myanmar comes behind Vietnam, Cambodia and Bangladesh.

[19] Myanmar's existing body of mandatory laws and regulations that pertain to these issues, including in the garment sector, are relatively substantial, but often outdated, poorly enforced, and in need of marked improvement. For example, the Factory Act dates from 1951, as does the leave and holiday act, the workman's [sic] compensation act dates from 1923, and only in 2016 was the 1936 payment of wages updated.

as indicated in the "made in" tag. As a consequence, international buyers and brands have become more attuned to the business and reputational risks of sourcing garments from countries perceived poorly by their customer base. These trends have also extended further down the value chain to include what and how inputs such as fabrics and accessories are sourced. For example, there has been a shift by some brands towards using only organic cottons, and avoiding GMO cotton.

This in turn has driven a cottage industry in standards and certification for garments (or apparel, as it is known in the United States), providing international buyers and consumers alike with the comfort of knowing that the items acquired are ethically sourced and comply with a host of requirements. Some international buyers have mainstreamed this into their own internal compliance and auditing requirements for suppliers in their supply chains — and have come to view it as a key part of their business models — while others rely on external certification bodies, similar to those seen in agriculture and foodstuffs, to provide adequate assurance.[20] Examples of these certification bodies include (but are certainly not limited to): Fair Trade, SA8000, Global Organix Textile Standard, Fair Wear Foundation, Fair for Life, BlueSign, Textile Exchange, Better Cotton Initiative, Good Weave, GOTS, Ethical Trading Initiative, and the list goes on.

Finally, and returning to the specificities of Myanmar and its domestic garment sector, there is a strategic business component to the foreign direct investment that has occurred. Foreign investment in the garment sector is often perceived as being quite footloose in outlook and tactics; factories can be erected speedily, often in prepared industrial zones, and workers trained in the basic skills required quite easily (or skilled workers poached from competitors using the enticement of slightly higher wages). If the economics of making garments in a particular country becomes

[20] Just to give a flavour of this, see Marks & Spencer <https://corporate.marksandspencer.com/sustainability/business-wide/responsible-sourcing>, the C&A Foundation <https://www.candafoundation.org>, and H&M <https://about.hm.com/en/sustainability.html>, to name just three.

enticing, then manufacturing will likely commence. And conversely, if the economics of making garments in a particular country subsequently deteriorate, then manufacturing will likely cease and move elsewhere. Garment manufacturing is not a sector known for its sentimentality or loyalty to host country locations; that is a luxury that CMP/CMT simply cannot afford.

But a longer-term strategic approach is also sometimes evident, particularly amongst the major international buyers. For example, a desire on the part of some major buyers to source from a diversity of producers, and thereby mitigate the risk of an external shock to a single producer significantly disrupting their supply chain.[21] One major international garments buyer to which this author spoke stated that it had tried to begin sourcing from Myanmar some years ago, principally as a means to reduce its exposure to Bangladesh, and to a lesser extent Cambodia, in each of which its suppliers were already among the largest employers in the countries' garment sectors. However, it promptly discovered that not one of the domestic firms it surveyed met the minimal standards that it required of its suppliers. Its solution was to encourage some of its trusted suppliers in China to open new manufacturing operations in Myanmar, in exchange for a pledge that it would source garments from these new factories.

WHAT MIGHT ALL THIS MEAN FOR MYANMAR?

The global industry trends traced above already serve as headwinds for those domestic garment producers in Myanmar wishing to expand their businesses and develop more lucrative export markets. Should GSP

[21] Current concerns about an increase in trade tariffs between the United States and China has already prompted some export-oriented manufacturing companies to shift some of their production to third countries in a bid to try and sidestep any such prospect. Vietnam and others are widely seen as being net beneficiaries of this recent trend, which could also be a positive for Myanmar's FDI inflow prospects.

access to the EU also be suspended, the relatively few remaining domestic garment exporters in Myanmar may well find themselves effectively shut out of Europe.[22] And those foreign-owned garment manufacturers that have established factories in Myanmar primarily in order to take advantage of the country's GSP status will opt to depart.[23] It is hard not to envisage that increased unemployment would ensue, as the country's garment sector was forced to downsize.

From Myanmar's viewpoint, the EU's threat to suspend GSP is unwarranted, disproportionate, and perhaps most importantly, something that will adversely impact people who have literally no influence on the past treatment or future prospects of the Rohingya community in Myanmar. Thus, the seamstresses and other garment workers in one of Myanmar's few successful manufacturing sectors of recent times would be "collateral damage" in an intergovernmental spat to which they are innocent bystanders. Not only will they suffer, through the loss of jobs, but so will families across Myanmar which rely in full or part on the income remitted by these same workers. As for the owners of garment manufacturing firms in Myanmar, it is unlikely that any state-owned or Tatmadaw-owned garment companies are able to export into Europe; rather, it will be Chinese, Korean and other foreign-owned firms that will feel the impact of GSP suspension. And having no ability to bring influence to bear on the resolution of the Rohingya issue, they may well opt to simply close or relocate their Myanmar operations.

Given the depth of feeling in Myanmar on the Rohingya issue, and the strong level of domestic support for the government's stance, it is almost certainly the case that, even if the EU were to fulfil its threat to withdraw

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[22] One could argue that this still leaves other export markets, like Japan and the United States. However, the high degree of standards and consistency demanded by Japanese buyers, and the very large volumes demanded by U.S. buyers, arguably make both these markets more challenging to penetrate than the EU.

[23] One estimate is that 300,000 of those working in Myanmar's garment sector are employed by Chinese-owned companies, and that if GSP is suspended, many of these manufacturers will likely opt to relocate to a third country, thereby obliging them to lay off their Myanmar staff. See *Bangkok Post*, 29 October 2018.

GSP for Myanmar, the decision would not trigger a major change in either the Myanmar government's or the Tatmadaw's policies in Rakhine State, or their treatment of the Rohingya community. It is more likely that such a move would serve to accentuate the sense of grievance among the many people in Myanmar who believe that the outside world wrongly perceives the issue, and is treating the country unfairly as a result. Thus, such a move by the EU could actually harden views inside Myanmar, rather than change them, and it would not persuade Naypyidaw to better engage with the EU and others, or agree to more intensive monitoring of the situation in Rakhine State.

Interestingly, one study, conducted in 2016, looked at the economic effects of the EU suspending GSP preferences for Myanmar between 1996 and 2013, albeit along with other economic sanctions imposed on the country during that period. It found that the economic impact for Myanmar was "significant", and that the garment industry was one of the sectors most affected. Even after the GSP scheme was reinstituted — and economic sanctions lifted — for Myanmar, "new requirements were developed which prevented the [affected] industries reaching their full export potential after the lifting".[24]

Given the above, a decision by the EU to suspend GSP privileges for Myanmar might be viewed as a somewhat cynical political gesture taken in response to the humanitarian crisis in Rakhine State and at

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[24] See Lisa Grabo, "The economic effects of EU sanctions imposed on Myanmar", Bachelor's thesis, Lund University, 2016. The author wisely recommends that "the EU should [in future] establish a thorough pre-assessment evaluation of how these sanctions are supposed to work in a certain country, what effects they are supposed to accomplish, and what other effects they may create … [as] countries can respond differently to sanctions, due to political, historical, geographical and economic factors." Opinions vary on the efficacy of economic sanctions, including those imposed on Myanmar in the 1990s. But in as much as EU and US sanctions forced Myanmar's military government to increasingly rely on support from China, and that this state of affairs became untenable and unpopular domestically, one might argue that they ultimately had the desired impact. The question, however, is: at what cost?

Cox's Bazar.[25] But such a depiction is not wholly fair. The EBA scheme is seen by the EU as a vehicle with which to engage developing and less developed countries and to incentivize them to address "serious shortcomings in respecting fundamental human and labour rights". Duty- and quota-free access is the "carrot" to promote this objective, and, conversely, the threat of withdrawal of GSP/EBA is seen as the "stick" of last resort, "with due consideration for the economic and social impact of such a withdrawal".[26] In this context, and given the scale of the alleged human rights abuses in Rakhine State, depicted as "genocide" by the UN, the EU faces a genuine dilemma in persisting with the GSP/EBA scheme for Myanmar. If it does not respond in some way, then its assertion that upholding human values is a genuine part of its trade policy will seem like hollow words. Conversely, it is acutely aware of the likely impact on the livelihoods of potentially hundreds of thousands of relatively poor Myanmar citizens.

As noted above, a number of industry factors serve collectively to constrain the garment sector's sustainable growth in Myanmar. The current CMP/CMT model is certainly better than having no garment sector at all, but it hardly evokes the image of a robust and vibrant manufacturing sector that amply remunerates its employees.[27] The degree of concern

[25] As of late 2018, the EU had pledged €117 million in humanitarian aid for the Rohingya refugee camps in Bangladesh.

[26] European Commission, "Report on the Generalised Scheme of Preferences covering the period 2016–2017", 19 January 2018, p. 5.

[27] Most seamstresses in Myanmar are paid at estimate or close to the minimum permissible wage, excluding overtime. In November 2018, the government's national committee for the minimum wage adjusted the figure from 3,600 kyat to 4,800 kyat (around US$3.60) per day, for an eight-hour day (or 45 cents per hour). Owners of some garment firms lobbied hard for a lower minimum wage to be set, arguing that it would render them uncompetitive. The cost of labour typically accounts for around 70 per cent or so of total sewing production costs in the CMT/CMP model. The pressure to remain price competitive, and the strain that creates in terms of working conditions have been evident in a spate of labour disputes in Myanmar, typically over pay, working (and living) conditions and collective action.

surrounding the possible suspension of GSP status for Myanmar reflects the extent to which the garment sector believes that the privileges it enjoys under the EBA/GSP scheme are what allows it to be competitive. Thus, despite already operating at wafer thin margins, a large part of Myanmar's garment sector is at the mercy of the whims of overseas policymakers and their willingness to provide trade preferences, or not. International response to events in Rakhine State, such as the threat by the EU to suspend the GSP scheme, is an example of an exogenous shock that the garment sector has virtually no ability to control or mitigate. This does not seem like a sustainable platform on which to develop a robust and vibrant garment and textile sector in Myanmar.

Perhaps Vietnam offers a useful lesson here. As in numerous economies that pursued economic reforms and business liberalization, in Vietnam one of the first sectors to see foreign direct investment inflows (after onshore and offshore resources exploration) was CMP/CMT garment manufacturing. It may be rite of passage for any country seeking to attract foreign capital to help turbo-charge the development of a domestic corporate sector. But, whether by accident or design or a bit of both, Vietnam has been able to build on this beginning, and move up the garments value chain into more complex and diverse products, such as footwear, and on to electronics and other kinds of export-oriented assembly. The same fine-motor skills required of seamstresses are broadly similar to those used in electronic assembly lines.[28] In comparative perspective, then, the GSP scheme can be seen as a short-term "leg up" for Myanmar's manufacturing sector, but it should

[28] For example, Samsung Electronics has grown to become the largest single firm in Vietnam. The company's mobile phone assembly plant is the largest the company has outside of South Korea. In 2017, Samsung Vietnam's revenues were reported to be US$58 billion, employing over 100,000 staff, and accounting for about a quarter of the country's total exports. It has also generated work for a considerable number of local suppliers. In contrast, in March 2018, Samsung Electronics announced that it would not proceed with a planned manufacturing plant in Myanmar, citing inadequate infrastructure, the slow pace of economic reform, excessive "red tape" and political uncertainties. *Myanmar Times*, 1 March 2018.

not be allowed to become a critical and long-term component of the economy on which it should rely.

It is in this context that the Myanmar Garment Manufacturers' Association (MGMA) issued a ten-year strategy for the sector, covering the 2015–24 period. The strategy contains six strategic objectives: (i) to improve the competitive advantage of the garment sector in Myanmar; (ii) to ensure that full social compliance and dialogue are practised throughout the sector; (iii) to build a training centre that can support the sector as it grows; (iv) to "build the image, position and brand" of Myanmar's garment sector; (v) to inform policy change that improves the enabling environment for sustainable growth of both the textile and garment sectors; and (vi) to increase the service potential of trade associations.[29] From an industrial sector point of view, all of this sounds eminently sensible, as does the relevant sections of the Myanmar Sustainable Development Plan (2018–30) issued in August 2018.[30] But is it enough?

Whether or not the EU decides to withdraw Myanmar's GSP status, the long-term trend within the global industry is clear. International buyers and overseas retail consumers are increasingly raising the bar in terms of what they expect from the garments they acquire, and under what terms and conditions they are made. While this is understandably perceived as yet another "head wind" that Myanmar's garment manufacturers must face, it might be possible for some to reposition themselves, and thereby turn it into a "tail wind". Astute garment companies could work with local agricultural producers and textile manufacturers to start offering FOB garments that contain locally sourced organic cotton, for example. Attaining the right standards and certification through improvements in sourcing and operations could also stimulate the appetite of international buyers, as well as potentially generate new operational efficiencies for these manufacturers.

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[29] See MGMA, Myanmar Garment Industry 10-Year Strategy (2015–2024), pp. 9–11.

[30] The MSDP contains five strategic goals, of which the third focuses on job creation and private sector-led growth.

Obviously, all of this is easier said than done. Such changes require investment, and entail some degree of business risk. Changes in their business models would not allow Myanmar's garment exporters to wholly sidestep the loss of GSP preferences. But they could diminish the impact of such a loss, and put Myanmar's garment sector on a more sustainable footing. Garment sector development initiatives co-funded and implemented by development partners, including the EU, and collaborating closely with the major international garment companies, could play a key role in underwriting some of that investment cost, and sharing some of that risk, as well as provide the necessary technical inputs. But the active participation of international buyers is crucial, not only to ensure that the interventions undertaken are congruent with future market demand — and not just expensive blind alleys that do not result in new orders. But it must also provide adequate assurance so that, if a Myanmar garment producer is able to achieve the necessary improvements, there will be demand for its product, and at prices that merit the investment and risks undertaken.

This is not to suggest that Myanmar's garment manufacturers should get a free ride, as they must display a commitment and have genuine "skin in the game". But some degree of comfort is needed for them to take a calculated leap of faith. If, however, developments surrounding the Rohingya do not improve, or international reaction to their plight considerably worsens, as is possible, then development partners, international buyers and retail customers alike may conclude that clothing with a "Made in Myanmar" tag is just too toxic, and should be avoided. At that point, the issue of suspension of GSP preferences by the EU will be somewhat moot. As the team leader of an EU-funded project working to improve the social and environmental standards of Myanmar's garment companies recently noted, "Simply put, the stakes are high."[31]

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[31] Jacob Clere, team leader of the SMART Myanmar programme <www.smartmyanmar.org/en>. See "Ending EU perks to hurt human rights", *Myanmar Times*, 2 November 2018.

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