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Made in Myanmar

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Manufacturing Site Location Considerations in Asia's Final Frontier Economy

Manufacturing site location decisions are irrevocable. The right location decision can have a profound effect on a firm's success at meeting its strategic, operational and financial objectives. The wrong decision can put it at a competitive disadvantage and, at worst, out of business in a particular market. Determining the optimal location to establish a manufacturing operation can be a daunting task; particularly in developing economies that notoriously lack accurate and reliable information on investment and operating costs and conditions. Nowhere is this truer than in Myanmar, widely considered as Asia's final frontier economy and today's rock star investment destination.

While Myanmar deserves consideration as a manufacturing destination, the location decision needs to be grounded in a rigorous, analytical and objective location screening process to ensure a defensible result. Myanmar, like other frontier markets, has attracted attention because of its low nominal wage rates, but labor costs are only one consideration in a manufacturing location decision; in many cases not the most important.

The World Bank has examined the factors that drive investment location decisions for the last two decades. Little has changed in the "Top-10" location factors over this time period. Manufacturers have a surprisingly consistent need for a set of investment and operating costs and conditions that lead to success. Tractus' own experience undertaking manufacturing site location assignments over the last 18 years reinforces these observations. Our own "Top-10" is derived from assignments in sectors as diverse as semiconductors, hard disk drive and automotive components, power tools, food ingredients, food processing, and textiles and garments.

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Top 10 Manufacturing Location Factors	
Political & social stability	Ease of doing business
Electricity availability	Availability of industrial land
Proximity to container port	Supply of skilled/technical labor
Availability of suppliers and vendors	Supply of operator labor
Total manufacturing costs	Supply of managerial talent

Note: Not in rank order; ranking is highly dependent on the type of manufacturing activity
Source: Tractus Research

Some of these are critical or must have criteria, which, if not possessed by the location, preclude it from further consideration. These are not necessarily the most important, but rather represent the minimum requirements for a location to be considered. Others are important or want to have criteria; desirable, but if not met do not preclude a location from further consideration. They're used to compare short-list locations that meet minimum threshold requirements.

In Pay to Play: Evaluating the Basic Cost of Doing Business in Myanmar, Joshua Brown from Tractus provided an overview of many of the basic costs of doing business in Myanmar. Myanmar clearly has an advantage over Thailand in basic wages and salaries, but Thailand is no longer the low labor cost manufacturing location it once was. When stacked up against other frontier and emerging manufacturing destinations in Asia, Myanmar's advantage is less striking.

Relative Basic Un-Loaded Manufacturing Wage Comparisons

Country	Basic Wage[1] (local currency)	Basic Wage[1] (US$)
Thailand	THB 7,800	US$260
China (Yunan)	RMB 1,265	US$207
Cambodia	KHR 336,000	US$80
Indonesia	IDR 830,000-2.2 million[2]	US$75-200
Laos	LAK 626,000	US$78
Vietnam	VND 1,650,000-2,350,000[2]	US$78-111
Myanmar	MMK 50,000 - 110,000[3]	US$59 - 129
Bangladesh	BTK 3,000	US$39

Notes: 1 - All wages are unloaded and do not include deduction of taxes, social contributions, etc.
2 - Minimum wages vary based on geographic location
3 - Myanmar currently has no statutory minimum wage; wage noted here represents market wage for manufacturing operators
Sources: US Department of State, Local News, Wage Indicator Foundation, Official Government Estimates, Tractus Research

Myanmar tops the charts, however, in its relative availability of labor. Its population of about 60 million is home to a labor force estimated between 30-37 million people. Of these, about 66% are employed in agriculture, compared to Thailand's 16%. As economies develop, labor moves from agriculture to manufacturing to the services industry and Myanmar will have a significant advantage in this regard for years to come as people move off the farm and onto factory payrolls.

Labor supply considerations have a quality component as well. While Myanmar leads Asia in terms of its relative availability of labor, favorable labor population demographic, the average citizen only has a fourth grade education. With this under-educated population, even low skill manufacturing sectors like garments, footwear and light manufacturing will need to invest heavily into basic skills training until the government rebuilds its primary and secondary educational systems and starts graduating enough students with the basic skills for entry-level manufacturing positions.

Similar quality constraints are highly visible in the supply of skilled and technical labor as well as managerial staff. Closed for decades, Myanmar's economy lacks a deep bench of talent experienced in hard and soft manufacturing skills expected by multinational companies. In the short- and medium-term, manufacturers that find Myanmar to be the optimal location based on other non-labor criteria such as access to specific raw materials, e.g. agricultural inputs, will need to supplement locally hired employees with a mix of repatriates and expatriates recruited from within Asia and farther afield.

On other Top-10 manufacturing location criteria, Myanmar generally fares poorly or is no better than its regional peers. On the very subjective factor of political and economic stability, the World Bank's Governance Indicators Project ranked Myanmar with the lowest levels of political stability and absence of violence/terrorism over the last five years, well below its regional neighbors Laos, Vietnam, Cambodia, Sri Lanka and Indonesia. In contrast The Economist Intelligence Unit's Political Instability Index, which takes into account the underlying political vulnerability and levels of economic distress in a society and economy, ranked Myanmar almost equal to these same peers who don’t necessarily have a stellar track record of good governance.

The World Bank also publishes its annual Ease of Doing Business report that ranks 189 countries’ business competitiveness. It is the gold standard for an apples-to-apples comparison of the ease of running a business around the world. In 2013, the first year Myanmar was ranked, it came in at 182, besting countries such as the Democratic Republic of the Congo, South Sudan, Libya and Chad. Myanmar's lack of transparency and standardization in bureaucratic processes resulted in the not surprisingly poor ranking. Everything from registering a company, opening a bank account, obtaining telephone service, transferring foreign currency into the country, and others are all exceptionally difficult in the emerging nation.

With an electrification rate estimated by the ADB to be no more than 72% in Yangon and as low as 20% in rural areas in 2013, Myanmar ranks as one of the least wired countries in Southeast Asia. This is coupled with an antiquated electricity transmission and distribution system suffering from line losses of about 29%, on average, between 2003 and 2010, and insufficient electricity generating capacity to ensure a consistent supply of power. This means that manufacturers need to self-generate, driving up not only one-time investment costs, but depending on the season, the actual costs of electricity to anywhere from US$0.20 - 0.30 per kWh. The cost of electricity can reach up to three to four times the cost in neighboring countries such as Thailand, Vietnam and Indonesia which have reliable grid systems that manufacturing companies can depend on without having to resort to expensive back-up generation.

While other criteria drive the decision where to operate, the availability of industrial land is the ultimate criterion determining where to locate. Established industrial zones are typically the preferred locations for manufacturing projects. They typically offer a manufacturing investor surety of title, land usage/zoning clarity, mitigation of environmental liabilities and developed utility and physical infrastructure (electrical substations, wastewater treatment systems, telecoms switches, road and rail access, etc.). In many countries these locations also offer the most attractive economic development incentives in addition to an environment that facilitates the rapid development of the project while minimizing the time to close when buying land or land usage rights.

Myanmar's industrial zones offer few, if any, of these benefits. Those that do, such as the Mitsui developed Mingaladon Industrial Park (MIP) and the locally developed Yangon Industrial Park are not only small by international standards, but have little or no vacant land available. The other 26 industrial zones and one nearby Special Economic Zone (Thilawa) in and around Yangon suffer from unclear title, a decentralized management structure, and a dearth of centrally-planned and managed utilities and physical infrastructure such as storm drainage and wastewater treatment systems. Moreover, manufacturing activities are not restricted to industrial zones nor are they encouraged to do so by way of enhanced economic development incentives as in Thailand and many other countries.

Manufacturing site location decisions are irrevocable once made and the costs of closing an operation and relocating it are enormous. We caution companies to look carefully before they leap into a decision to manufacture in Myanmar; but if they do, choose a location carefully. While Myanmar presents many challenges for manufacturing investors, and we advise undertaking a systematic analysis of the investment and operating costs and conditions of operating there, these factors are not static and need to be monitored over time. Like a site location decision, Myanmar's opening and development appear to be on an irrevocable path of improvement. Operating conditions will improve, challenges will lessen, and Myanmar's inherent advantages as a manufacturing location relative to its neighbors will become clearer. Wayne Gretzky said that his key to being considered the world's greatest hockey player was his ability to skate where the puck was going and not dwell on where it was. Manufacturing's puck is going to be Myanmar; it's only a matter of time when it enters the goal.

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