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THE IMPACT OF TRADE ON EMPLOYMENT IN MYANMAR

MIN ZAR NI LIN

Development And Investment Branch

Employment Policy Department

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Executive Summary

This paper sets out to understand how trade liberalization particularly impacts employment in the Global South by looking at the case of Myanmar. The paper is divided into five succinct parts that contribute to analysing to what extent trade liberalization through out Myanmar's economic and political changes. Based on the findings of this paper, there are five key areas that shed light on the linkages between trade and employment in Myanmar. These five areas include, (i) trade, structural transformation and employment, (ii) informality of the economy (iii) trade and global value chains integration (iv) productivity (v) and wages, income inequality and working conditions.

The first section looks at the structural transformation of the economy, which is best described by Myanmar's shift from an agrarian economy to an industrialized economy. Consequently, the shares of industry and services sector to total GDP have increased overtime but the growth in the agriculture sector is not strong as others due to constraints such as high production cost, low productivity, low quality products and lack of value chain integration. Moreover, data indicated how the garment sector experienced positive employment when export value of garment sector increased by threefold. Secondly, the significance of the informal sector is demonstrated in how it employed about 81.9 per cent of total labour force in 2017 and at least over 40 percent of Myanmar's imports from neighbouring country come through informal channels. The World Bank's enterprises survey data (2016) confirmed that informal firms in Myanmar have lower sales per worker (labour productivity) compared to firms in formal sector. Therefore, based on previous findings, it can be assumed that workers in formal sector in Myanmar, especially from export-oriented firms have gained more because of trade openness.

Furthermore, there is a need to invest in job-friendly global value chains which can be primarily done through attracting FDI to diverse job-intensive sectors helping SMEs engage in GVCs is key to creating quality jobs. This shows that foreign capital is not automatically generating better working conditions and the host government play critical role in making sure better working environment and protecting venerable workers not to be exploited. Based on the facts and discussions, this study recommends a strong coordination among stakeholders and institutes with clear objectives to response present changing dynamics in trade context as well as social security provisions to make sure benefits go to workers as well. Finally, apart from upgrading along value chains, the active trade diplomacy is also crucial to maintain the positive momentum of trade growth on employment in Myanmar.

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Disclaimer

This paper was carried out by Min Zar Ni Lin (Deputy Director of Research, CESD). The views expressed herein are the author's alone and do not necessarily reflect those of Policy Working Group (PWG) for Trade and Investment, MoLIP and ILO. Errors of fact or interpretation remain exclusively with the author. The author can be contacted at minzarni.cesd@gmail.com

Introduction

Many Economics' textbooks refer to the laws of comparative advantage as a cornerstone of the theory of international trade. A significant number of economists have advocated for free trade policies since the time of Adam Smith and David Ricardo as specialization and trade increases world output, by using fewer resources, at a lower opportunity cost. In the twentieth century, the collapse of communism and the development gap between countries adopting inward looking and outward looking policies forced countries to shift towards outward looking policies, including Myanmar. These policies drove countries to engage in free trade and push for competition and efficiency, to expand economies of scale and create employment opportunities. On the other hand, some literature argues that the assumption of job creation as a consequence of trade liberalization is not always the case in developing countries where labour market is imperfect. In this context, the impact of trade liberalization on employment is of particular importance to understand as trade has a strong influence in determining the employment structure. In practice, the relationship between trade liberalization and employment is a complex phenomenon which requires that all economic conditions, reforms and labour dynamics be considered.

Turning to Myanmar, as the ideology of economics has changed from time to time across the world, the economic policies of Myanmar have also evolved since its independence in 1948. With the end of colonial regime, the government of Myanmar put aside the British-imposed capitalist system and promoted nationalization and central planning[1]. However, these policies and plans failed by mid-1956. Consequently, the government had recognized the role of the private sector in development and initiated the first Foreign Investment Act in 1957 (Khin Maung Kyi et al 2000). In 1962, the civilian government was replaced by military regime that followed socialist ideology; implementing inward looking policies. This led to, the weakening of the economic relationship with the international community and both foreign and domestic private enterprises were nationalized under the Enterprises National Law passed in 1963. In 1987, the country was declared one of the least developed countries in the world by the United Nations. Consequently, the democratic uprising occurred in 1988, then the military took power and the State Law and Order Restoration Council (SLORC) were formed in 1989. The economic policy was changed to an outward looking policy and allowed international trade and private investment to obtain economy growth. This military regime lasted till 2011, following the mercantilist theory, practicing a strict "export first, import second" policy and a strict control of the economic activity, in order to prevent a trade deficit. However, this policy was not achieved in the real world and even fuelled the growth of the

[1] Fenichel, A., & Huff, G. (1975). Colonialism and the Economic System of an Independent Burma

informal sector and corruption. Following five decades of rule by socialist and military governments, after the election in 2010, quasi-civilian government came in power and initiated a series of people-centred political and economic reforms, including trade liberalization. In early 2016, National League for Democracy (NLD) led government came into power and recently the Government of Myanmar (GoM) launched a national development plan, called "Myanmar Sustainable Development Plan (MSDP)". This plan outlined "Job Creation and Private Sector Led Growth" as one of five goals of the document and include trade sector reform and strengthening international cooperation as one of the strategies to achieve the goal.

This paper shall examine the impact of trade policy on employment and other facets of a country's economy and labour market. Moreover, a special focus shall be given to the Myanmar context in order to understand how trade and associated reforms, affect the labour market and project any future impacts trade liberalization will have on Myanmar's dynamic and growing economy. The paper is divided into five sections which each provide insight into the relationship between trade liberalization and the labour market and economy in Myanmar.

The first section describes the literature review which provides an overview of the various theories on what effect trade has on employment. The literature review consists of three areas which include, the exports-imports dimension, structural transformation of the economy and the relationship between trade, productivity and the labour market. The second section presents agreements within the Association of Southeast Asian Nations (ASEAN) and other trade related agreements with other countries. Then, the third section provides an analysis on how trade liberalization has fostered and affected investment in Myanmar. Furthermore, the fourth section illustrates the labour dynamics in Myanmar based on the regulations that have been implemented which include, the trade union legislation, the setting of the minimum wage and the features of the labour force in Myanmar. Finally the fifth section of the paper analyses the extent to which trade liberalization has had an impact on the employment dynamics in Myanmar focusing on the structural transformation of the economy, the informal economy and the integration of the global value chains and productivity, wage inequality and working conditions.

I. Literature Review

Trade is essential for development and employment creation, but the link between them is complex and in order to understand this relationship it is important to review existing evidences, studies and literature from other scholars. This literature review is divided into three areas that aim to highlight the factors that influence the relationship between trade and employment. These three areas include, the exports-imports dimension, structural transformation of the economy and the relationship between trade, productivity and the labour standards.

Export-Import Dimension

Traditional trade models suggest distinguishing the impact trade has on employment based on the country's sectors; the export and import industries. In the exporting sectors, theorists explain how trade liberalization will cause an expansion of production and demand for labour. However, for an import-competing sector there would be a decrease in production thus resulting in people losing their jobs. Therefore, it is important to consider the conditions of the labour market prior to the implementation of trade liberalization as well as how long it takes for changes to be implemented. Brooks and Manning (2011) studied that , in Indonesia, based on slower growth in manufacturing exports and a shift away from the light industry, how fewer jobs were created through exports in manufacturing industries before the Asian financial crisis in the 1990s. Furthermore, in the import-competing sector, if minimum wages are kept above the equilibrium for workers, the implementation of trade liberalization shall result in the decrease in demand for these workers resulting in unemployment.

In addition, it is also important to consider how the country in transition from closed economy toward open market economy is affected by trade liberation. Parikh and Stirbu (2004) pointed out how trade liberalization may lead to faster growth of imports than exports if the countries were highly protected in pre-liberalized period. The faster growth in imports in relation to exports affect the balance of trade which inhibit economic growth in some developing economies. Trade liberalization may promote growth on the one hand from the supply side through a more efficient allocation of resources while it may constrain growth from the demand side unless a balance between exports and imports can be maintained through trade policies such as real exchange rate depreciation or deficits in the short run can be financed by capital inflows. Zahonogo (2016) suggested that trade openness should not be implemented in isolation however, it should be accompanied by complementary policies aimed at encouraging the financing of new investment and enhancing the quality of institutions and the ability to adjust and learn new skills. These policies would then allow resources to be reallocated away from less productive

activities and toward more promising ones. Trade globalization should therefore not be studied in isolation. Moreover, there needs to be a focus on strengthening human capital which in turn will be a direct investment on the labour force. The structural transformation of the quality of jobs is important with the trade integration. Social standards and accessibility for skills updated and environment to generate knowledge spill overs are needed. Upgrading the export sector through the accumulation of skills and knowledge by labour force is one of the causes of success of the export led strategies of various Asia Countries in the 20th century (Schwarzer, 2015).

Structural transformation

Trade liberalization can also result in structural changes in the economy and changes in prices of commodities, reallocation of capital and labour costs. Trade liberalization triggers a restructuring process, which causes some jobs to be lost, and new ones to be created (Jansen and Lee, 2007). One approach of restructuring is specializing in the areas of comparative advantage which shifts resources to their most productive use, increasing the value of aggregate production and incomes. Openness to trade (and competition from foreign firms) also encourages producers to search for more efficient production processes and can improve their future prospects. Structural adjustment takes time and is not costless. Many factors can hinder labour mobility, particularly in the short run (Jansen and Lee, 2007). These can include various barriers to geographic mobility (for example, relocation costs) or limited transferability of skills across and within sectors (resulting in re-training costs). Inflexible or distorted prices can also affect the speed and degree of adjustment, by preventing prices from transmitting vital signals to buyers and sellers. In turn, this hinders the ability of resources to move to areas in which they can be used most productively, reducing efficiency and the potential gains from trade. According to Cheong (2013) the key to structural adjustment is the ability to switch capital and labour from one sector to another. It is easy to see that greater mobility has an advantage, but mobility comes at a cost. Moreover, productivity gains in agriculture for example have freed labour that could be employed in other sectors, mainly manufacturing and increasingly also services, laying the ground for structural change. Thus, productivity growth in agriculture has been and remains important. Based on the fact that some economies among the countries in the Global South have been transitioning from an agrarian economy to manufacturing, it is important to consider how agriculture structural changes took place (Cheong, 2013). The structural adjustment of the rural economy, with a declining contribution of agriculture and an increasing share of non-farm activities, has increased significantly the number of unemployed people in both rural dispersed and rural semi-urban areas.

Relationship Between Trade, Productivity, Wage and GVCs integration

The OECD (Thompson et al. 2012) establishes a link between trade and productivity which makes a comparison between low productivity and high productivity firms. An increase in trade will result in low productivity import-competing firms being pushed out of the market while high-productivity firms continue to flourish, thus increasing economy wide productivity. This will then contribute towards an expansion in the labour market as these high-productivity firms seek out new employees. On the other hand, Harrison and Revenga (1995) in a study find evidence of increases in employment in manufacturing following trade liberalization periods in Costa Rica, Peru and Uruguay. However, in a number of transitional economies (Czechoslovakia, Poland and Romania), employment fell during the transition period. As the authors note, however, those countries were also undergoing other significant reforms that went well beyond trade. Therefore, it is important to consider other factors that are likely to affect the employment rates when trade openness is implemented.

Another dimension of productivity that is highlighted in literature is the importance of Global Value Chains (GVCs) which has been steadily increasing in the last decades. Production nowadays is vertically fragmented across different countries, i.e. parts and components are produced in distinct locations and are assembled either sequentially along the supply chain or in a final location. According to UNCTAD (2013), about 60% of global trade consists of trade in intermediate goods and services, which are then incorporated at different stages of production. The prevalence of GVCs in the world economy impacts strongly on trade and labour markets, but also on issues such as inequality, poverty and the environment. Taglioni and Winkler (2014 as cited in Banga, 2016) argued that GVCs can benefit the labour market through three main channels: 1) the demand effects, where GVC participation increases demand for skilled labour to provide specialized services, such as Research and Development (R&D), branding, etc.; 2) training effects, which lead firms in GVCs to provide training in technology and skill development to local participating firms, thereby increasing their productivity; and 3) labour turnover effect, with the dispersion of knowledge from the labour force of participating firms to other local firms. Importantly, although integration within GVCs may help generate more employment through productivity and scale effects, trade in GVCs has given way to a major global re-allocation of jobs (Banga, 2016). Therefore, based on these three factors, GVCs can play a valuable role in trade openness and economic growth. The UNCTAD (2013) stated that becoming a part of GVCs can create more job opportunities. For example, jobs are created in developing countries through iPhone assembly in China, call centre operations in the Philippines and India, Nike shoe production in Viet Nam, and automobile and auto parts production in Mexico and Thailand. However, gains from GVC participation are not automatic there are risks in joining GVCs (Baldwin, Ito,and Sato 2014).

Lastly, other factors within the labour market that should also be considered include, wages and the elasticity of the labour supply of the country. According to Jansen and Lee (2007) trade between industrialized and developing countries would lead to decreases in the (relative) wages of low-skilled workers in industrialized economies and increases in those wages in developing countries. On average, though, individuals would be better off as a result of the overall economic efficiency gains triggered by trade liberalization. The authors go on to explain how, in economies with a highly elastic labour supply, e.g. a large latent supply of labour in the rural areas before trade reform, exporters can expand production by attracting workers from those rural areas at existing wage rates. This situation is more likely to occur in developing countries and in such cases trade liberalization would lead to increases in formal employment levels rather than to changes in wages. Schneider et al. (2010) estimates the informal economy to be about 34 percent on average for 88 developing countries in 2005.

II. Regional Integration and trade agreements

Myanmar is strategically located in between the world's fastest growing and dynamic economies such as ASEAN, South Asia, India and China. Its geographic advantage gives her great potential to participate in regional supply chains by increasing trade and investment linkages. Historically, Myanmar has long established relations within the international community. It is also a member of various multilateral organizations such as World Trade Organization (earlier know as General Agreement on Tariffs and Trade – GATT) signed in 1995, the International Labour Organization (ILO) after the independence era, ASEAN in 1997 and the Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation(BIMSTEC) in late 1997. Prior to 2010, Myanmar's engagement with the international arena was not strong in many areas because of domestic political and economic tensions and authoritarian rule. Myanmar was released from sanctions by European Union (EU) in 2013 and United States in 2016, which gave international investors and trade partners' confidence to extend close collaboration. Also holding the chairmanship of ASEAN[2] in 2014 re-enforced its commitment and credibility in participating in regional economic integration. Recognizing the importance of regional integration, the NLD led government outlined harmonization and adoption of changes in doing business within ASEAN and beyond as a one of the twelve points in the National Economy Policy[3].

As shown in Table 1, up to now, all the free trade agreements (FTAs) that Myanmar has signed and that are in effect are related to ASEAN framework such as ASEAN – China FTA, ASEAN- India

[2] Association of South East Asian Nations which comprise ten countries.
[3] Economic Policy of the Union of Myanmar.
http://themimu.info/sites/themimu.info/files/documents/Statement_Economic_Policy_Aug2016.pdf

FTA, ASEAN – Korea FTA, ASEAN – Japan FTA, and ASEAN – Australia – New Zealand FTA, which are intended to liberalise and facilitate the trade in goods and services to improve the business environment and promote cooperation. Myanmar's trade with fellow ASEAN countries and its dialogue partners (China, India, Korea, Japan, Australia and New Zealand) accounted for about 95 per cent of total trade in recent years (World Trade Organization, 2014). Again,

ASEAN fellow members and its dialogue partners contributed 76 per cent of total foreign direct investment inflow to Myanmar in FY17/18. Apart from that, Myanmar is under the negotiations with New Zealand, Bangladesh Bhutan, India, Nepal, Sri Lanka through ASEAN and Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC) frameworks for free trade agreement. In additional, Myanmar has border trade agreement with China, India, Bangladesh, Thailand and Laos[4].

Table (1): Myanmar's Free Trade Agreements

In Effects	FTA partner countries	Status
ASEAN Free Trade Area (AFTA)	Brunei, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam	Signed and in effect since 1992
ASEAN-Australia and New Zealand Free Trade Agreement (AANZ)	ASEAN + Australia and New Zealand	Signed and In Effect since 2010
ASEAN-India Comprehensive Economic Cooperation Agreement (incl. AIFTA)	ASEAN + India	Signed and In Effect since 2010
ASEAN-Japan Comprehensive Economic Partnership (incl. AJFTA)	ASEAN + Japan	Signed and In Effect since 2008
ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement (incl. ACFTA)	ASEAN + China	Signed and In Effect since 2005
ASEAN-Korea Comprehensive Economic Cooperation Agreement (incl. AKFTA)	ASEAN + Republic of Korea	Signed and In Effect since 2010

Source: *Source: ADB (http://aric.adb.org/fta-country); UNESCAP (http://artnet.unescap.org/APTIAD/agg_db.aspx)*

[4] https://www.export.gov/article?id=Burma-trade-agreements

As part of the international principles, industrial countries grant trade preferential to developing countries to access market and competitiveness, under the Generalized System of Preference (GSP). Myanmar as a developing country is a beneficiary of GSP schemes by a number of industrial countries such as Australia, Belarus, Japan, New Zealand, the Russian Federation, Switzerland, Turkey, EU, Norway, China, India and the Republic of Korea. As mentioned earlier, EU and US sanctions to Myanmar were lifted mid-2013 and the end of 2016 because of political and economic reforms, which reinstated the GSP. Under the EU GSP "Everything but Arms" scheme, Myanmar was allowed to export all products (which are required to meet the rules of origin) to EU with duty free and quota free, except for arms and ammunition. In addition, under the U.S GSP A+ scheme, about 5000 (8 digit HS code) of Myanmar products get tax exemption for importing to U.S. but textiles, apparel, watches, and most footwear are not part of the exemption[5]. Evidently, Myanmar's exports to EU has increased overtime gradually from Euros 9.2 billion in 2013 to Euros 16 billion in 2017 and non-agricultural products and textile and clothing were major driving force[6].

III. Trade and Investment reforms in Myanmar

Based on the previous section that highlighted the impact of regional integration and agreements between Myanmar and other nations and regional bodies, this section provides an analysis on how trade liberalization has fostered investment in Myanmar. There are five key factors that should be considered, these include, growth performance, foreign direct investment (FDI), the evolution of trade policy and institutional and regulatory reforms, the exports-imports and tariffs-non tariffs barriers. All these factors shall provide a holistic picture of trade liberalization and investment in Myanmar.

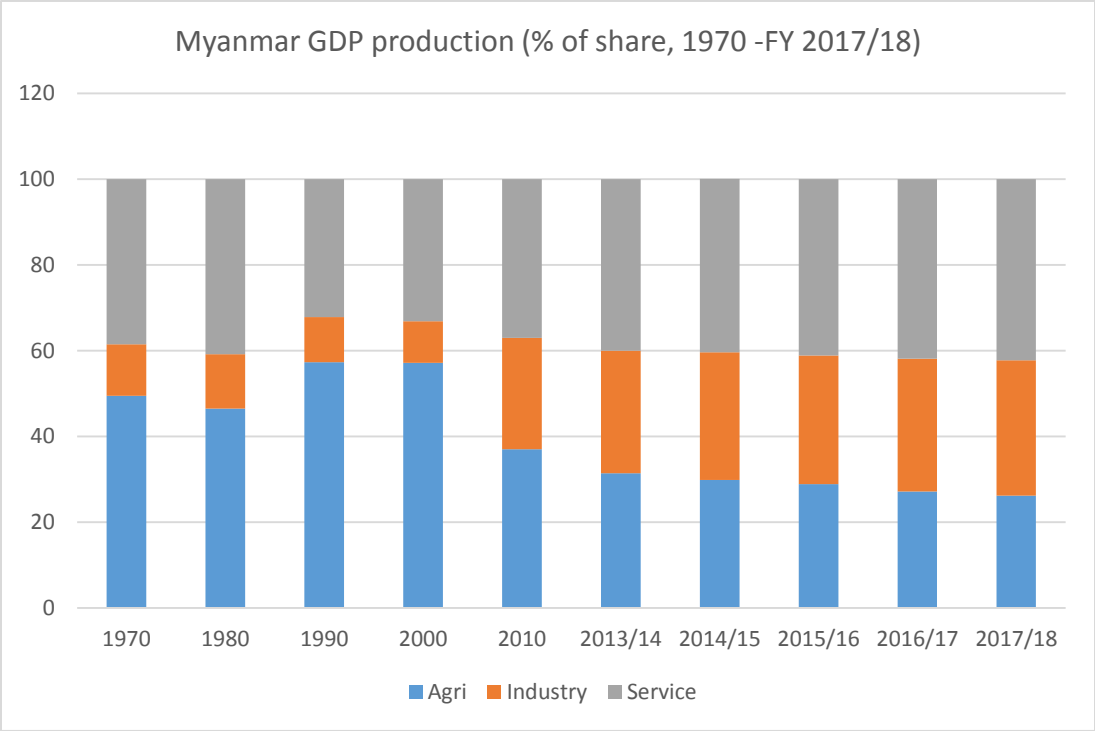
Growth performance

Till early 2000s, the agricultural sector was one of the largest contributors to the Myanmar economy. However, in the late 2000s structural changes in Myanmar's economy have shifted it from an agriculturally dominated economy towards industrialization. As shown in figure (1), the GDP contribution of agriculture declined significantly by about 20.2 per cent from 2000 to 2010, while the share of industry and service increased by 16.3 percent and 3.9 per cent respectively. Based on political and economic reforms, the real GDP growth rate accelerated from 5.9 percent in 2011/12 to 7.3 per cent in 2012/13 and 8.4 percent in 2013/14. However, inter-sectorial growth rates were on different speed.

[5] https://ustr.gov/sites/default/files/Burma-GSP-briefer-English-November-2016.pdf
[6] European Commission (2018). http://ec.europa.eu/trade/policy/countries-and-regions/countries/myanmar/

From 2012/13 – 2017/18, the average growth rate in industry and service sectors are 9.6 per cent and 9.15 percent respectively while the growth rate in agriculture sector is only 2.27 on average – reflecting the productivity of agricultural sector is low. The trade to GDP ratio declined in 2016 along with the slow growth of real GDP in FY 2015/16 and FY 2016/17 (Figure 2). According to Myint (2009), the GDP contribution of agriculture in China and ASEAN member countries, the Philippines and Vietnam had also dropped substantially while the share of the service and industry rose significantly in 1990s period. In this regard, Myanmar is following similar growth paths that China and fellow ASEAN member countries had gone through.

Figure (1): Myanmar GDP production (% of share, 1970 -FY 2017/18)

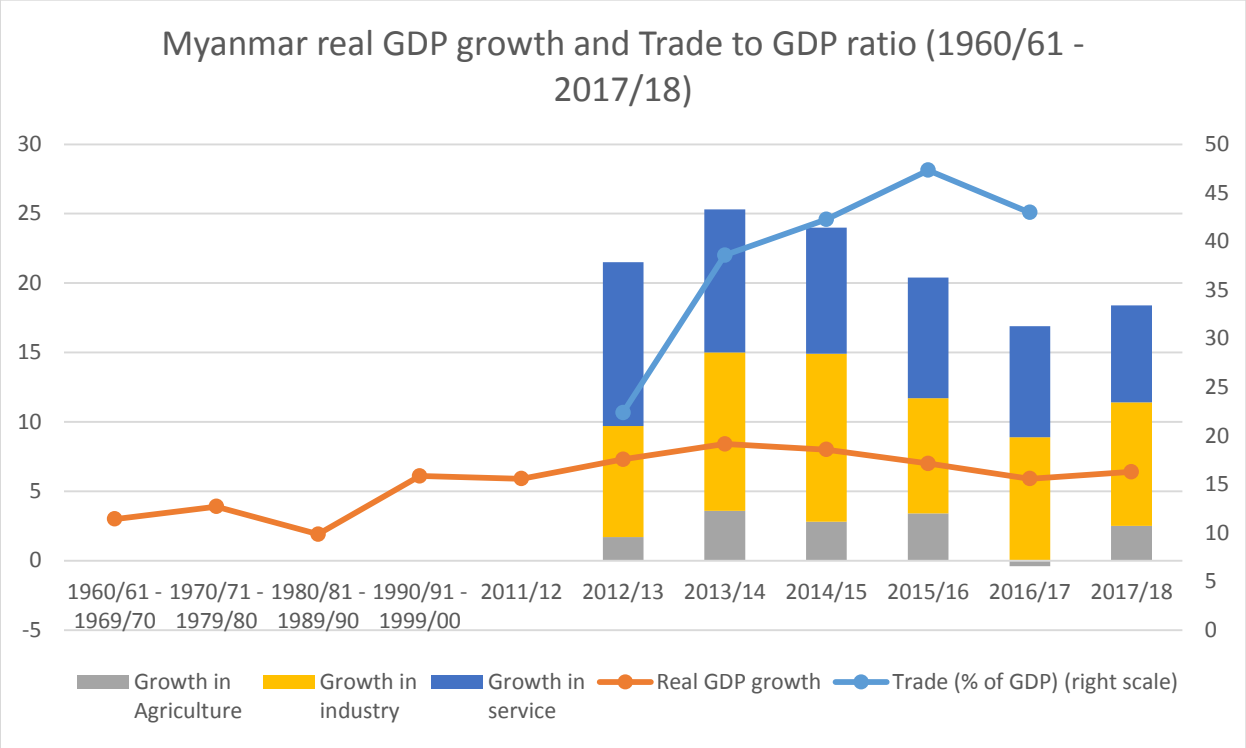


Source: National Planning and Economic Development (NPED) and the World Bank

In 2000, GDP per capita income of Myanmar was US$ 193 ranking Myanmar the lowest among ASEAN member countries while Vietnam and Cambodia were US$ 433.3 and US$ 300 respectively (Myint 2009). Myanmar surpassed Cambodia's level of GDP per capita in 2010. From 2010 to 2015, Myanmar's economy continued to expand and GDP per capita rose by 21 percent, but Myanmar was still about 43 per cent lower in 2015 so as to catch up to the level of Vietnam. Despite that Myanmar has high poverty rate among ASEAN countries,the incidence of poverty declined from 25.6 percent in 2009 to 19.4

per cent of the population in 2015[7]. In 2000s period, the inflation rates in Myanmar were double digit, as a result of heavy monetary financing of the large budget deficits. Due to mainly setting up fiscal deficit below 5 percent of GDP and financing fiscal deficit through treasury bonds, those double-digit inflation rate declined substantially to single digit inflation rate, with 2.8 percent in 2012/13. However, because of high economic growth, food prices and depreciation of the Myanmar currency, the inflation rate increased again in 2013/14 with 5.7 percent, in 2015/16 with 11.4 percent and in 2017/18 with 6.3 percent respectively (World Bank, 2014 & 2016). Therefore, this all indicates the economic conditions and the amount of economic growth Myanmar achieved over a period of time.

Figure (2): Myanmar real GDP growth and Trade to GDP ratio (1960/61 - 2017/18)



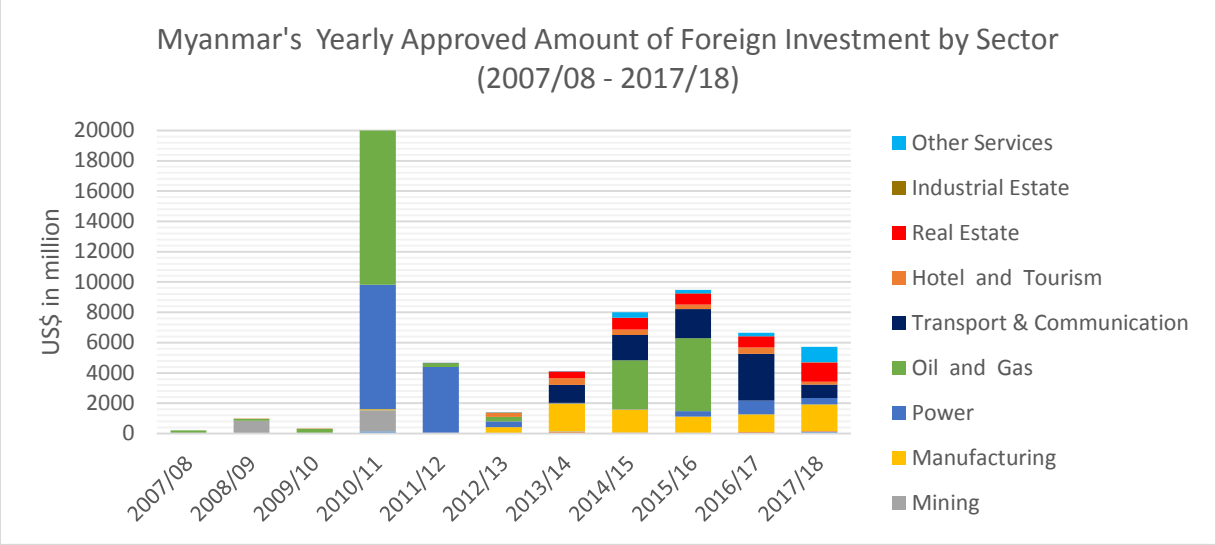
Source: NPED, U Myint (2009) and the World Bank (2016 & 2018)

[7] http://www.worldbank.org/en/country/myanmar/publication/myanmar-poverty-assessment-2017-part-one-examination-of-trends

Foreign Direct Investment

Recognizing the role of the private sector and foreign investment, the Foreign Direct Investment Law was enacted for the first time in 1988. As shown in figure (3), till 2012/13, foreign investment went to mainly resource based sectors and little attention to non-resource-based sectors as the business environment was not attractive. On the other hand, U.S, EU and Canada's sanctions in 1997 and 2003 were another factor in preventing attractive foreign investment. A new foreign direct investment was introduced in late 2012 and fundamental elements (such as unification of exchange rate, duration of land lease period) in creating business environment were adjusted, to make Myanmar more attractive for foreign investors. Following the liberalization of in the area of foreign investment, the volume of approved FDI increased, tripling from US$ 1.42 billion in 2012/13 to US$ 4.11 billion in FY2013/14 and notably FDI inflow into manufacturing sector rose over 350 per cent. Also, the patterns of foreign investment inflows have shifted to non-resource-based sectors, which generate greater employment opportunities. In order to create a level playing field between domestic and foreign investors and to implement ASEAN Economic Community's (AEC) commitment, the GoM merged foreign investment law and citizen investment law into single investment in 2016 and removed the provision of the requirement foreign companies to have a separate permit to trade. As shown in figure (3), the composition of non-resource-based sectors placed more than 80 per cent of total investment driven by the share of manufacturing, real estate and other service sectors. The number of countries of origin for foreign direct investment have also increased doubling in FY 2017/18 compared to FY 2012/13. Historically, China is the most important country for foreign direct investment, but its contribution to total foreign direct investment has reduced in the post 2010 period. Undoubtedly, the GoM had put effort in adjusting existing regulations and attracting foreign investment to boost the economy and employment opportunities. However, the volume of approved FDI has declined in the past two years due to unclear government agenda and concerns on Rakhine crisis (World Bank' Myanmar Economic Monitor, 2018). Again, in 2018 the scores from the ease of doing business ranking in Myanmar declined in the last two years because of slow progress on structural adjustments need to improve the business environment (World Bank's doing business, 2018).

Figure (3): Myanmar's Yearly Approved Amount of Foreign Investment by Sector (2007/08 - 2017/18)



Source: DICA (2018)

Evolution of Trade policy and intuitional and regulatory reforms

A new chapter of Myanmar's role among international communities was opened again in 2011 and initiated a series of political and economic reforms after decades of authoritarianism, aimed to achieve inclusive growth and economic development. After decades of isolation and economic stagnation, thus creating setbacks in the effort to harmonize the development dynamics of its fellow ASEAN and international partners. President Thein Sein's government had set up four national objectives and adopted a reform strategy, called the Framework for Economic and Social Reforms (FESR) (WTO, 2014). Liberalization of trade and investment was included as one of the ten policy priorities to achieve national objectives. This reform strategy brought a turning point to steer Myanmar's trade direction. The trade reforms in Myanmar can be classified into three periods: closed economy with central control (1962 – 1988), transition to market-oriented economy or semi-open economy (1989 -2010); and open economy (2010 onward). This section of the paper covers the late period of the second category and the third category which is the current economic period.

With the results of outward looking policy, GoM allowed private participation in trading activities and regularized cross-border trade with neighbouring countries in late 1989 as important steps towards trade liberalization (Than, 1992). Since then, the total trade volume of Myanmar has increased overtime till present. In 1997, Myanmar become a member of ASEAN countries and singed ASEAN free

trade Area Agreement. Though the private sector has the right to engage in both export and import, some products (such as agricultural products, forest and resource extraction products are restricted and allowed only to State Economic Enterprises (SEEs). By following the mercantilist theory, Myanmar practiced a strict "export first, import second" policy and strict control of economic activity, in order to prevent a trade deficit. Based on this policy, export earnings in foreign currencies are needed as proof for importers in order to grant import permits (Lin, 2012). As a result, on average, the exchange rate for export earning currencies is higher than other exchange rates in the market. Export and import licenses are required to export and import to and from overseas. In early 2012, the Central Bank of Myanmar unified multi exchange rate system into single exchange rate system and adopted a managed floating exchange rate. These efforts overcame the major obstacle to international trade and foreign direct investment for more than 50 years.

In order to comply with the WTO agreements, the Export and Import law was promulgated in 2012, which replaced the 1947 Import/Export Temporary Act. Foreign Exchange and Management Law was also amended in 2012 and formulated rule and regulations, which relaxed restrictions on import and export payments (World Bank's Myanmar Economic Monitor, 2016). The completion law was promulgated in early 2015to prevent monopolization and to ensure fair completion in economic activities, but the regulations and procedures are still lacking.

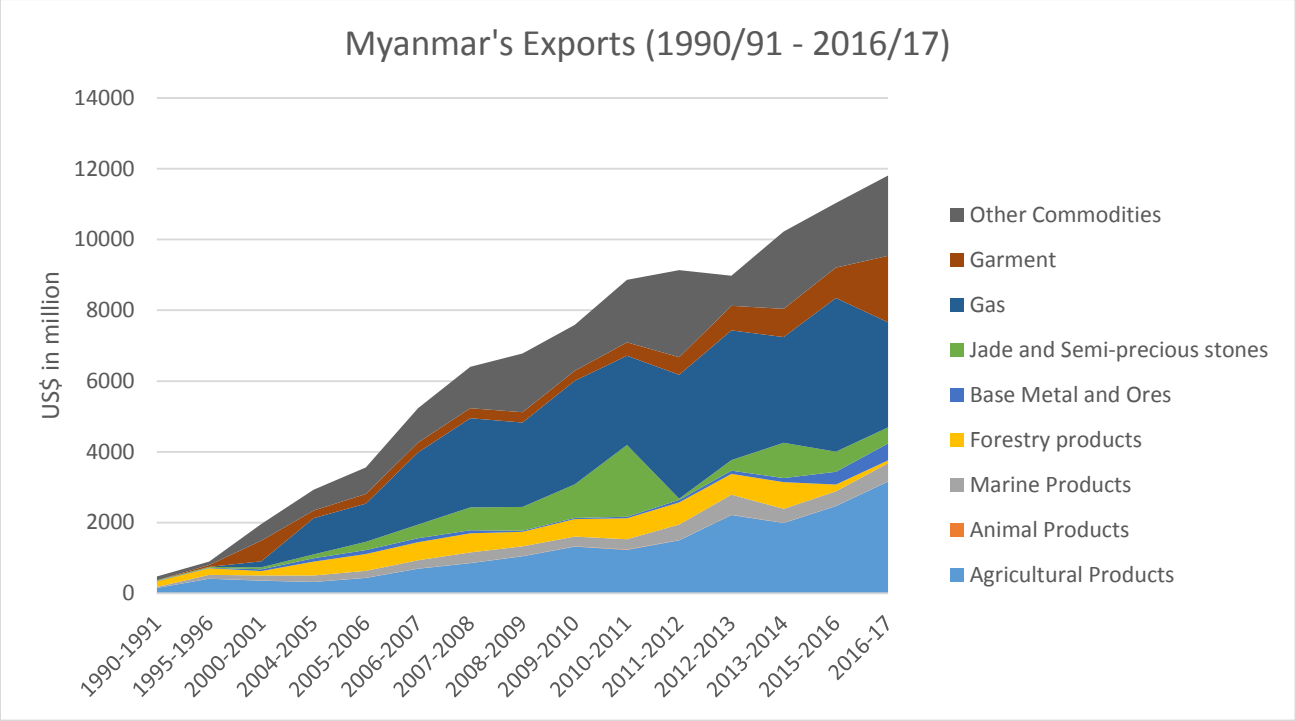
As part of the trade promotion polices, GoM has adopted national export strategy for five years 2015 -2019 with the following objectives: 1) diversifications of export products, 2) development of value added products and 3) diversification on trade partners. Under the National Export Strategy (NES), seven sectors are identified as priorities area to boost the export growth and employment creation[8]. Those sectors are (1) Rice, (2) Bean, pulses and oilseeds, (3) Fisheries, (4) Textile and garments, (5) Rubber, (6) Tourism and (7) Fruit and Vegetables. According to Myanmar Micro, Small, Medium Enterprises Survey (2017), In additional, GoM has formed inter-governmental commissions/ multi-stakeholders working committees for trade policy formulation and implementation while Ministry of Commerce stands as the focal agency, to deliver the policy and plans in practice. In addition, a trade promotion organization was newly established under the Ministry of Commerce in 2013, to promote export and facilitate trade activities and to collaborate with international organizations/ private sector for market linkages and support for value-added product exports.

[8] Myanmar National Export Strategy, Myanmar Ministry of Commerce. http://www.trade.gov.mm/en/strategy_documents

Export and Import patterns

According to UNESCAP (2012), the garment sector contributed to 42 percent of the total export revenue in 2000, followed by forestry products with 22.1 percent. The total export value dropped about US$ 700 million in 2003 due to the sanctions imposed by United States, which was major importer partner of textile and garment products. By 2011, the garment sectors' only shared around 10 percent of total Myanmar export revenue while natural resource based products contributed for more than 61 percent (UNESCAP, 2012). From 1988 to 2010, foreign trade balance was in deficit till 2001 but the volume of foreign trade gained positive from 2002, mainly driven by the export revenue generated from State Economic Enterprises in oil and gas sector. Though the total trade balance was in surplus, the trade balance of private sector was in deficit in 2010 and 2011(Lin, 2012).

Figure (4): Myanmar's Exports (1990/91 – 2016/17)

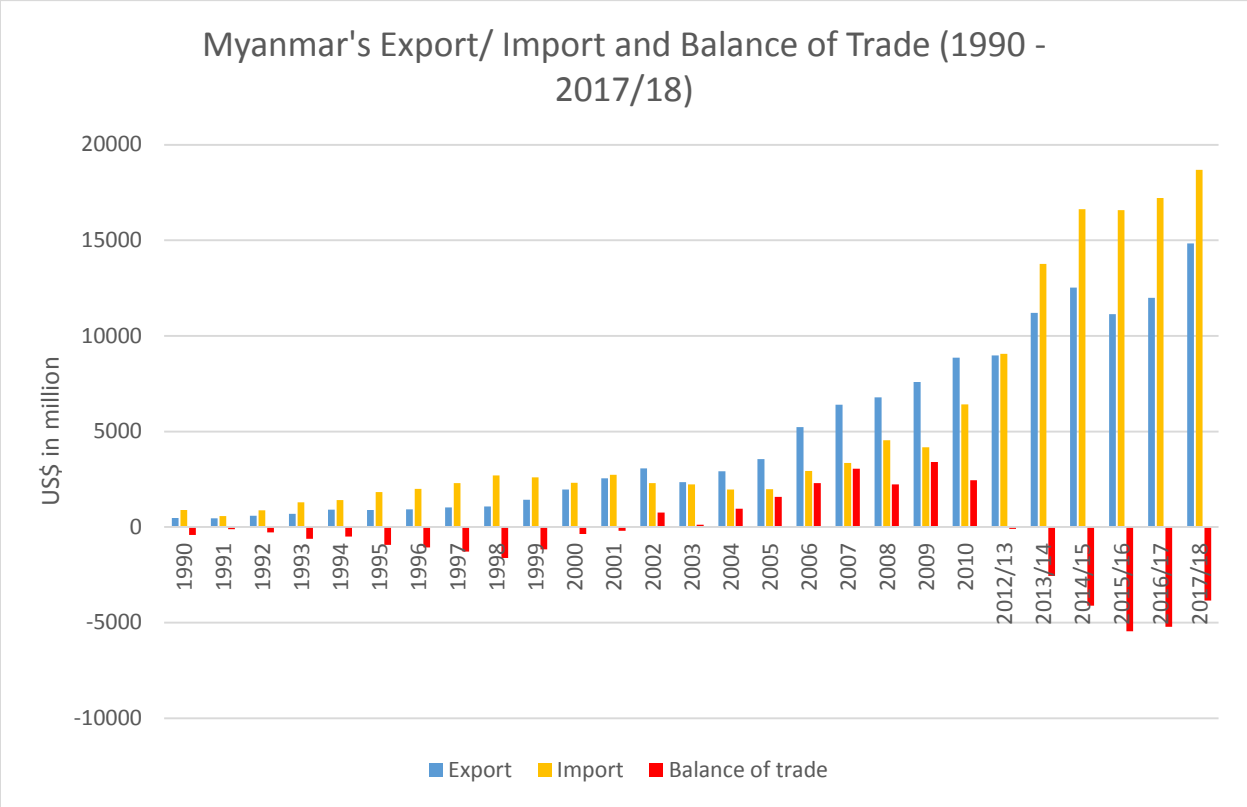


Source: Myanmar Central Statistical Organization (CSO)

In FY 2016/17, natural gas accounted for 25 percent of total exports, followed by agricultural products with 19 per cent and garments with 16 percent. Compared to early 2010, the export commodities have diversified but the revenue of natural resources-based products still dominates the largest shares of total exports (Figure 4). Notably, the export value of garment sector increased threefold - to US$ 1.88 billion in FY 2016/17 from about US$ 500 million in FY 2011/12. With trade openness, the total foreign trade value has increased year after year from FY 2012/13 until present and the trade deficit was also

getting wider along with openness. According to WTO (2017), the export trade value for goods has increased by 136 percent and 1207 percent for commercial services during 2006 to 2015 as well as import goods rose by 564 percent and 352 percent for commercial services. Historically, China has consistently ranked the highest among Myanmar's trading partners and over 40 percent of Myanmar's export products went to China in 2016, followed by ASEAN member countries with 29.1 percent. In the same year, China ranked the highest source of Myanmar imports while Singapore and Thailand accounted for 14.5 percent and 12.7 percent respectively.

Figure (5): Myanmar's Export/Import and Balance of Trade (1990 – 2017/18)



Source: Myanmar Central Statistical Organization (CSO) & Customs

Tariff and Non-Tariffs barrier

Myanmar has relatively low applied tariffs compared to other developing countries and most of ASEAN countries. With the agreement of ASEAN Free Trade Area (AFTA) – Common Effective

Preferential Tariff (CEPT) scheme[9], Myanmar reduced its tariff restrictions with ASEAN members countries and 99.28 per cent of tariffs lines applied by 0 – 5 % range in 2010 and 78 lines are exempted to eliminate, which include poppy seed, opium and arms related products. Since Myanmar is a member of ASEAN, its also has preferential import tariffs for China, Japan, Republic of Korea, Australia and New Zealand, India as part of the ASEAN- Plus free trade agreement. According to WTO (2014) Myanmar has bound 18.5% of its tariff lines at the HS 8-digit level and average tariffs on agricultural products remained the same with 8.9 % between 2008 and 2013 while applied MFN (most favoured nation) tariffs on non-agricultural products to 5 percent from 5.7 percent. In 2015, the sample average final bound rate was 83.3 and average applied MFN tariff was 5.6. Bound tariffs range from 0% (e.g. electrical machinery or clothing or transport equipment) to 550% (e.g. Chemicals, beverages, tobacco and cereals).

As part of the trade reform in 2011 and onward, the GoM reduced the taxes on export revenue from 10 percent to 2 percent from June 2011 to February 2012 and the commercial taxes for agriculture products were exempted starting from August 2011(Lin, 2012). Most of the export taxes had been removed gradually in 2012 and 2013, except the natural resource products such as gems, oil and gas and timers. Most of the non-tariff barriers are leading to increased transaction costs and delay the processes. Under the AEC agreement, the tariff rates of ASEAN member countries has declined over the past decades. By contrast, the level of non-tariff measurement (NTM) has increased over the time figure (6). The picture of increasing NTM is mixed whether countries practice NTM for trade barriers as majority of measurements are related to Technical Barriers to Trade (TBT) and sanitary and phytosanitary measures (SPS). Similar to other ASEAN member countries, the number of NTM imposed by Myanmar has increased from less than 80 measurements in 2012 to 172 in 2015 but Myanmar is still lowest countries for NTMs. To ease the non-tariff barriers, the import/export licensing system was transformed from manual system to automatic licensing, to speed up the procedures. Some licensing requirements were eliminated for 152 exported products and 166 imported products from sensitive list (which represent 1926 HS tariff lines) in March 2013[10]. Since early 2013, the GoM has been implementing National Single Windows, to work towards integrating to ASEAN single window with international development partners. As part of the National Single Window plan, Myanmar Automated Cargo Clearance System (MACCS) started operating in Yangon since late 2016 and is expected to expand to border areas in 2018[11]. However, according to the

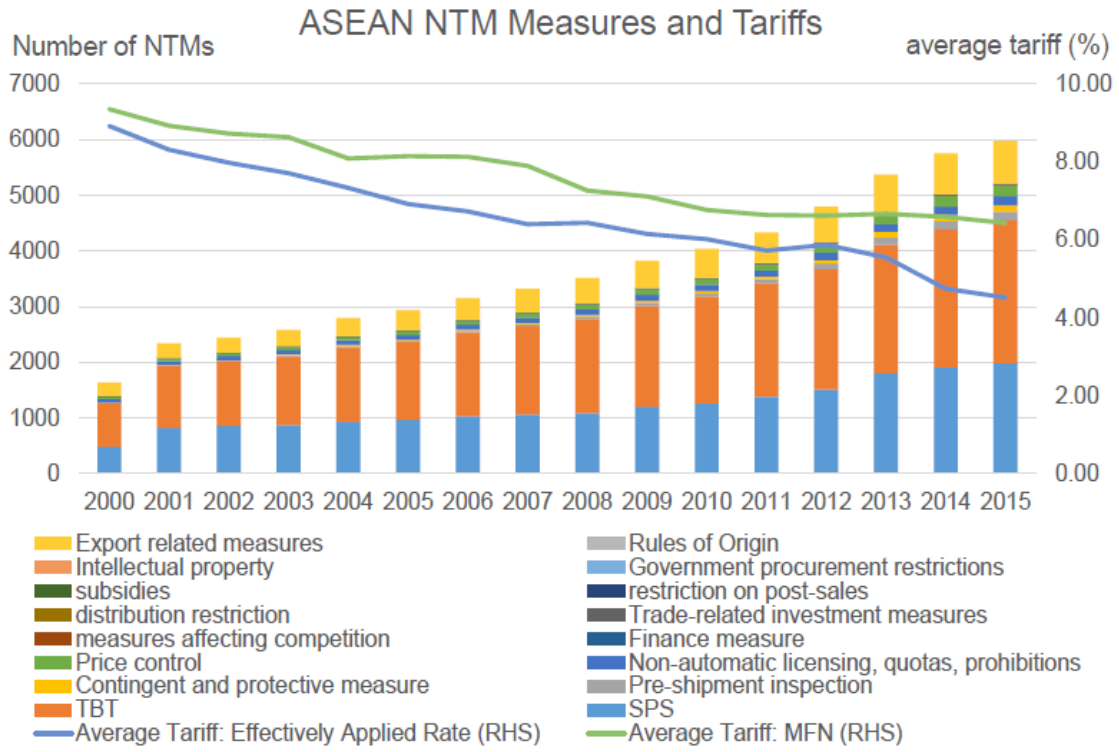
[9] Common Effective Preferential Tax (CEPT) between the U.S and ASEAN is defined as the mechanism by which tariffs on goods traded within the ASEAN region, which meet a 40% ASEAN content requirement, will be reduced to 0-5% by the year 2002/2003 (2006 for Vietnam, 2008 for Laos and Myanmar, and 2010 for Cambodia) (US-ASEAN Business Council, 2018).

[10] Meeting minutes for Myanmar, WTO

[11] http://asw.asean.org/nsw/myanmar/myanmar-general-information

World Bank's Myanmar Economic Monitor (2018) report, Myanmar received second lowest scores (behind Lao P.D.R) for logistic performance index compared to other ASEAN member countries, especially in the area of time and cost for exporting and importing, noting that lack of trade facilitation and unpredictable delays in process are still challenges to Myanmar to maximize the benefits from its trade liberalization reforms.

Figure (6): ASEAN Non-Tariff Measures and Tariff Measures



Source: Ing, Cadot, Anandhika and Urata, based on 2016 ASEAN-ERIA-UNCTAD NTM database, *Non-Tariff Measures in ASEAN*, 2016

Informal trade

Based on the lack of incentives for trade to go through formal channels, businesses were forced to participate in informal trading activities with neighbouring countries, especially with Thailand and China. Therefore, unless informal trade is taken into consideration, the patterns of Myanmar's trade is not fully covered. The Export first and import second policy and the import and export licensing system are major causes of informal trading activities (Aung, 2009). In FY 2017-18, Maywaddy trade zone in Kayin State (which is second largest trade zone) represented 11 per cent of total official cross-border trade and Muse

trade zone in Shan accounted for 69 per cent of total official cross-border Trade[12]. At present, there are 17 border trading gates in Myanmar. Many trade experts in Myanmar and literature on the subject believe that the size of informal trade to neighbouring countries is considerable significant in volume in comparison with the formal one[13]. For example, Myawaddy is a major trading route to and fro Thailand and second largest trading zone among Myanmar's fifteen official border gates, followed by Muse trading zone. In this area, there is only one official border which is located at the Myanmar- Thailand Friendship Bridge at present. However, there are over 20 unofficial border trading gates that are controlled by various armed groups. An official from trading zone and representative from Myawaddy Chamber of Commerce estimated that at least two-thirds of goods cross the border through unofficial border gates and only one-third of importing goods from Thailand come through formal channels[14]. A trader in Myawaddy said it takes only one – three days to import a container from Thailand to Yangon, Myanmar through informal channels while formal for channels it takes more than three days depending on the circumstances. According to Aung (2009) estimated that informal imports from China accounts for 41 per cent of Myanmar's imports from China and about 60 per cent of Myanmar's imports from Thailand come in through informal channels. This situation indicates role of informal trade is unavoidable to be considered in policy making process and it may have impact of employment.

IV. Reforms within the Labour Market in Myanmar

This section focuses specifically on reforms within the labour market and its development. These reforms are characterized by the regulations that have been implemented by Myanmar which include, the trade union legislation, the setting of the minimum wage and the features of the labour force in Myanmar and in relation to the region.

Regulations

The earliest labour related legislations such as Trade Union Act of 1926 and Trade Disputes Act of 1929 were promulgated during the colonial period and allowed the trade union movement and recognized rights of the workers. During the post-independence era, the union movement kept moving

[12] Myanmar Ministry of Commerce (2018). https://www.commerce.gov.mm/my/content/

[13] Myanmar's External Trade: An Overview in the Southeast Asian Context

[14] Interviews on May 2018.

stronger and received support from political parties till military coup of 1962[15]. The golden era of workers' unions had gone under the socialist regime and military regime (1962-2011) and the effect of labour laws were weakened. After decades of authoritarian rules, U Thein Sein' GoM initiated political and economic reforms since 2011 and labour related reforms become part of priorities of its border reform agenda. As the first step of reform on labour regulations, the GoM has repealed the outdated Trade Union Act, replaced with Labour organization law in October 2011, to protect the rights of workers and to strength good relations among the workers and between employer and the worker[16]. Five months later, the Settlement of Labour Dispute law was promulgated and the Trade Disputes Act was repealed., to have better relationship between employer and worker and to create a peaceful and fair work environment. Under the provision of this law, if there are more than 30 employees, the law requires to establish Workplace Coordinating Committee (dispute resolving mechanism) at factory/enterprise level (consists of employer and employee' representatives). This is to negotiate and conclude collective agreements between the employer and employees and tripartite arbitrary body/council (consists of government, employer and employee's representatives and appropriate persons) at Township level, region/state level, to carry out decision making process for justice. With the introduction of the Labour Organization Law in 2011, about 2694 workers associations and 29 employees associations were registered under the MoLIP by 2018[17].

Myanmar is one of the earlier countries in ASEAN for promulgating Minimum Wages Acts in 1949 but it failed to actualize it. In 2013, the new Minimum wage law replaced the 1949 Minimum wages Acts and formed a tripartite Minimum wage national committee, which consists of government, worker associations, private sector associations and experts, to set the minimum wage rate. The first ever minimum wage was set in October 2015, with 3600 MMK (USD$ 2.75)[18] per day and overtime fees is two times the basic wage. Moreover, the new payment of wages laws was promulgated in earlier 2016 and repealed the 1936 Payment of Wages Acts. In order to cover the social welfare of the workers, GoM enacted the Social Security Law in 2012, which includes coverage of health care and injury insurance scheme, individual/family benefits. The Social Security Board was then established in July 2013 with 28 members (reformed in December 2017 with 20 members), to oversee the implementation of this law. Up to 2017, 1,089,559 (which represent 5 per cent of employment populations) social security cards are

[15] Arnold and Campbell (2017). Labour Regime Transformation in Myanmar: Constitutive Process of Contestation. International Institute of Social Studies.
[16] Labour organization Law, October2011
[17] http://www.mol.gov.mm/mm/departments/department-of-labour/dol-manpower-statistics-division/emp-asso-lists/
[18] Currency exchange used is from December 2015; USD 1: 1,311.15 MMK.

issued to workers and three workers hospitals in Yangon and Mandalay and 151 clinics have established thorough out the country.

Low skills keep workers trapped in a vicious circle of poverty, low productivity and low income. Again, productivity is important factor for sustainable industrial relations between employer and employee as well as enterprise development. In order to create employment opportunities and to enhance the skills development of the workers, the Employment and Skills Development law was enacted in August 2013 and repealed the out-dated 1950 Employment and Training ACT. The National Skill Standards authority in 2007 established and collaborated with other ASEAN members' countries and development partners for the standardization of the skills and to produce skilled workers, in order to complete with skilled workers from other ASEAN members' countries. In 2012, Comprehensive Education Sector Review (CESR) was developed by Ministry of Education, in collaboration with concerns Ministries and development partners and Technical Vocational Education and Training (TVET) is one of areas of CESR, which covers a wide range of technical and skills related to agriculture, manufacture and services (Danish Trade Union Council for International Development Cooperation, 2016). Based on CESR, GoM formulated a National Education Sector Plan for five year period (2016 – 2020). Given a priority on education, the budget allocation for education has increased by NLD led government, from MMK 1406 billion in FY 2015/16 to MMK 1756 billion in FY 2017/18. It is expected that these efforts will directly or indirectly affect the skills development and labour productivity.

Labour Force

The total labour force of Myanmar in 1990/91 was 15.7 million and represented 38.5 percent of the population. At that time, agriculture, livestock and fishery employed around 68% of total work force and industrial sectors and services shared 10.5 per cent and 19.5 per cent respectively on total labour force. According to the Department of Labour, urban unemployment was 9.4 per cent in 1989[19] whereas in 2015, total labour force population had increased to 21.96 million, which represents 64.7 per cent of working age population (15+). Out of total labour force population (15+), 71 per cent of them are in rural areas, and with women accounting for 43 per cent. The agricultural sector employed 51.7 per cent of the employed population while industry sector and service sector represented 16.8 per cent and 31.5 per cent respectively. Myanmar minimum wage was introduced for the first time in 2015, with 3600 MMK (USD$2.75) per day and increased to 4800 MMK (USD$ 3.54)[20] per day in mid-2018. According to Labour Force Survey (2015 & 2017), the nationwide average monthly wages have increased from

[19] Labour market institutions in Myanmar, Myanmar Education Research Bureau (February 1992)
[20] Currency Exchange used is the from June 2018; USD1:1,357.20 MMK

115,400 MMK (USD$80) in 2015 to 170,700 MMK (USD$125.60)[21] in 2017. On average, the wages in service sector are higher than both agriculture and industry sector. The informal employment is a widespread characteristic of the labour market in Myanmar with a share of 87.5 per cent in 2015 and 82.5 per cent in 2017 and female contribution is higher than the male. The feature of work in the formal sector are represented by the lack of employment contracts (especially in rural and agriculture sectors) and own-account workers. About 90 per cent of labour force population completed secondary education and only ten per cent received high school (Grade 9 and 10) and above which also indicates the low levels of education and skills.

According to the census (2014), 2.02 million of Myanmar people are in abroad, especially in Thailand, Malaysia, Singapore and China. Many sources including IOM estimated that the total number of Myanmar people in abroad is significantly higher than recorded census data due to nature of undocumented cases of migration through informal channels. According to the World Bank report (2017), Myanmar shares 33% of intra-ASEAN migration stock. Majority of migrants leave Myanmar in search of better jobs and higher wages. About 53 per cent of the total international migrants are youth (age from 15 to 29) and rural migrants accounted for nearly two - thirds of the total Myanmar's international migrant's population (LFS 2015). The internal labour migration has also been increasing in recent years because of low income in agriculture and economic boom in urban areas. To reinforce this idea, according to a CESD survey conducted in the industrial zone (2017), about 65 per cent garment workers in Yangon migrated from other states and regions within the country which illustrates the magnitude of internal migration.

V. Linkage between Trade and Employment in Myanmar

In general, macroeconomic and labour market policies are important factors that affect a country's employment opportunities and structure. In addition, trade liberalization to some extent has an impact on the rate of employment, which simultaneously has an impact on wage, income distribution, skills and bargaining powers. Different studies conclude the effect of trade on employment takes place in different ways depending on the country-specific factors and development level. Therefore, this last part of the paper finally looks at to what extent trade liberalization has had an impact on the employment dynamics

[21] Currency Exchange used is the from December 2017; USD1:1,359.00 MMK

in Myanmar. This section shall look at five areas: (i) trade, structural transformation and employment, (ii) informality of the economy (iii) trade and global value chains integration (iv) productivity (v) and wages, income inequality and working conditions

Trade, Structural transformation and Employment

As mentioned in previous section, the economy structure of Myanmar has shifted notably toward industrialization process from agriculture dominated economy since late 2010, which is caused by trade liberalization efforts. The shares of industry and services sector to total GDP have increased overtime but the growth in agriculture sector is not strong as others due to constraints such as high production cost, low productivity, low quality products and lack of value chain integration.[22] Consequently, as shown in figure (7), the contribution of agriculture sector to total labour force has reduced overtime while employment shares industry and service sectors increased. Though the real GDP growth rate in industry is the highest since FY 2013/14, the growth rate of employment shares for industry sector was not high as service sector (Figure 7). This may due to higher output of industry sector because of labour productivity or operational improvements. The results in structural changes have an impact on labour market and put pressure Myanmar labour force to migrate to other countries or move internally from rural to urban areas in search of better job opportunities. This evidence show that it is important for the government to facilitate labour reallocations and support measures to help workers in getting quality jobs.

Figure (8) describes the correlation between exports and new jobs registration through Labour exchange offices of MoLIP and about 80 percent of registered jobs represent Yangon and Mandalay Region. Therefore, assumes that this figure reflects only new jobs creation for formal workers, which represent around 19 percent of total labour force. Based on this graph, it suggests that the change in labour-intensive garment sector is more likely to have impact on job creations compared to agricultural and marine commodities. In addition, Sources[23] confirms that the garment sector experienced positive employment when export value of garment sector increase threefold[24]. However, exiting data and literatures lacks to provide conclusions regarding the impact of changes of other commodities' exports on employment and further details study in this area is needed.

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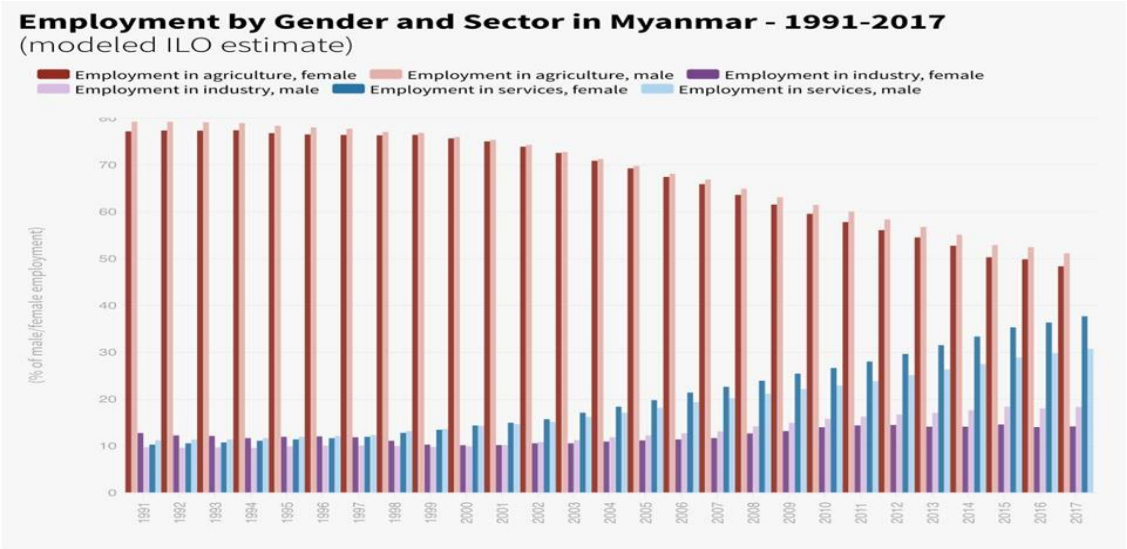
[22] Agricultural Development in Myanmar: Lessons from Korean Experience
http://www.intagrijournal.org/journal/article.php?code=14275

[23] According to MGMA data, the total number of garment workers has increased to 352,150 persons in 2018 from 246,111 persons in 201 and CESD's enterprises and workers survey finds that there was employment growth at 7 percent in garment firms.

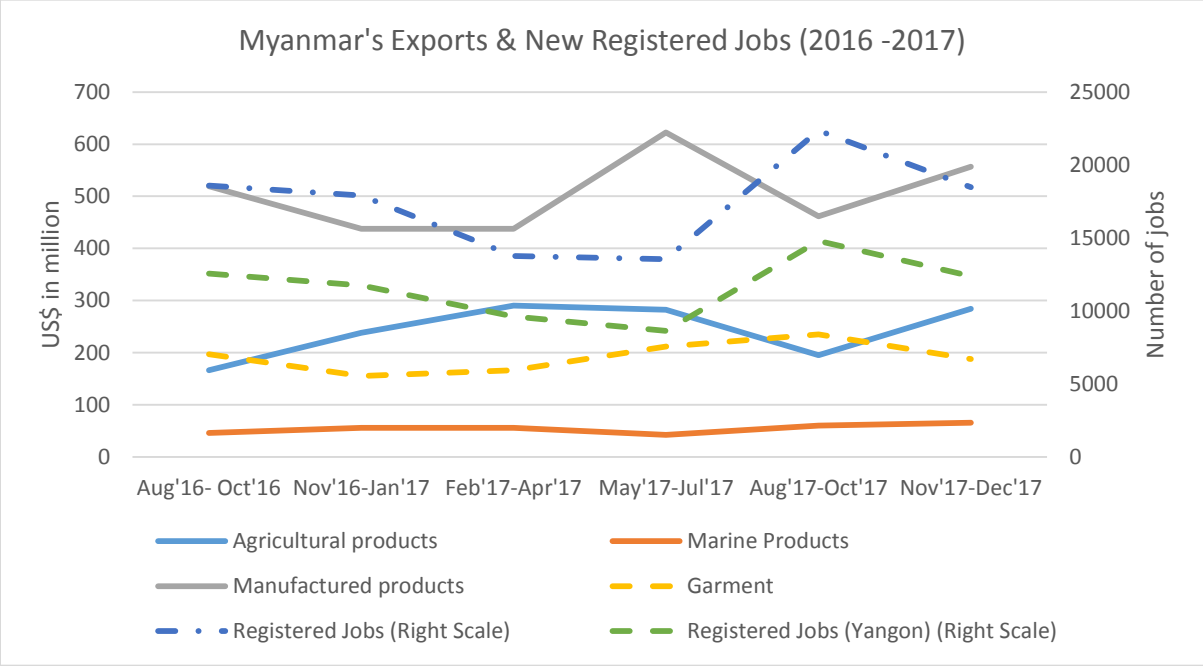
[24] Figure (4)

Figure (7): Employment by gender and sector in Myanmar (1991-2017)



Source: World Bank Gender Statistics Database. Retrieved from https://medium.com/@leighmitchell /employment-by-gender -and-sector-in-myanmar-1991-2017 e6abeac854af?fbclid= IwAR3Vz1Whxo828r77rVZ3UPe7uT1X6WDilqb92XaVSf8ZubujmvmlLOfuVnc

Figure (8): Myanmar's Exports & New Registered Jobs (2016-2017)



Source: Central Statistical Organization, Myanmar & MoLIP

Informality of the Economy

Informality is an important component to be discussed as both trade and labour market are associated with highly informal structure. As mentioned in previous section IV, informal sector employed about 81.9 per cent of total labour force in 2017 and at least over 40 percent of Myanmar's imports from neighbouring country come through informal channels. The impact of trade on informal employment and the consequences of informal trade on employment structure are a lot harder to see the causality unlike the formal economy. According to LFS (2017), wages in the informal sector is 22 per cent less than in formal sector and more formal workers' composition in urban area compared to rural formal-informal composition. A recent minimum wage study conducted by CESD in 2016 found that the average total salary of workers from export oriented garment factories is still eight per cent higher than food processing. The OECD (2013) estimated that around 83 per cent of all businesses in Myanmar were operating without registering at national level. Among registered firms, 21 per cent of those firms were not registered upon start-up (World Bank, 2017). The World Bank's enterprises survey data (2016) confirmed that informal firms in Myanmar have lower sales per worker (labour productivity) compared to firms in formal sector. Unlike other developing countries, there is no relationship between firm-size and labour productivity in Myanmar. Hence, based on previous findings, it can be assumed that workers in formal sector in Myanmar, especially from export-oriented firms has gained more benefits because of trade openness. Furthermore, Myanmar economic reforms and labour policy must involve further development programs/actions to reduce employment informality with the aims of improvement social protection.

Trade and Global Value Chain integration

Nowadays, many countries, including Myanmar strategize their participation in GVC, which has brought benefits such as increased export, creation of jobs, technology and skills transfer etc. Myanmar National Export Strategy (NES) was adopted in 2016 to capture bigger value along the chain. However, these benefits of GVC integration are not automatic, and in some cases, participation in GVC may result in fewer jobs (especially low skilled jobs) in developing countries because firms are required to invest in improved technologies and to meet productivity requirements and strict quality standards (Farole, 2016). As shown in the figure (9), most of Myanmar export items were low value added and mainly generated from extracting resources and labour-intensive activities. Moreover, many Myanmar export products (especially agro based) are facing obstacles to comply with trading partner countries' technical regulations and standards (World Bank & Ministry of Commerce, 2016)[25]. Out of 50 applications for fishery products

[25] https://www.commerce.gov.mm/eif/sites/default/files/aid-trade/eif-catalog-pdf/World%20Bank%20report_DTIS%20.pdf

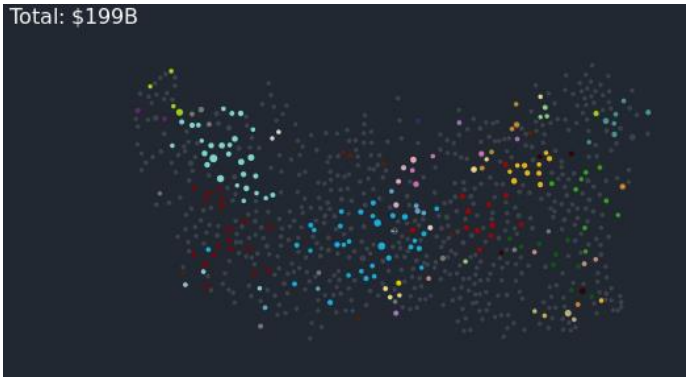
to EU markets, only 13 applications granted certificate of international standard that required for exporting (OECD, 2014). In additional, according to Mandalay Regional Government Development policy (2018) brief, only less than two per cent of registered food processing enterprises in Myanmar have grated safety certificates from Food and Drug Administration department of Ministry of Health in 2017. NES identified that upgrading from CMP (cutting, making and packaging) manufacturing mode to free on boarding (FOB)[26] manufacture mode in textile and garment sector is one of the roadmaps to be achieve. However, up to now, most of the export-oriented garment factories are still in CMP mode as the tax regime and regulations for FOB is not in favour to compete with CMP mode. This reflects that Myanmar's products are still in challenges in integrating global value chains. On the other hand, less than one-fourth of medium and large-scale firms have experienced in exporting their products and most of micro and small enterprises have not engaged in exporting activities (Myanmar Micro, Small, Medium Enterprises Survey 2017). Majority of those firms (which represent about 15 per cent of total surveyed firms) are in Yangon.

In addition, local procedures facing challenges in competing with imported products, especially products from neighbouring countries. In Myanmar, 95 per cent of enterprises are small and medium scales enterprise and their operations are mainly relying on low level of technology. Therefore, local procedures are in difficult positions to complete with products that are smuggled from its neighbouring countries. Myanmar domestic procedures raise out often about their failure in competition with imported products. For example, World Bank's Myanmar Economic Monitor (2016) also highlighted that domestic owned firms in food processing sector face challenges in competing against cheaper and better-quality imported products even in domestic markets. Therefore, the World Bank's Myanmar's Future Jobs (2018) report suggested there are specific changes that Myanmar needs to make in order to harness the benefits of the trade openness. Firstly, there is a need to invest in job-friendly global value chains which can be primarily done through attracting FDI to diverse job-intensive sectors helping SMEs engage in GVCs is key to creating quality jobs. Moreover, it should design mechanisms to respond to and track investors grievances and ensure proper policy coordination to avoid unfriendly investment policies. Finally, it should establish mechanisms to ensure adequate public-private dialogue and increase certainty in investment policies made.

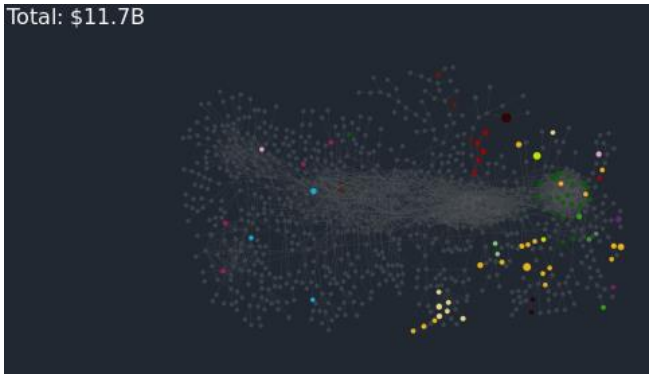
[26] Mode of garment production in which the manufacturer purchases its own inputs, rather than assembling inputs provided by a garment buyer

Figure (9): Export products distribution in comparison with Thailand and Myanmar (2016)

Thailand



Myanmar



Source: mit.edu

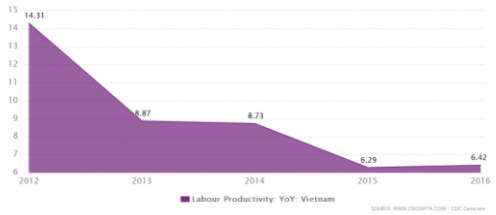
Productivity

The level of productivity is an essential element of competitiveness as it contributes to lowering production cost and increasing real wages; its improves the living standard of workers. However, this agreement is not always linear. The growth of firms' productivity can also be a result of employment losses effects to unskilled and semi-skilled workers (Schwarzer, 2015). Farole (2016) suggested policy on GVCs should pay more attention to productivity rather than its role as a source of job creation, with a strong focus on skills development, in order to adjust potential dynamics of GVCs and labour force's position. According to Danish Trade Union Council for International Development Cooperation's report on Myanmar in 2016, there was a gradually upward trend on Myanmar labour productivity since the 1990's and it accelerated faster after 2010 due to legislation reforms, high economic growth and opening possibilities of special economic zones. Booming of export-oriented garment sector was also one of the major driving factors. On the other hand, on average labour productivity growth rate of Myanmar is still lower compared to its regional competitor such as Vietnam and Thailand (Figure 10).

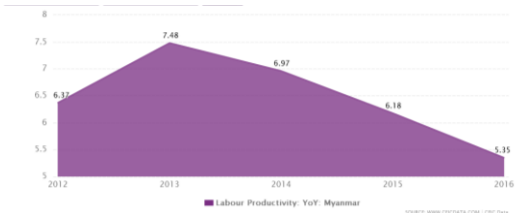
The World Bank's enterprises survey data (2016) confirmed that informal firms in Myanmar have lower sales per worker (labour productivity) compared to firms in formal sector. Unlike other developing countries, there is no relationship between firm-size and labour productivity in Myanmar. Furthermore, Garment firms in Yangon responded that getting skilled worker will be one of the top five major obstacles in coming 2018 for conducive business environment (CESD enterprises and workers survey, 2017). This suggest that skills of labour force of Myanmar are still challenging to compete with its competitors and informality is an obstacle for labour productivity.

Figure (10): Labour productivity Growth in Selected Countries (2012-2016)

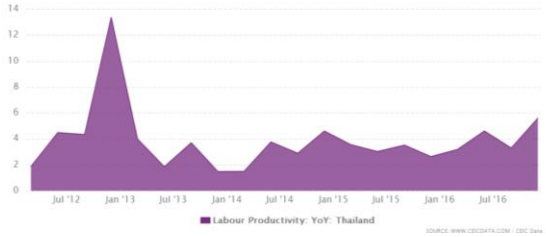
Vietnam Labour Productivity Growth (2012-2016)



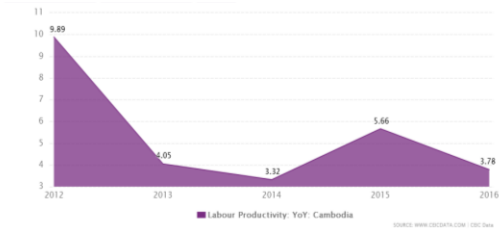
Myanmar Labour Productivity Growth (2012-2016)



Thailand Labour Productivity Growth (2012-2016)



Cambodia Labour Productivity Growth (2012-2016)



Source: ceicdata.com

Wages, income inequality and working conditions

An important question to consider is whether trade helps workers' wages or instead suppressing it? Theoretically, it can be both ways. Workers in the factories/sectors that benefit from trading products in global market may result in a rise in their wages. On the opposite, demand of labour may decrease if their factories face challenges in competition with imported products, so that their wages may be declined. Jansen & Lee (2007) suggest that trade liberalization increase competitive pressures and force firms to restructure and to improve their productivity. In turn, firms gained higher profits and shared the benefits with workers. Schwarzer (2015) suggest that trade contributes to rising wages to both lower skilled and higher skilled workers, but wage differential is dependent on the skills level. According to LFS (2015 & 2017), nation-wide average monthly wages of Myanmar increased 32 per cent from 2015 to 2017 and also find that education level, informal/formal and gender status determine the level of wages among labour force. According to ILO (2016), experienced workers (more than one year) in garment, textile and footwear (GTF) sector earned 16 per cent higher than a new worker (experience with less than a year). In addition, large scale firms in GTF with more than 10 employees were paid four per cent higher than small scale firms with less than 10 employees. The average income of export-oriented garment workers is 8 per cent higher than employees in food processing factories in Yangon (CESD, 2018). Again, CESD's minimum wages study (2018) found that minimum wages policy reduced the income inequality among skilled and less skilled workers, but workers faced pressure for productivity. Therefore,

the above study describes that trade openness helped workers to raise wages and also help in reducing income inequality, at least in the case of export-oriented garment sector.

Due to increasing awareness on reputation sensitivity by international buyers and pressures from advocacy groups, trade and labour standards may be positively linked (Schwarzer, 2015). Myint & Rasiah (2012) study suggested corrupt and poor government policies and poor infrastructure make Myanmar Workers weaker, particularly female workers and create more possibility to be exploited by foreign capitalist, during Myanmar was under sanction by Western communities. This finding shows that foreign capital is not automatically generating better working conditions and the host government play critical role in making sure better working environment and protecting venerable workers not to be exploited. Another issue is as nearly 80 per cent of Myanmar workers are informal workers and it is hard to exercises whether firms comply with legal/international measurement for working conditions. Most of the small and medium enterprises in Myanmar did not have internationally recognized certificates (Deval, 2015). Nowadays, export-oriented firms are required to receive internationally recognized certificate for product quality, environmental and labour standards. According to CESD enterprises and workers survey in 2017, around 30 per cent of surveyed garment firms received internationally recognized certificates including Business Social Compliance Initiative (BSCI) certificate.

Summary and Conclusions

In light of understanding the linkage between trade and employment in Myanmar, this paper has reviewed studies on the impact of trade on employment, especially in the context of developing countries and Myanmar as well as the evolution of policies related to trade and labour market overtime. This study concludes that the picture of this relationship in Myanmar is mixed and the impact cannot be generalised as beneficial or applicable to all workers.

The review in this study points out that trade openness can result in structural changes in the economy and the reallocation of capital and labour, which causes both job creation and job losses. Myanmar's economic structure has shifted from an agriculture-dominated economy towards industrialization, along with trade liberalization and an upward trend of rural – urban migration. Several experts, including ILO, predicted that continued technological advancements in automation systems and Artificial Intelligence (AI) will foster a change thus impacting future jobs. Therefore, the imperative question is how to manage this transition. This impending circumstance has potential impact on the allocation of workers between and within sectors and changes the relative demand for skills. In this context, there is also a need for strategic assistance for displaced workers to find new jobs as the economy

adjusts, especially for women and youth. Thus, there is an agenda on responsive job searching/matching (with the assistance of AI and big data analytics) and retraining policies that Myanmar needs to formulate with short terms targets and long terms visions. Moreover, safe migration mechanisms and insurance policies are needed to facilitate smoother and more efficient labour mobility.

Literature has argued that participation in GVCs can lead to increased demand for skilled labour, skills and technology transfer to local firms and most importantly, help in increasing labour productivity. Due to trade demand, firms shift to more advanced manufacturing processes and replace skilled workers with less skilled workers pushing these workers out. So, what is the case for Myanmar? Even though GoM has identified seven competitive sectors in the National Export Strategy (NES) in order to access GVCs, this study finds that the export products are still low-value added and export market penetration index is only 3.32 while Thailand recorded 17.94 in 2016. Furthermore, the available evidence suggests that small and medium enterprises (SMEs) in Myanmar are far from participating in GVCs. Therefore, a strategy on promoting SMEs and "picking winners" who are competent, is important to strengthen their participation in GVCs, to generate spill over effects to workers in SMEs by trade liberalization efforts.

Moreover, though labour productivity has increased gradually over the last decade, Myanmar's position is still far below most of its neighbouring countries. Statistics showed that education levels of Myanmar's labour force are low and about 90 per cent completed only secondary school education (LFS, 2015). Additionally, survey results confirmed that only a few workers (including workers in export-oriented firms) received skills development training provided by firms. Evidence suggests that labour productivity in informal sector in Myanmar is much less in comparison to the formal sector. In such circumstances, education and skills development policies should be given importance to overcome such basic barriers to industrial development and labour productivity. These days, it is hard to predict the skills needed for future employment because of global dynamics and technological changes. Therefore, flexible education and skills development policies are needed in order to respond to globalization and market changes. In addition to the above, the strengthening of existing social protection mechanisms and capacity of labour groups will be needed to ensure benefits to workers leading to better export performance. The previous evidence from Myanmar postulated that without the demand of buyers/trade partners and/or government led social protection mechanisms, workers will possibly be in a vulnerable position to cater to increasing demand conditions of working environments.

Another important consideration is in terms of national strategy on which sectors to be at the front lines for free trade and which are needed to mitigate effects of trade liberalization. Theoretically and evidently, trade liberalization promotes growth and helps in job-creation - but this achievement is not simple, and the process is not linear. There are always winners and losers in the game in most of the cases. On the other hand, trade liberalization helps in increasing access to imported goods in domestic

market and sometimes, domestic firms face challenges in terms of competition with imported goods, especially with cheaper-priced imported goods. Sometimes, domestic firms lower the working conditions and benefits to workers to reduce the cost of production as a tool to battling the competition from cheaper-priced imported goods instead of focusing on productivity. At the same time, some argue that cheap imports complement domestic production and help export products for competition. For Myanmar, according to the World Bank's Economic Monitor (2018) report, the main driver of strong import growth was because of demand for raw materials, especially petroleum products due to the need for electricity and transportation. Meanwhile, media reports often report the concerns of local procedures in competition with imported products, especially from China. Most notable, a significant share of Myanmar's imports from its neighbouring countries comes through informal channels. In this context, it is unclear whether trade liberalization efforts and informal trade effects eliminate domestic production or complement it. Existing literature lacks to provide an answer regarding impact of these activities on employment and further research in this area is needed.

As discussed in previous chapters, preferential trade agreement with some developed countries have positive effect on trade and employment, especially in labour intensive sector. However, recent political turmoil threatens to reduce the flows of foreign investment, especially from western countries. In addition, EU is in discussion to consider withdrawing Myanmar's GSP privileges because of controversial crisis in Rakhine State, which would cause a decrease in garment and other labour intensive products export as well as a significant loss of jobs, particularly female workers. In this situation, an active trade diplomacy is an important step to avoid unnecessary constraints to trade growth and job creation.

The output of agriculture and labour growth of agriculture did not show a significant positive trend but a majority of the labour force of Myanmar is still employed in the agriculture sector and located in the rural areas. Apart from natural gas, agriculture and marine/fishery products shared the highest on total export revenue. In this context, a coherent strategy to stimulate agriculture and marine/fishery exports with high rate of return and toward quality job creations will essentially be important to contribute towards immediate impact to a large portion of labour force's living standards in Myanmar. Finally, a review of literatures and evidence highlighted that there is no blanket formula of trade liberalization that is applicable for all countries, especially for developing countries. The issue is how to manage forces interacting and generate better gains. Based on the discussions, this study recommends a strong leadership and effective coordination among stakeholders and institutes with clear objectives to respond to present changing dynamics in trade context as well as social security provisions to make sure workers receive the they deserve.

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