

# Myanmar Covid-19 Industrial Sector

A Series of Real Estate Market Briefs: Part 5  
**INDUSTRIAL SECTOR**

June 10th 2020



## INTRODUCTION

For our third in-depth sector brief, SPS and Tractus Asia Ltd. look at how COVID-19 has impacted industry in Myanmar. Tractus Asia Ltd., ([www.tractus-asia.com](http://www.tractus-asia.com)) is a pan-Asian strategic advisory firm providing advice and assistance to multinational companies and governments on succeeding in emerging Asia. The brief looks at contextualising the impacts of COVID-19 by exploring the industrial market prior to the pandemic, before explaining which sectors have been more gravely affected by the crisis. The brief then describes the government response and the role that state-owned factories have played during the pandemic. The article then takes a look at the new Industrial Zone Law that was released last week and has the potential to encourage future FDI. Finally, the brief concludes by exploring the future outlook of industry in Myanmar, once the COVID-19 threat has subsided.

## EXECUTIVE SUMMARY

- Although 2020 started strong, COVID-19 has meant industrial inquiries will be deferred until the economic situation improves.
- Myanmar industry initially faced supply chain issues as COVID-19's impact on China disrupted access to raw materials.
- Myanmar's garment sector has been gravely impacted by the effects of COVID-19 as demand from Europe and the West plummets.
- Lockdown restrictions within Myanmar causes major obstacles for manufacturers that supply the domestic market.
- Future industrial zone developments could see plot prices fall as foreign investors cut overseas budgets.
- The Myanmar Government release the COVID-19 Economic Relief Plan (CERP) which includes measures to minimise the damage for industrial companies.
- The introduction of a new Industrial Zone Law looks likely to encourage future FDI.
- E-commerce, logistics and tech-based companies are among those who have best weathered the COVID-19 storm.

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## INDUSTRIAL MARKET OVERVIEW

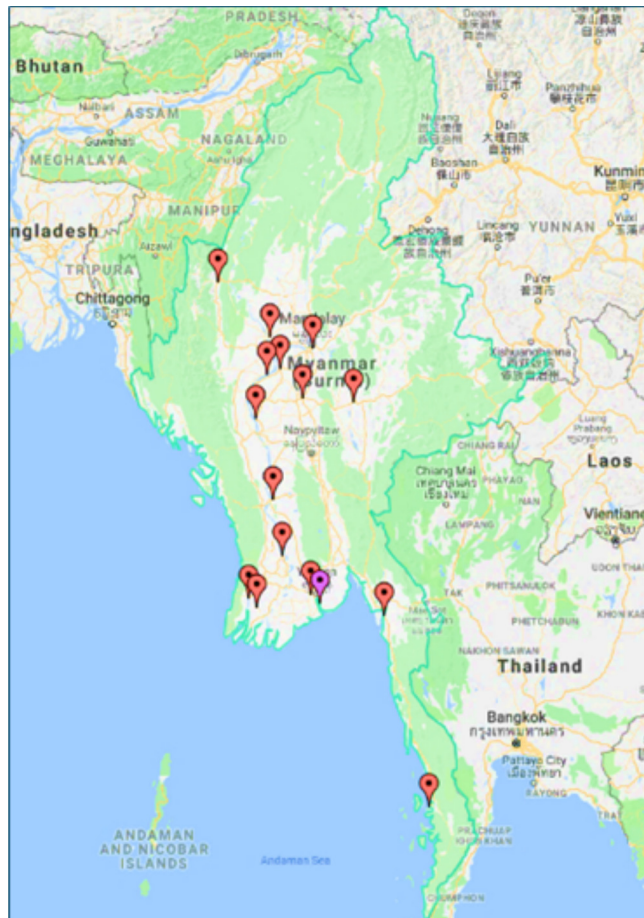


According to the World Bank, GDP growth in Myanmar's industrial sector was anticipated to increase to 6.5% in 2019/20.

Prior to the COVID-19 pandemic, industry in Myanmar had been profiting from a cycle of robust economic growth, a more attractive environment for foreign investors and the further liberalization of regulatory reforms. Growth in the industrial sector has largely been fueled by low cost labour, an increase in domestic demand and enticing incentives within economic zones. As a result, the World Bank's "Myanmar Economic Monitor December 2019" report stated that "the industrial sector grew by an estimated 6.4% in 2018/19, driven by rising investment in manufacturing. Manufacturing growth reached 8% in 2018/19," which the Bank projected to be the fastest growing economy in ASEAN. Such growth has been supported by programs such as the Everything But Arms (EBA) scheme which has been implemented by the EU.

Furthermore, the World Bank report also suggested that the "industry sector is expected to grow at a faster pace in 2019/20 than 2018/19, with growth in manufacturing activities driven by foreign firms' entry." As such GDP growth in the industrial sector was anticipated to increase to 6.5% in 2019/20.

With that being said, Myanmar is scheduled to hold a general election in November 2020. With this event on the horizon, most businesses expected that 2020 would see relatively flat, if not a drop, in foreign direct investment. However, the early months of 2020 indicated that those assumptions may have been wrong. Inquiries on industrial land, applications for Myanmar Investment Commission Permits and assessments of local distribution partners all increased during the December to March period between 2018/19 and 2019/20. COVID-19 however quickly quelled that renewed interest in Myanmar with many of those inquiries deferred until the economic fallout of COVID-19 lifts.



# COVID-19 IMPACT



*"A lot of Korean companies have had to make huge cuts to their overseas budget and are pulling out of Myanmar. Some of these companies have been in Myanmar for several years but now have to leave."*

**-Kim Gunwoo, Chief Representative at Korea Land and Housing Corporation (Myanmar Representative Office)**

Myanmar was hit by COVID-19 in three stages that impacted the export-oriented industrial sector hardest, but also had implications for food processors supplying products for domestic consumption. In the first stage, during the early months of COVID-19, as China went into lock-down, many companies that relied on raw materials from China to manufacture goods for export faced supply chain shortages. Some of these companies shuttered factories during those months, unable to produce goods on order. Others, able to stock enough raw materials prior to the lockdown in China, faced a second wave of COVID-19 disruption as markets across Europe and North America went into lockdown. Orders from customers in these markets were cancelled abruptly and without a scheduled date of resumption for any goods not related to Personal Protective Equipment (PPE). With few alternatives, more companies were forced to shutter without any orders on book.

The garment sector was most affected during phase one and two of COVID-19's impact on Myanmar. Of the six hundred and eight factories operating as members of the Myanmar Garment Manufacturer Association registered in the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), which includes domestic and foreign-owned companies, more than one hundred and twenty companies closed during the months of March and April 2020. Many of these were foreign companies that could no longer afford paying rent and salaries while orders were cancelled. The major cluster of closures was centered in Yangon where the majority of factories operate, but also includes factories in Ayeeyarwady and Mandalay Regions.

Imports and exports also saw a decline during the same period. The number of containers that entered Myanmar declined from 55,995 in March to 42,723 in April and 41,206 in May. On the outbound side, the fall was more precipitous during March to April where it fell from 52,923 to 37,054 before recovering to 48,350 in May. The month of April, and the Buddhist New Year Holidays, typically see a fall in inbound and outbound traffic, but the decline was more dramatic in 2020 as companies instituted closures and followed operating guidelines set by the Government of Myanmar.

In the third phase, companies manufacturing for largely domestic consumption saw the greatest impact. Myanmar's prudent decision to institute curfews, travel restrictions, and lockdowns during April and much of May to stem the spread of COVID-19 within its borders, impacted production lines, transportation of raw materials and finished goods, which impacted the overall capacity of the businesses.

However, in discussions with a variety of industrial zones around Myanmar, SPS found that COVID-19 related impacts have not been as drastic as in other sectors. A number of the industrial zones noted that although inquiries had certainly fallen, they had not completely dried up. As a large proportion of these industrial zones are operating at high occupancy rates and have sold most of their plots, this reduction in inquiries has not caused an enormous amount of concern. However, there are those developing industrial zones that believe COVID-19 could cause major issues. Kim Gunwoo, Chief Representative at Korea Land and Housing Corporation (Myanmar Representative Office) who are currently working on the Korea-Myanmar Industrial Complex (KMIC), told SPS "our main issue at the moment is that travel restrictions, that have been introduced to control the virus, have meant our Korean technicians are unable to visit Myanmar and carry out mandatory surveying work." Kim also noted that; "a lot of Korean companies have had to make huge cuts to their overseas budget and are pulling out of Myanmar. Some of these companies have been in Myanmar for several years but now have to leave." This is of particular concern to Kim, as well as other developers, as potential foreign investors tighten budgets or even look to pull out of Myanmar.

# GOVERNMENT RESPONSE & STATE-OWNED ENTERPRISES (SOE):



The CERP has offered relief to companies leasing land and factories from government ministries

The Myanmar Government announced the COVID-19 Economic Relief Plan (CERP) on 27th April 2020, to coordinate a whole of government response to economic disruptions in the market. Included within the CERP are provisions to accommodate foreign and domestic businesses that lease State-Owned Factories and land from government ministries. The Ministry of Planning, Finance and Industry (MoPFI) has a total of fifty-seven factories under their control that are leased to a majority of domestic, but also a small portion of foreign businesses and the CERP was designed to offer economic relief to those industries. All land in Myanmar is owned by the government, and many companies lease that land directly, especially in sectors like hotels.

The CERP has offered relief to companies leasing land and factories from government ministries. The MoPFI has offered deferred payments through October 2020 for companies leasing MoPFI owned factories and the Ministry of Hotels and Tourism did the same for hotel operators leasing state-owned land. The responses from MoPFI have however been slowly instituted and with ad hoc measures. While the term "Force Majeure" has not been used by the government bodies in reviewing applications of granting force majeure from the companies leasing factories, the deferred payment process does offer temporary relief.

The CERP also states that companies who are leasing State-Owned Factories, have made progress in their business (i.e. manufacturing products for sale/export) and are current with all payments can be exempted from rental fees during the shutdown period and not forced to pay deferred rent in October. The MoPFI has not, at this time, provided for a full exemption for companies that are seeking that relief. Deferred rental fees during the March - October period are required to be paid in full by October. Additionally, most MoPFI factories can include upwards of one hundred and fifty to three hundred government workers, and it is the responsibility of the leasing companies to pay the salaries of those workers. Despite many factories being shuttered, private workers at those factories being laid off, and orders for production cancelled with no sign of new orders on the horizon, the government still requires those companies leasing state-owned factories to pay the salaries of government workers throughout the factory shut-down period, adding further financial stress to companies that are already facing unpredictable economic situations.

Coordinating responses with government bodies to apply for force majeure, advocate the case of a company, and receive responses has also been complicated due to restrictions on travel to Nay Pyi Taw and the proliferation of committees that have a role in the decision process. The policies in place are made in the best interest of calming the volatile economic situation that COVID-19 has put on Myanmar's export-focused manufacturing industry. However, the numerous government ministries, committees within those ministries, and individuals on those committees has made for uneven and confusing interpretation of the CERP.

# NEW INDUSTRIAL ZONE LAW

Myanmar released the Industrial Zone Law on 27th May 2020 after being passed in the Union Parliament. The law will reshape management of the existing sixty-three Industrial Zones in Myanmar, 46% of which are located in Yangon. The new law is aimed at establishing a network of committees at the central, regional, and industrial zone level to better manage the development of new industrial zones in Myanmar and the use of land in existing industrial zones. At present, only the Industrial Zone Law has been released, and businesses are awaiting the associated by-laws that will be written by the MoPFI to fully assess how the law will be implemented and regulated, but the introduction of the law as it currently is can be seen as positive from a foreign investment perspective.



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Map displaying the Industrial Zones of Yangon (Source: Tractus)

The Industrial Zone Law will do a lot to decrease land speculation and provide surety of title to foreign investors. Presently, much of the industrial zone land in Myanmar has been purchased by Myanmar citizens on speculation. Many of the plots owned by citizens remain undeveloped. A foreign investor seeking land in an Industrial Zone will therefore engage with the Myanmar landowner and negotiate prices for the desired plot. This can create land prices that are vastly inflated because the individual landowner will determine the price, often based on outdated market prices, and not reflecting current conditions. This creates a market where land prices vary substantially across industrial zones in specific regions, and even within a single industrial zone. Additionally, land may transfer multiple times between landowners, which creates a complex collection of legal documents that foreign companies must review to ensure surety of investment. The law will limit these market dynamics that have come to define industrial real estate in Myanmar.



The Industrial Zone Law will now require persons that purchase plots to submit their business plan within six months from the land sale transaction.

Industrial Zone	Sale Price US\$/Sqm
Wartayar IZ Thardukan IZ Mya Sein Yaung IZ Ngwe Pin Lae IZ	10US\$ 40 - 60
Shwe Than Lwin IZ Dagon Seikkan IZ Hlaing Tharyar IZ (5) Yangon IZ	US\$ 60 - 80
North Okkalapa IZ East Dagon IZ Thaketa IZ Shwe Lin Ban IZ	US\$ 80 - 120
Shwe Pyi Thar IZ (1,2,3,4) Hlaing Tharyar IZ (1,2,3,4,6,7) South Okkalapa IZ Shwe Pauk Kan IZ South Dagon IZ (1,2,3) Minglardon Industrial Park	US\$ 120 & above

The Industrial Zone Law will now require persons that purchase plots to submit their business plan within six months from the land sale transaction. The business plan will be submitted to the newly established committees that provide greater regulatory oversight. If the individual does not finish the submitted business plan within an approved timeframe, which has not been established in the released law, they will be fined 10% of the land value on a yearly basis. In the event that the landowner has not developed their business, and cannot pay the instituted fines, they will lose the land usage permit. The law states that the newly established committees will review land in the existing industrial zones to catalogue those plots that have not been developed and require the landowner to submit a plan according to the framework. If the landowner seeks to transfer their land to another investor, it will need to go through the regional committees for approval, providing a safeguard to ensure the legality of transfer and title of the land.

There are large amounts of land that remain undeveloped in industrial zones throughout Myanmar and Yangon. Although the process of cataloguing and following the business plan submission will take time to enforce, the new law will eventually increase the supply of industrial real estate in the market, it will decrease the speculation that has led to Myanmar having largely inflated land prices compared to the region, and provide greater surety of investment to foreign companies. The yet to be drafted by-laws will provide further clarity on many of the questions businesses currently have, but from a foreign investment perspective the move to regulate the industry is positive.

# FUTURE OUTLOOK FOR INDUSTRIAL SECTOR-COVID-19



*"Our outlook remains strong, and innovation remains key in bringing reliability to the Myanmar logistics market. Although we are seeing a return to 'normal', Myanmar still remains a long way from 'predictable.'"*

**- Jamie Robinson, CFO at Karzo**

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# CONCLUSION

Overall, the further liberalisation of the economy, the introduction of laws such as the Industrial Zone Law, and the continued digitalisation of Myanmar will all play a key role in encouraging FDI in the country's industrial sector. Although COVID-19 will have hugely negative impacts on Myanmar industry in the short-term, it is likely that in the longer term, industry will bounce back and continue to grow at, and perhaps even exceed pre-COVID-19 rates.

If you would like you to find out more about industrial real estate in Myanmar and how COVID-19 impacts your real estate assets, contact SPS for bespoke consultancy services.

Alternatively, if you require bespoke industrial consultancy services, please contact Tractus Asia Ltd. Tractus Asia Ltd., ([www.tractus-asia.com](http://www.tractus-asia.com)) is a pan-Asian strategic advisory firm providing advice and assistance to multinational companies and governments on succeeding in emerging Asia.

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