14 December 2020

LDC Graduation Assessment: Myanmar

This document was prepared by the secretariat of the Committee for Development Policy (CDP), within the United Nations Department of Economic and Social Affairs (UNDESA), based primarily on 1) official data collected in accordance with definitions and methodologies established by the CDP; 2) the "vulnerability profile" prepared by UNCTAD and included in full in Annex 1; 3) the ex ante *assessment of the impact of Myanmar's graduation from the LDC category ("impact assessment"), prepared by UNDESA and included in full in Annex 2. Earlier drafts of this document have received inputs from the United Nations Resident Coordinator's office, representatives of other UN entities in Myanmar and representatives of the entities that compose the United Nations Inter-Agency Task Force on Graduation.*

Highlights

- Myanmar is expected to meet the graduation criteria for the second time at the CDP's 2021 Triennial Review, and would therefore be eligible to be recommended for graduation.
- Myanmar has made significant progress in economic and social development since the early 2010s. Important challenges remain, including high poverty rates, high vulnerability to disasters, and a structural transformation process that is still incomplete. There are large inequalities, with conflict-affected regions faring significantly worse.
- The effects of the COVID-19 pandemic have affected critical elements of the country's recent development including exports, tourism and remittances. The government has responded with a COVID-19 economic relief plan (CERP), for which it has the support of international partners. It is committed to the goals of the Myanmar Sustainable Development plan, but expects achievements to take longer than originally forecasted.
- Graduation is not expected to significantly affect international development cooperation, with the exception of a small number of specific instruments. The main impacts of graduation will be on trade. In particular, Myanmar will no longer have access to the duty-free, quota-free schemes and more favorable rules of origin that are exclusive to LDCs. In practice, garment exports to the European Union are expected to be the most affected, although Myanmar will continue to benefit from the Everything But Arms scheme for three years after graduation.
- If recommended for graduation, a smooth transition out of the LDC category will depend on measures to overcome the impacts of graduation as well as measures to secure continuity of development progress in the context of global and national recovery from the COVID-19 pandemic, leaving no one behind.

I. Graduation from the LDC category: criteria, process and Myanmar's performance

The United Nations Committee for Development Policy (CDP) examines the list of least developed countries (LDCs) every three years to identify any countries that may qualify to enter or leave ("graduate from") the LDC category. To decide whether a country is ready to graduate from the category, the CDP analyses the country's performance against pre-established criteria. It also assesses the country's broader situation and whether any factors, not necessarily captured by the graduation criteria, could significantly affect the country's development trajectory in the foreseeable future (sections II and III), or if the expected impacts of graduation would threaten a reversal of the country's performance on the LDC criteria (section IV). This document and its annexes provide inputs for the CDP's decision in the case of Myanmar.

The CDP has stressed the need for graduating countries to prepare for a "smooth transition" out of the category, in which it should be supported by its development and trade partners. It has also called for a dialogue about this support among government and partners, supported by the United Nations Resident Coordinator's office. Section V of this document suggests starting points for these processes.

A. Graduation criteria and process

The list of LDCs is defined on the basis of three sets of indicators determined and periodically reviewed by the CDP: GNI per capita; the Human Assets Index (HAI), which includes indicators of health and education; and the Economic and

Environmental Vulnerability Index (EVI), a measure of structural vulnerability to economic and environmental shocks.[1] The CDP reviews the LDC category and identifies countries that may be ready for graduation at its "Triennial Reviews". The last Triennial Review took place in 2018 and the next is scheduled for February 2021.

To become eligible for graduation, a country must first meet pre-determined thresholds for two out of three criteria at two consecutive Triennial Reviews.[2] At the second of these reviews the CDP also reviews information on the country's development trajectory, its vulnerabilities and the impacts of graduation, in addition to the government's position on graduation. Depending on the results of this analysis, the CDP may recommend the country for graduation. The Economic and Social Council (ECOSOC) must then endorse the CDP's recommendation and the General Assembly must take note.

In principle, a country graduates from the LDC category three years after action by the General Assembly. The CDP will include in its recommendation a statement on whether the standard preparatory period between action by the General Assembly and effective graduation is appropriate or whether a longer period, of no more than five years, is justified. The CDP may also include recommendations on priority areas and support to ensure a smooth transition.

B. Graduation criteria thresholds and Myanmar's performance

The graduation thresholds for the 2018 and 2021 Triennial Reviews are summarized in the following table. The graduation criteria data considered for the 2021 Triennial Review will not yet reflect the direct or indirect impacts of the COVID-19 pandemic. These impacts will be analyzed by the CDP based on additional information provided in this document and its annexes and in the Comprehensive Study on the Impact of COVID-19 on the LDCs it is undertaking at the request of ECOSOC, for which Myanmar has submitted inputs.

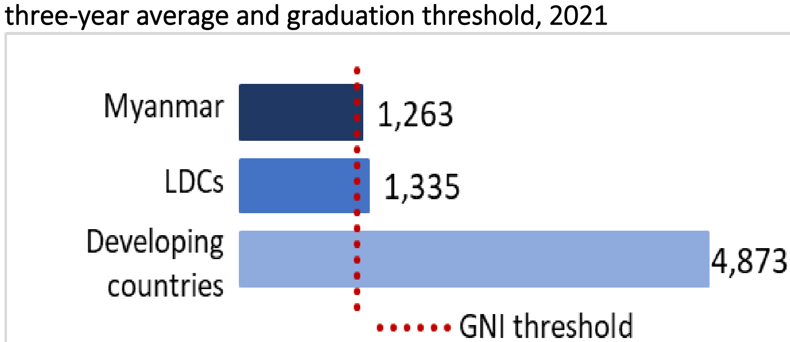
Table 1. Graduation thresholds 2018 and 2021

	GNI per capita*	Human Assets Index (HAI)	Economic (and Environmental) Vulnerability Index (EVI)
Graduation thresholds 2018	1230 and above	66 and above	32 and below
Graduation thresholds 2021	1222 and above	66 and above	32 and below

Source: CDP Secretariat. * Three-year average of GNI per capita in United States dollars, using conversion factors based on the World Bank Atlas methodology

Myanmar was found to meet all three of the graduation criteria for the first time at the 2018 Triennial Review. According to preliminary data, it will meet the criteria again in 2021. Estimated values as of November 2020 are: GNI per capita of USD 1,263; HAI of 73.6; EVI of 24.3. Figures 1-3 show Myanmar's performance on the LDC criteria. Note that meeting the graduation criteria in the case of the EVI means having an index lower than the threshold.

Figure 1 Myanmar: per capita GNI, US dollars, Atlas conversion, three-year average and graduation threshold, 2021



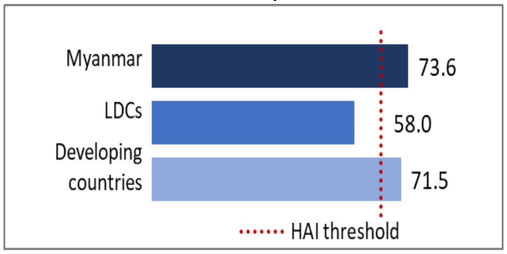
Source: CDP Secretariat, based on United Nations Statistics Division National Accounts Main Aggregates Database (AMA) (http://unstats.un.org/unsd/snaama/) and the World Bank Atlas methodology for converting local currencies into US$.

[1]Please see information on the composition of each of the indexes at https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html. In 2020 the CDP approved adjustments to the Economic Vulnerability Index, which it renamed Economic and Environmental Vulnerability Index, while conserving the acronym (EVI). Information on the changes adopted can be found in the Report on the twenty-second session (24-27 February 2020) of the Committee for Development Policy, Economic and Social Council document E/2020/33, Official Records 2020, Supplement 13 (https://undocs.org/en/E/2020/33).

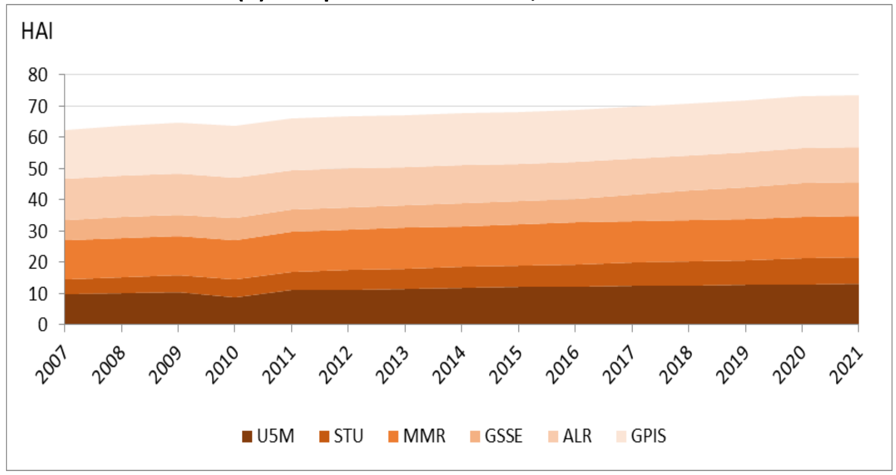
[2] Alternatively, GNI per capita must exceed twice the graduation threshold level ($2,460 at the 2018 triennial review) and there must be a high likelihood of sustaining that level of income per capita. This is not relevant for Myanmar's case.

Figure 2 Myanmar: Human Assets Index, 2021

(a) Performance against graduation threshold, 2021



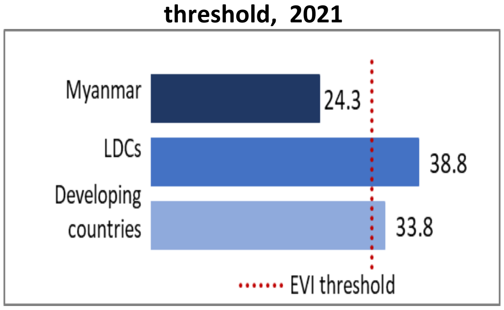
(b) Components of the HAI, 2007-2021



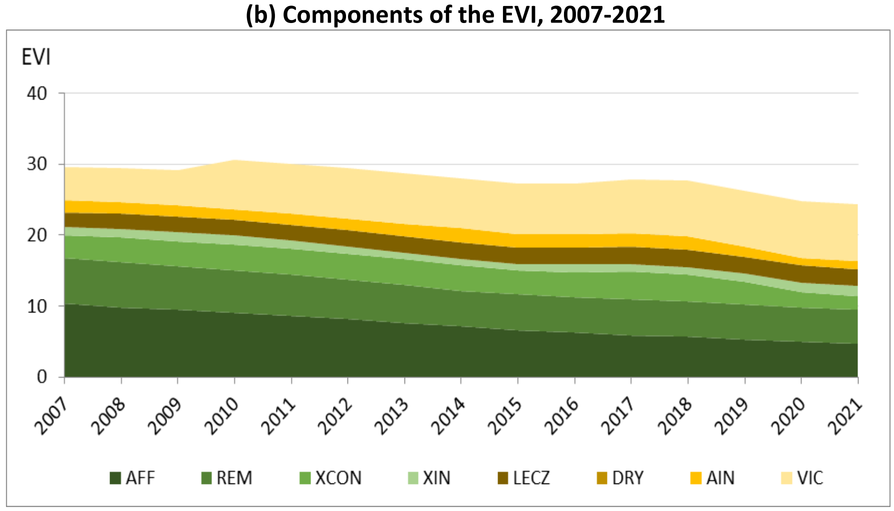
Source: United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria. November 2020. U5M=Under-5 mortality rate; STU=Prevalence of stunting; MMR=Maternal mortality ratio; GSSE=Gross secondary school enrolment ratio; ALR=Adult literacy rate; GPIS=Gender parity index for gross secondary school enrolment.

Figure 3 Myanmar: Economic and Environmental Vulnerability Index (EVI), 2021

(a) Performance against graduation threshold, 2021



(b) Components of the EVI, 2007-2021



Source: United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria. November 2020. AFF=Share of agriculture, forestry fisheries in GDP; REM=Remoteness and landlockedness; XCON=Merchandise export concentration; XINR=Instability of exports of goods and services; LECZ= Share of population living in low-elevated coastal zones; DRY=Share of population living in drylands; AIN=Instability of agricultural production; VIC=victims of disasters.

At the 2018 Triennial Review, the CDP stated that for the subsequent review it would "emphasize the importance of the inclusion of all minority groups living in Myanmar in the data used for the least developed country criteria" (CDP, 2018). After analysis and consultations with the relevant United Nations entities, the CDP Secretariat has concluded that the population data used for the LDC criteria adequately covers minorities and that all LDC indicator values adequately reflect the average situation in Myanmar. Existing biases in data do not affect Myanmar's eligibility for graduation.

II. Overview of Myanmar's recent development

Myanmar's economy received a significant boost after political and economic reforms undertaken at the beginning of the 2010s. Several countries restored diplomatic ties with Myanmar and suspended previously-imposed sanctions. The Asian Development Bank (ADB) and the World Bank Group started the process of reengagement with Myanmar in 2012. In 2013, the EU reinstated Myanmar's access to the Generalized System of Preferences (GSP) scheme, that had been withdrawn in 1997. The first democratic elections were held in 2015. Debt forgiveness created space to quickly establish new concessional loans, especially by Japan, the Asian Development Bank and the World Bank. Bilateral donors and international organizations expanded their presence and investment by global development trust funds such as the Global Alliance on Vaccines and Immunization (GAVI), the Global Fund to fight AIDS, Tuberculosis and Malaria and the Global Environmental Facility increased. Development partners are supportive of the continuation of political, administrative and economic reforms in Myanmar.

In 2018, Myanmar adopted the Myanmar Sustainable Development Plan (MSDP), which provided a long-term vision for the country's development. The MSDP was presented as being aligned with the SDGs, the 12 Point Economic Policy of the Republic of the Union of Myanmar adopted by the newly elected government in 2016, and regional commitments undertaken under the Greater Mekong Subregion (GMS) Strategic Framework, the ASEAN Economic Community (AEC) and others (Myanmar, 2018). Its four objectives are: "1. To support national reconciliation and the emergence of a united democratic federal Union. 2. To achieve balanced economic development across the States and Regions. 3. To create opportunities for the emergence of capable and skilled new generations for the benefit of the country. 4. To establish an economic system that can achieve and maintain positive development outcomes through the participation, innovation and efforts of all citizens."

> *In response to COVID-19, in April 2020 a COVID-19 economic relief plan (CERP), designed to "meet the current exigencies Myanmar faces in ways that reaffirm our long-term strategic direction" (Myanmar, 2020a). The government is committed to the action plans of the MSDP, although "the timeline of the implementation process is currently adversely impacted" (Myanmar, 2020b)*

Real GDP growth averaged 7.1 per cent between 2012 and 2019 (United Nations, 2020a). Before the onset of the Covid-19 crisis, the 2020 GDP growth rate was estimated at 6.8 per cent (United Nations, 2020b).

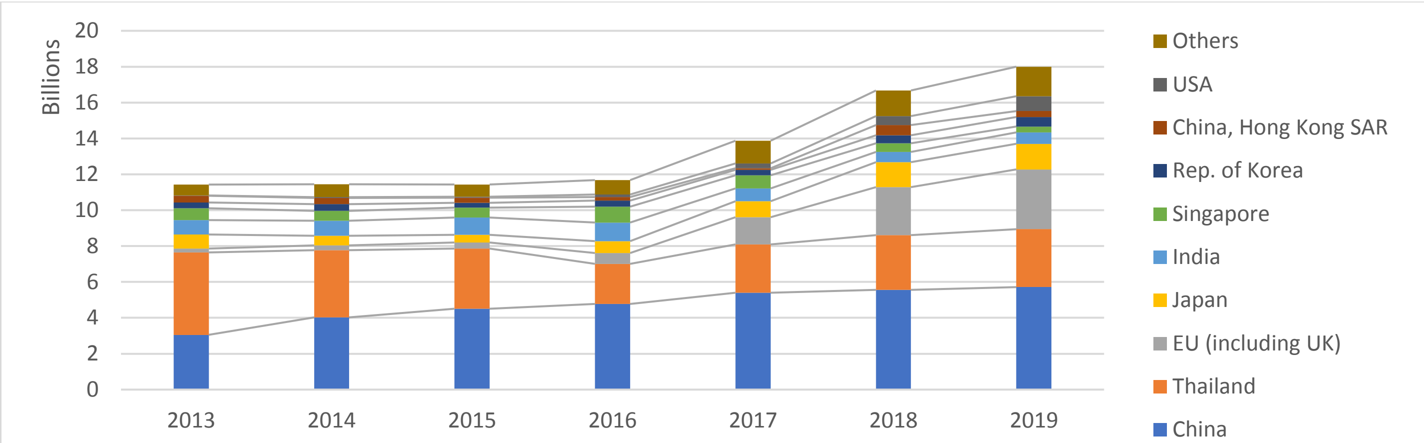
> *With the onset of pandemic and its global and national economic repercussions, projections have continuously been revised. As at 2 October 2020, the World Bank projected economic growth to drop to 0.5 per cent in FY 2019/20; "if the pandemic is protracted, the economy could contract by as much as 2.5 per cent in FY 2019//29 with the expected recovery in 2020/21 subject to further downside risks."[3] In the World Economic Outlook October 2020, the IMF (2020a) projected real GDP growth of 2.0 per cent for Myanmar in 2020, 5.7 in 2021 and 6.5 in 2025. The Asian Development Bank (ADB, 2020) projected, in September, 1.8 per cent GDP growth in 2020 and 6.0 in 2021. See also United Nations, 2020c.*

Myanmar's economic growth in the 2000s had been mainly driven by natural resource-based industries. The country remains highly reliant on natural resource-based products – petroleum gases and agricultural products. However, during the 2010s and up until 2019, the economy showed signs of progressive diversification. In parallel to the expansion in production in offshore liquefied natural gas (LNG) fields and large infrastructure investments, tourism and manufacturing expanded, spurred by greater access to capital and foreign markets after the progressive lifting of sanctions. Garment exports to the European Union, Japan and other markets increased significantly. Membership of ASEAN, prospects for the Regional Comprehensive Economic Partnership (RCEP) and other regional initiatives including large infrastructure projects under the Belt and Road Initiative (BRI) pointed to increased opportunities of greater connectivity, access to markets and integration into regional value chains (UNESCAP, 2019a). The government instituted measures directed at improving the business environment, curbing corruption and promoting responsible business and transparency. Myanmar has also started opening its services sector and undertaking sectoral reforms that could expand trade in services such as distribution, logistics and electronic commerce.

[3] https://www.worldbank.org/en/country/myanmar/overview

In terms of merchandise exports, the changes over the past few years translated into a steady increase in the total volume of exports, an increase in the share of manufactured exports and a progressive diversification of export markets (Figure 4). In 2017 the EU became the third largest market for Myanmar's exports and the largest partner with which Myanmar had a positive trade balance. A large share of exports to the EU have been garments (see the Impact Assessment in Annex 2).

Figure 4: Myanmar – merchandise exports by destination, 2013-2019 (billions of US dollars)



Source: UN Comtrade, extracted on September 25, 2020.

> *According to the government of Myanmar, exports during the first six months of 2020 were 11.7% lower than the same period in 2019. This is attributed to weaker global demand, lower international gas prices and the appreciation of the local currency against the dollar (Myanmar 2020b).*
>
> *A survey undertaken mid-2020 showed that the tourism, textile and garments and rubber industries had been the worst hit. Exporters have faced cancelling or returning of orders, decrease in order volumes and the consequences of uncertainty associated with the global economic downturn. Sourcing inputs had also been a problem for a large number of companies (Working Committee to Address Coronavirus Disease, 2020).*

Before the pandemic, service exports, particularly tourism, were also generally on an upward path (Figures 5 and 6). Tourism receipts had suffered a temporary decline in 2017 and 2018 attributed to a plunge in the number of tourist arrivals from Europe and North America in response to concerns over conflict in parts of the country, but had rebounded significantly by 2019, reflecting increased intra-regional tourism.

> *Tourism-related services and transportation activities are highly exposed to the pandemic (World Bank, 2020; United Nations, 2020c). According to the government of Myanmar, tourism revenue fell by 70% in 2020 as a result of global travel and quarantine restrictions (Myanmar 2020b).*

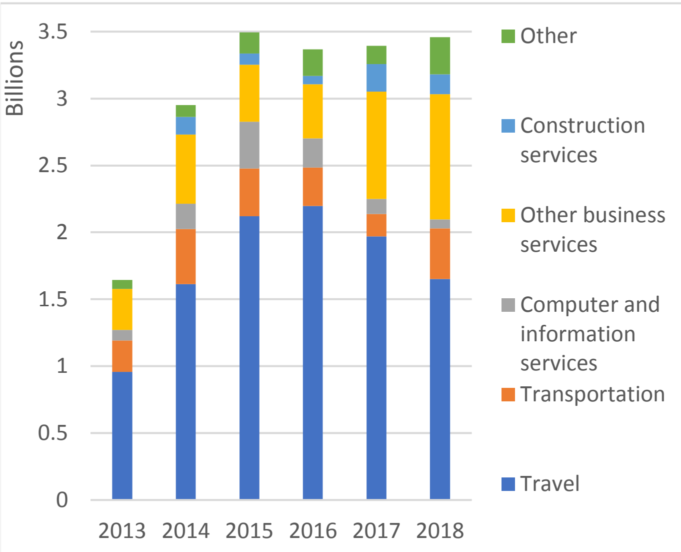
Foreign Direct Investment (FDI) inflows increased steadily until 2017 and had diversified in terms of both sectoral targets – moving from a high concentration in natural resource extraction and power towards a greater share invested in manufacturing (especially garments) and services (transport and communications, real estate, tourism) – and geographic origin (see the UNCTAD Vulnerability Profile in Annex 1; UNESCAP, 2019a). Reforms were planned to open the wholesale, retail, insurance, and banking sectors to foreign investment (World Bank, 2019a). After peaking at 4.3 billion dollars in 2017 however, FDI had declined in 2018 but was seeing signs of recovery at the end of 2019 (see the Vulnerability Profile in Annex 1).[4]

> *Although some of the effects of the COVID-19 pandemic could be expected to drive FDI down, data from the government of Myanmar presented in October 2020 showed that FDI had been 1.367 billion US dollars higher in fiscal year 2019-2020 than in 2018-2019 (Myanmar 2020b). UNCTAD notes that FDI has been affected by the domestic downturns in major source markets such as Singapore, China and Thailand (Vulnerability Profile in Annex*

[4] Data from UNCTAD Stat (unctadstat.unctad.org).

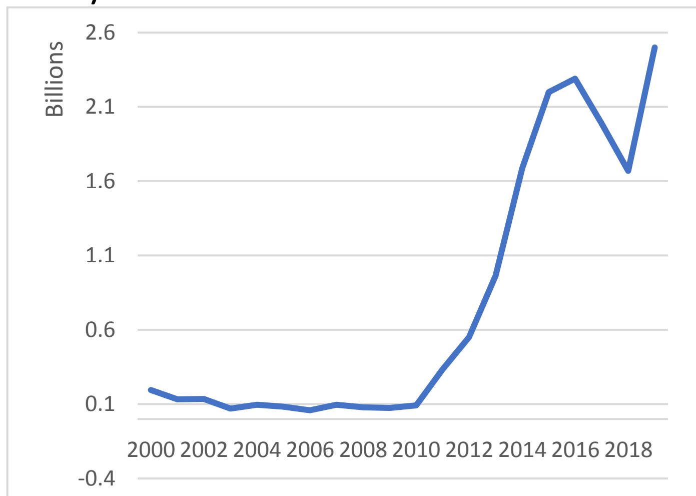
I). United Nations (2020c) expects a lower total FDI inflow for FY2019/2020 and the suspension or postponement of projects in sectors such as garments, natural gas and tourism.

Figure 5: Exports of services (current US dollars)



Source: UN Comtrade, accessed on 25 September 2020

Figure 6 International tourism, receipts (current US dollars)



Source: World Bank (data.worldbank.org); and UN World Tourism Organization (https://www.unwto.org/country-profile-inbound-tourism), accessed on 22 September 2020.

Myanmar's tax-to-GDP ratio, 5.4% in 2019, was low by regional and global standards. State Economic Enterprises (SEEs) historically provided the largest share of public revenues, but they have become net loss-makers, contributing to the fiscal deficit (World Bank, 2019a). This contrasts with the large investment needs to implement the MSDP and to execute the ongoing and planned infrastructure projects in ports, roads and electricity, and the challenge of financing those needs while maintaining macroeconomic stability and debt sustainability (UNCTAD Vulnerability Profile in Annex I). The country was subject to significant elements of fiscal risk such as disasters or low commodity prices. The small tax base was, in fact, and before COVID-19, on the decline due to the gradual depletion of natural gas reserves, in addition to the losses of state-owned enterprises. There is still a high degree of informality in the economy.

The country's risks of external debt and overall debt distress had been classified as low and remained so on the IMF's debt sustainability analysis in June 2020, subject however to vulnerabilities including a slowdown in exports (IMF, 2020b).

The latest World Bank Economic Monitor for Myanmar (June 2020 – World Bank, 2020b) notes that "Adverse developments in the real sector are exacerbating fiscal and external imbalances that had been slowly improving. In FY2019/20, the fiscal and external balances are expected to deteriorate sharply. Sharp revenue declines will cause the fiscal deficit to widen to 8.0 percent in the baseline scenario and may require inflationary borrowing from the central bank of Myanmar. On the external side, the Myanmar kyat (K) has paradoxically appreciated allowing a slight accumulation of foreign exchange reserves, although these remain low at only around 3.5 months of import cover. A sharp slowdown in exports could widen the current account deficit to 4.5 percent of GDP in the baseline scenario, putting pressure on foreign exchange reserves and the kyat. The government's adherence in recent years to fiscal rules and financing strategies, but also unintended underspending, helped Myanmar to maintain debt low and local. This allows Myanmar to borrow externally today to finance its crisis response."

As of October 2020, the government's spending in response to the COVID-19 pandemic accounted for 3.4 per cent of GDP (Myanmar, 2020b).

"The government of Myanmar received additional support through the Debt Service Suspension Initiative (DSSI) supported by the G20, Paris club and other creditor countries, along with assistance from Development Partners. External financing, including loans from IMF (RCF/RFI) and World Bank (IDA) has also increased the spending on relevant COVID-19 expenditures, along with the action plans included in CERP, and other socio-economic matters.

> *In addition, IMF has provided a funding of USD 356.5 million under the IMF Rapid Credit Facility and the Rapid Financing Instrument (RCF/RFI), helping to meet the urgent Balance of Payments need and fiscal deficit that arised from this crisis, supporting the government's plan to boost spending, especially on health and social safety nets. As of 30 June 2020, the domestic debt-to-GDP ratio was 23.8%, with external debt at 13.2%, and the total debt to GDP ratio being 37%." (Myanmar, 2020b)*
>
> *According to the IMF, "The spending needed to support urgent recovery measures, as well as the decline in revenues, will raise Myanmar's fiscal deficit and put pressure on funding. However, risks to debt sustainability are limited as both domestic and external public debt are relatively low, allowing a scaling up of lower cost external borrowing to support faster and more inclusive growth."*[5]

Personal remittances had increased from 115 million dollars in 2010 (0.2% of GDP) to 2.4 billion in 2019 (3.2% of GDP), with an estimated 10 per cent of the labour force working abroad (mostly in Thailand) before the COVID-19 pandemic, one of the highest rates in Asia (World Bank data). About 18.5% of the population receives remittances. Rural households in particular depend on remittances for a large share of their income (38 to 54 percent in the Dry Zone, Mon State and Southern Shan State) (United Nations, 2020c).

> *The government of Myanmar estimates a decline in worker remittances by 50% compared to last year (Myanmar, 2020b).*

Net ODA in real terms (at 2016 prices and exchange rates) received by Myanmar increased from an annual average of 209 million dollars in 2002-2009 to an average of 1.8 billion in 2010-2018.[6]

> *As at October 2020 no consolidated data are available on ODA delivered in 2020 or projected trends. The government of Myanmar noted that "development partners have committed the amount of US$ 1.185 billion and Yen 30 billion as loan package, US$ 17.8 million, and Yen 2 billion as a grant" in the context of COVID-19 relief and recovery.*

According to the 2017 Myanmar Living Conditions Survey (MLCS), 24.8 per cent of the population in 2017 were under the national poverty line of 1,590 kyat per adult equivalent per day (CSO, UNDP and World Bank, 2019).[7] This represented a significant improvement in relation to the 48.2 per cent recorded in 2005. The survey also notes improvements in reducing the depth and severity of poverty. However the numbers and share of the population under the poverty line is still high, there are high rates of inequality within and across regions, and some of the gains are considered fragile.

In rural areas, 30.2% of the population is estimated to be poor compared to 11.3% in urban areas. Poverty rates are highest in Chin State (58%) and Rakhine State (41.6%). Even before COVID-19, in addition to the quarter of the population that were below the national poverty line, 33 per cent were considered "non-poor insecure" (CSO, UNDP and World Bank, 2018; UNCTAD Vulnerability Profile in Annex 1). A significant share of the population remained vulnerable to falling into poverty in the face of unanticipated negative shocks, which in 2017 included unusually high prices for food, serious illness/accident, low prices for agricultural output, floods and very heavy rain/hail. Households with more children are more likely to be poor (CSO, UNDP, World Bank, 2019). A multidimensional disadvantage index (MDI), developed jointly by the Department of Population within the Ministry of Labour, Immigration and Population, and the World Bank (Ministry of Labour, Immigration and Population and World Bank, 2018) indicated that most of the population in Myanmar faces overlapping disadvantages particularly in housing, asset ownership (including assets for communication and mobility), and water and sanitation indicators. This analysis is based on data from the 2014 Myanmar Population and Housing Census. A 2018 multidimensional assessment of vulnerability (HARP-F and MIMU, 2018) showed that living standards were substantially lower in conflict

[5] https://www.imf.org/en/News/Articles/2020/07/07/na70720-myanmars-economy-in-the-time-of-covid19-six-charts

[6] OECD Creditor Reporting System, https://stats.oecd.org, accessed on 28 May 2020.

[7] The 2017 Myanmar Living Conditions Survey (MLCS) was implemented by the Central Statistical Organization of the Ministry of Planning and Finance and supported by the World Bank and UNDP. Key indicators were published in 2018; a report on poverty in 2019; and a report on socio-economic aspects in 2020 (CSO, UNDP and World Bank, 2018, 2019, 2020). Links to each are available in the reference section of this document.

affected areas. Internally displaced persons faced overlapping dimensions of vulnerability and risk and many rely on humanitarian aid to meet their basic needs.

> **Myanmar in UNDP's indexes**
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> - Myanmar occupies rank 146 of a total of 189 countries in UNDP's Human Development Index (HDI), up two positions since 2013 (UNDP, 2019). It scored 0.584 in the latest ranking, compared to 0.528 for LDCs as a group and 0.741 for East Asia and the Pacific. It is considered of "medium human development".*
> - According to the 2020 Global Multidimensional Poverty Index, which considers elements of education, health and standard of living, 38.3 per cent of the Myanmar population is considered multidimensionally poor. 13.8 per cent of the population are in severe multidimensional poverty; and 21.9 per cent are vulnerable to multidimensional poverty. Data for Myanmar are based on 2015/2016 survey data (hdr.undp.org/en/2020-MPI).
> - Myanmar ranks 145th of 188 countries in UNDP's Gender Inequality and Gender Development Indexes.
>
> * UNDP calculates an "inequality-adjusted HDI" (IHDI). Myanmar loses 23.2 per cent of its HDI score due to inequality, which is less than the LDC average but more than the average for East Asia and the Pacific. See Technical notes at

Myanmar's Gini coefficient was estimated as 0.30 in 2017, which is considered moderate. Inequality was higher in urban areas (CSO, UNDP, World Bank, 2020). Myanmar is one of the few countries in the East Asia and Pacific region where the income of the bottom 40 percent of the population grew more slowly than the national average (2.0 vs. 2.8 percent annualized growth) from 2005 to 2015. Inequality has been rising along with steady urbanization, the latter remaining nonetheless relatively low (World Bank, 2019a).

> *The World Bank's projections on poverty as at October 2020 were that "under the baseline scenario, in which the domestic spread of the coronavirus is brought under control, the global economy swiftly recovers, and Myanmar's GDP growth rate is projected to bounce back to 7.2 percent in FY2020/21, poverty rates would increase in the short term and will not return to pre-crisis levels FY2021/22. Under the downside scenario, poverty rates would remain above their pre-crisis level until at least FY2022/23."*

Despite some progress in recent years, informal employment is still high, estimated at 79.9 per cent in 2019. Forty-one per cent of all employed women and men worked more than 48 hours per week. Average monthly earnings among employees was approximately 210,000 kyats (US$138). While the unemployment rate in 2019 was 0.5 per cent, the share of youth not in employment, education or training (NEET) was 14.9 per cent.[8] There are also significant gender disparities in employment. According to national figures compiled by the International Labour Organization (ILO), the labour force participation rate in 2019 was 75.5 per cent for men and 46 per cent for women.

> *In July 2020, the ILO estimated that at the onset of the COVID-19 crisis in Myanmar nearly 19.9 million women and men worked in the industries at medium to high risk of economic disruption, including manufacturing and tourism. An estimated 6.9 million to 7.3 million jobs could be disrupted in Myanmar during the course of this year as a result of the pandemic and related containment measures. Moreover, any decrease in earnings, even temporary, could be catastrophic for household well-being given the already low level of wages in the at-risk sectors. Women are disproportionately vulnerable to job disruption in several of the medium to high risk sectors, and pervasive informality complicated policy support for the most vulnerable workers. The ILO considered that "In the garment and textile industry, an estimated 600,000 to 790,000 jobs could be disrupted as a result of supply chain issues in China, border closures and a collapse in external demand from Europe" and that "Continued support for the garment and textile industry is critical given its important contribution to export revenues and job creation, especially for women." See also United Nations, 2020c.*

Efforts are in place to gradually improve social protection. Myanmar's policy framework on social protection is set out in the Myanmar Sustainable Development Plan (2018-2030). The National Social Protection Strategic Plan (NSPSP) aims to promote human and socio-economic development, strengthen resilience to cope with disasters, enable productive investments and improve social cohesion. A number of projects are being implemented nationwide, in some cases with support from the UN system. The Social Security Law (2012) includes provisions of several contributory social security benefits, some active and some inactive, for formal private sector workers. Efforts are being made to strengthen legal frameworks and delivery systems underpinning expansion. For now, access to social protection remains limited. Social

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[8] ILO, Myanmar Country Profile 2018, https://ilostat.ilo.org/data/country-profiles/ , accessed on 28 May 2020.

security covers 1.4 million people. Social assistance covers less than 1 per cent of the total population, although maternal cash transfers and social pensions are gradually expanding. The government is still developing its delivery systems for social assistance and social security coverage does not cover all branches, in particular unemployment insurance. The impact of shocks like Covid19 on informal and vulnerable workers is unlikely to be fully mitigated effectively by the current social protection system.

Table 2 shows how Myanmar has evolved in the health and education criteria adopted in the CDP's HAI (as defined after the comprehensive review of the criteria adopted in 2020), and how it fares in comparison to other countries in the region.

There have been significant improvements in most areas but challenges remain. Under-five and maternal mortality rates remain high compared to other countries in the region. According to UNICEF, many of the under-five deaths are preventable and half occur among newborns.[9] UNCTAD's Vulnerability Profile (Annex I) analyses developments in these areas. It also states that the reported incidence of new infections by HIV, drug-resistant malaria and tuberculosis have decreased in recent years though rates were still high compared to other countries in the region. There has been an increase in the burden of non-communicable diseases (NCDs), which are estimated to have accounted for 68% of all deaths in 2017. Cardiovascular diseases account for a quarter of those deaths, followed by cancer.[10]

Table 2: Health and education indicators

			Myanmar		**Bangladesh**	**Lao PDR**	**Nepal**	**Thailand**	**India**
	Unit	2010	2015	**2021**	2021	2021	2021	2021	2021
Health									
Under-five mortality	Per 1000 live births	89.1	55.8	**44.7**	30.8	45.5	30.8	9.0	34.3
Maternal mortality	Per 100,000 live births	289	251	**250**	173	185	186	37.0	145
Prevalence of stunting	% of children under age 5	35.4	31.9	**27.0**	30.9	31.4	31.4	11.8	32.2
Education									
Gross secondary school enrollment	As % of the population in the age group that officially corresponds to secondary school	48.5	50.9	**68.4**	72.6	65.8	80.2	115.2	73.8
Adult literacy rate	% of adult population	82.7	78.2	**75.6**	74.7	84.7	67.9	93.8	74.4
Gender parity index for gross secondary school enrollment	Ratio of girls to boys enrolled at secondary level	1.0	1.0	**1.1**	1.2	0.9	1.1	1.0	1.0

Source: United Nations Committee for Development Policy Secretariat. Time series estimates of the LDC criteria. November 2020.

In education, there have been improvements in enrollment rates. However, a high degree of inequality in access persists, and despite the recent increase of public expenditure in education, the share of the budget devoted to education is low in comparison to other countries in the region. Poorer children have more restricted "access to schools, face greater financial constraints to continuing education, and possess greater household responsibilities that deter them from going to school" (CSP, UNDP and World Bank, 2020). The HARP-F and MIMU study (2018) states that the "*impacts of living in conflict-affected areas are felt particularly strongly in access to schooling; townships affected by conflict in this period* [2015-2016] *were found to have double the average number of persons who had never attended school or had no formal educational attainment compared to non-conflict-affected townships."*

A higher incidence of poverty as a result of COVID-19 could lead to significant numbers of children leaving school

[9] https://www.unicef.org/myanmar/children-myanmar

[10] "Cancer Control in Myanmar", presentation by Dr. Kyaw Kan Kaung, Director for Non-Communicable Diseases (NCD) at the Department of Public Health of the Ministry of Health and Sports of Myanmar at the 2019 National Cancer Institute Directors' Meeting, Lyon, France, 10-12 July 2019. Myanmar has in place a National Strategic Plan for Prevention and Control of NCDs (2017-2021) and a National Cancer Control Plan. According to the International Atomic Energy Agency, the government has established infrastructure for cancer control in four radiotherapy centers which provide critical treatment and palliative care and is steadily investing in upgrading infrastructure and training medical staff. However, significant human resources and infrastructure constraints remain, and further capacity building support is required to ensure an adequate coverage and quality of cancer care throughout the country.

> *and setbacks in terms of nutrition. Fiscal constraints could hinder the continuation of much needed investments in health and education. The government of Myanmar stated that high dropout rates are foreseen as a result of the pandemic (Myanmar 2020b).*

Almost half of the population of Myanmar is under 25 years of age, presenting an opportunity for a demographic dividend if the right investments are made in education, health, and other areas building human capital.

Overall, there have been improvements in access to basic services and infrastructure, but significant challenges remain:

- There has been an increase in the share of the population using improved water sources, but with regional as well as seasonal differences. Much of the improvement in access to drinking water was through the purchase of bottled water. The percentage of the population using an improved water source has increased but about 40 percent of the population – more so in rural areas – live in households that need to fetch water from the source. Six per cent of households have no toilet facility, down from 14 per cent in 2014 (CSO, UNDP, World Bank, 2018).
- Substantial progress was achieved in advancing the country's goal to provide universal electricity access by 2030. Electrification rates increased from 30 per cent in 2010/11 to 42 per cent in 2017/18. More than a third of poor households use solar systems to generate electricity (CSO, UNDP, World Bank, 2020). However, electrification rates are still low compared to other developing countries in the region (World Bank, 2019a).
- Around 20 million people, or half of the rural population, lack basic road access. Investment in transport has been low compared to other countries at similar stages of development (World Bank, 2019a).
- The potential to leverage ICT solutions to connect people to services, markets, and institutions is still largely untapped (World Bank 2019a).

III. Main findings of UNCTAD's Vulnerability Profile (2 December 2020)

"A strong economic and social development performance in 2011–2020, as well as its reduced vulnerability has put the country on a solid path towards graduation based on all three criteria of per capita income, human assets and economic (and environmental) vulnerability. This progress is a product of several interrelated factors that have propelled the country's development, including its abundant natural resources, a growing population, and booming exports supported by its strategic location in Southeast Asia.

Areas of vulnerabilities

Myanmar has implemented a series of major policy reforms over the decades, partly in response to economic and political sanctions, as the country emerged from isolation. The gradual removal of sanctions and the opening of the political space has helped the country attract foreign investment and the restoration of trade preferences has boosted exports. Myanmar's GDP growth rate in 2016–2018 has been strong, hovering just below 7 per cent annually. However, the growth pattern, particularly since 2011, has enhanced the divergence in productivity among agriculture, manufacturing and the service sectors. The potential of the country to sustain growth is limited by the quality of jobs that are being created by the different economic sectors, with manufacturing failing to stimulate massive job creation despite its key role in production. As a result, the export growth has not translated in improved living standards for the bulk of the population.

Myanmar's strategic trading partners include its neighbours (Bangladesh, China, Lao People's Democratic Republic and Thailand), India, Japan, and other ASEAN countries. Exports to ASEAN partners have grown from $390 million in 2000 to $4 billion (24 per cent of the total) in 2019. Exports to China increased from $260 million in 2010 (3 per cent of the total) to $5.7 billion (32 per cent of the total), while imports from China have grown from $964 million to $6.4 billion in 2010–2019. Trade with the EU accelerated from $119 million in 2010 ($58 million exports from Myanmar to the EU) to $3.6 billion in 2019 ($2.8 billion exports from Myanmar to the EU). ASEAN member states – particularly Thailand – were Myanmar's closest allies during the years of sanctions and have continued to provide the country with an economic cushion even during the uncertainties brought by the coronavirus pandemic.

The growth outlook in 2020 remained positive but weak as the global economy continued to face headwinds due to the COVID-19 pandemic. Trade deteriorated because of supply chain constraints and a shrinking international demand, while geopolitical risks have increased largely on account of retaliatory tariff escalation between United States, China and other affected countries. Market volatility particularly of energy commodities and agricultural raw materials would be the main concern to Myanmar. The country should also pay attention to the increased risk of concentration in digitalized supply chains. Fears over global value chain expansion and concentration of value added in high-tech industries which overlap with strong geopolitical and technology supremacy issues may not be relevant for Myanmar currently. However, growth of its low-tech industries may be extremely constrained by the tendency of technology leaders to overly consolidate particularly in the technology-laden segments of global value chains.

Implications of the vulnerabilities

I. Social development has improved but there are challenges

Myanmar's population stands at 54.4 million and it is projected to reach 65.8 million by 2050. Slightly over a quarter of the population (25.5 per cent) are aged 0–14 years, and over two thirds (68.3 per cent) are in the 15–65 age bracket. The human assets index, which measures the contribution of health and education to human capital development, shows that Myanmar has been performing better than the threshold in all triennial reviews of the CDP. There has been a steady improvement of the gross secondary enrolment ratio from 30 per cent to 64 per cent in 2000–2020. As a result of widespread poverty, in both rural and urban households, school drop-out rates are high during the transition from primary to middle school and from middle to high school. About 24 per cent of adolescents (of lower secondary school age) were out of school in 2017, and nationally, one in four children do not complete primary school, with the dropout rate even higher in poor communities. Fewer than one in three students will finish upper secondary school.

In health, Myanmar has made tremendous progress on all three health indicators of the HAI, namely the under-five mortality rate, maternal mortality rate, and the prevalence of stunting. The under-five mortality rate has declined *from 94 in 2000 to 46 per 1,000 live births in 2020, while maternal mortality has declined from 340 per 10,000 in 2000, to 289 in 2010 and 250 in 2020. The prevalence of stunting among children under five years has declined from 35.1 per cent in 2010 to 26.7 per cent in 2018, and the prevalence of undernourishment has also declined from about 37.7 per cent in 2000-2002 to 14.1 per cent in 2017-2019. Although government has increased the current expenditure on health from a paltry $3.35 per capita in 2000 (amounting to 1.8 per cent of GDP) to $58.04 per capita in 2017 (4.7 per cent of GDP), the public health system needs a boost to meet the increasing pressure for services and attain the goal of universal health coverage (SDG 3).*

II. Economic and environmental vulnerabilities

Myanmar first met the economic vulnerability graduation criterion in 2009 and again in 2018. After a 25-per-cent decline between 2000 and 2009 – when it crossed the threshold level – Myanmar's vulnerability index increased in 2012, reaching 141 per cent of the threshold (using an inverted scale), as the country healed from the devastating impact of Cyclone Nargis. The economic vulnerability index has declined rapidly since 2015.

Myanmar faces economic vulnerabilities related to: (i) high reliance on natural-resource based activities and on limited destination markets for its exports, although manufacturing exports have been growing fast in recent years; (ii) the expected erosion of its preferential access to developed countries' markets; (iii) the loss of the trade-related support measures after the country graduates from LDC status, in particular the loss of duty-free and quota-free access to the largest markets of its manufacturing exports [see section V]*; and (iv) its huge investment needs in health, education and infrastructure which require large fiscal commitments that could jeopardize macroeconomic stability and debt sustainability. The country is ranked 2nd on the Global Climate Risk Index of countries most affected by extreme weather events (climate change risk) and weather-related hazards raise its economic vulnerability. In addition, violence and weak institutional capacity hinder development. Absence of violence (peace) and strong institutions favour economic transformation, but weak political integration and displacements put strain on social development.*

III. A delicate balanced needed to navigate regional dynamics

The country's trade links have expanded beyond developing countries in Asia. Currently (2019), developing Asia accounts for 66 per cent of exports, while developed economies in Europe account for 19 per cent. China and Thailand absorbed 50 per cent of Myanmar's total merchandise exports in 2019. These two countries are the only destination of Myanmar's natural gas exports, which represented 29 per cent of the value of total merchandise exports in 2011–2018. This market concentration means that any shock affecting the two destination countries is directly transmitted to Myanmar through the trade channel.

Myanmar enjoys trade preferences from Australia, Canada, the EU, Japan, Norway and South Korea. In addition, it benefits from duty-free access within ASEAN and from the trade preferences under the FTAs concluded by ASEAN with the five Asia–Pacific countries under the Regional Comprehensive Economic Partnership (RCEP). The duty-free access provided by preferential trading arrangements has been one of the key elements explaining the rapid growth of its manufactured exports, especially for products where MFN duties are high. The challenge of progressive preference erosion may be mitigated by the recently concluded Regional Comprehensive Economic Partnership (RCEP) between the 10 ASEAN member states and China, Japan, South Korea, Australia and New Zealand. For Myanmar, RCEP countries represent 67 per cent of its merchandise export market in 2019. They absorbed 39 per cent of its manufactured exports, 80 per cent of agricultural raw materials exports, 85 per cent of ores, metals, precious stones and non-monetary gold exports, and 99.7 per cent of fuel exports. The RCEP harmonizes the Free Trade Agreements between the ASEAN countries and the five other countries, eliminating the need for separate trade agreements among them. Therefore, diversification of export partners is a clear risk diversification strategy for the foreseeable future. Moreover, there is still scope for manufactured exports growth to the EU.

IV. Declining labour productivity slows structural change

The total labour force has grown from 22 million in 2000 to 25 million in 2018, while during the same period the population in the 15-64 age group bulged to 36 million, an increase of 7 million. The poverty rate is currently at 25 per cent (2017), and 1.4 per cent of the population are living in extreme poverty. An agriculture sector plagued by *low productivity levels employs half of the labour force, while the fast-growing industry (16 per cent of total employment) has not created as many jobs as the moderately productive service sector (34 per cent).*

The slowdown in economic performance in 2011–2020 compared with the previous decade points to structural constraints that pose risks to its economy. The most obvious of these risks is the declining labour productivity, which is indicative of the limits that the country's growth path may not exceed without fundamental structural transformation. The quality of the labour force provides part of the explanation for the decline in growth, although other factors interact with labour productivity, such as the weak linkages created by the budding manufacturing and natural resources sectors, and the low growth of the rural economy. The educational level of the labour force in Myanmar is low, as the majority (66 per cent in 2019) only have basic education consisting primary school or lower secondary school education. In the rural areas (where employment is concentrated in agriculture), the problem of child labour has been a recurring issue, linked to the higher poverty levels and the large number of school-age children that drop out from school.

Skills shortage and the uneven spatial development pattern have stalled Myanmar's progress towards structural economic transformation. The spectacular growth of 2001–2010, and 2011–2014 is unlikely to be replicated as it aligns with periods during which the global economy was conducive for the reforms undertaken. The national economy has weakened under the weight of its own structural limitations, especially low labour productivity levels and internal imbalances. Myanmar can build on the success of previous reforms by strengthening its technical and vocational education and training, as well as investing in education with a long-term vision for improving human capital, and social development for the coming decades.

The above suggests a critical gap in human capital development. Improved government investment in education particularly in rural areas may assist the country to raise the quality of its human capital. Policies such as liberalization and allowing private investment in the education sector may also help the country to meet the growing needs for skills in various sectors of the economy. However, there is a danger that such investments will be concentrated in the major cities and urban areas. Therefore, interventions aimed at improving the training of teachers for public schools in rural areas, raising the quality of results and building inclusive education systems are critical.

The way forward

The momentum to graduate with all three criteria is a positive reflection of the efforts of the past to stick to policy reforms, and of the importance of regional partnerships. The domestic environment is now a critical focus for unleashing the full productive potential of the country, in line with the growing productive capacities that the country has already demonstrated its ability to harness, and utilize, but also its growing population whose competitive advantage is its youthfulness. The future development trajectory of Myanmar is an exciting prospect and should be the focus of all development partners to ensure that the country achieves its potential."

IV. Other factors that could significantly affect the country's development trajectory

The following factors or risks could interfere with Myanmar's development gains and the country's ability to overcome structural handicaps.

A. The impacts of Covid-19

The previous sections indicate the expected impact of COVID-19 on specific issues (growth rates, trade, FDI, remittances, etc.). As for other countries, at the time of writing, there is significant uncertainty on the full medium- and long-term impacts of the pandemic. Myanmar recorded few COVID-19 cases during the first few months of the COVID-19 pandemic, but documented cases increased substantially during the second semester of 2020. The country's economy has been impacted both by the local lockdowns and by the global crisis. There is still significant uncertainty on the middle- and long-term, direct and indirect effects of the pandemic. According to the government, *"the impact of Covid-19 undermines our country's overall prospects and time frames for LDC graduation to some extent. The affected period and impact are at the moment uncertain, and the layoff problem and recovery and relief measures will take time to reach normalcy"* (Myanmar 2020b).

In a document issued in October 2020, "Socio-Economic Impact of COVID-19 in Myanmar – Summary of findings and analysis from UN and non-UN impact assessments", based on over 30 assessments undertaken between the beginning of the pandemic and September 2020, the United Nations Resident Coordinator's Office highlights (United Nations, 2020c): *"(T)he pandemic is creating destabilizing shockwaves across all dimensions of the social and economic life of the country, and is also putting strain on its peace and democratic governance pathway. The channels of transmission of the public health crisis to the socioeconomic arena trigger increasing delivery challenges in the health and education systems bringing lower health and education outcomes, falling trade and tourism and supply chain disruptions. Lower internal consumption is increasing unemployment, disproportionately impacting women, youth and informal workers, unstable financial markets, lower foreign investment and remittances is putting the country's macroeconomic stability under stress, and increased political and security tensions in the wake of the pandemic is undermining social cohesion. The pandemic will eventually reverse the progress that Myanmar has made over the past decade in reducing poverty, especially among landless and small-holder farmers in rural areas and poor households in urban areas and peri-urban informal settlements. As elsewhere in the world, the COVID-19 crisis is disproportionately affecting the most vulnerable segments and groups within the society, in particular those with limited cash buffers and in conflict zones, and it is revealing and compounding pre-existing marginalization, inequalities, and vulnerabilities."*

See also section 2.3 of the Vulnerability Profile in Annex 1, "COVID-19-related economic challenges".

B. Disasters, climate change and environmental challenges

Myanmar is one of the world's most disaster-prone countries. It ranked second out of 184 countries in the 2020 Global Climate Risk Index and 20th out of 191 countries on the INFORM Index for Risk Management for 2021 (UNCTAD, Vulnerability Profile, Annex 1).[11][12] "Victims of disasters" is, in fact, the largest component of Myanmar's vulnerability as measured by the EVI (see Figure 3 above).

Due to high levels of exposure and vulnerability, disasters have led to significant displacements, spikes in food prices and loss of productive assets, especially in the agricultural and fishing sectors, with long lasting social and economic impacts on households and communities. Rural vulnerability is a particular concern in Myanmar. Around 70% of the country's 51 million people reside in rural areas, and the subsistence agriculture they depend on for their livelihoods is increasingly subject to natural hazards, especially floods and drought (World Bank, 2017; UNDRR, 2019). The poor are disproportionately affected by disasters, which are also a major factor in pushing people into poverty.[13] Heavy rain was one of four top categories of shocks experienced in 2017 driving non-poor into poverty (CSO, UNDP and World Bank, 2019).

[11] Global Climate Risk Index 2020, www.germanwatch.org/en/cri

[12] INFORM is a collaboration of the Inter-Agency Standing Committee Reference Group on Risk, Early Warning and Preparedness and the European Commission. https://drmkc.jrc.ec.europa.eu/inform-index

[13] The wealthiest individuals are 73% less likely to be living in areas of high multi-hazard risk as compared to the poorest (UNESCAP, 2019b).

In terms of economic impact, an assessment by the Humanitarian Assistance and Resilience Programme Facility and the Myanmar Information Unit (HARP-F and MIMU, 2018) considers that as much as 3% of Myanmar's GDP is lost annually due to disasters triggered by natural hazards. Another recent assessment estimates that Myanmar has an absolute average annual loss (AAL) from multiple hazards of 5.6% of GDP (UNESCAP, 2019b, 2019c). These losses comprise a significant proportion of the national capital stock and investments, national savings and social spending, pointing to a severe constraint imposed by disaster risk on the potential of achieving the SDGs (UNISDR, 2017). As noted by the UN Office for Disaster Risk Reduction and the Asian Disaster Preparedness Center (UNDRR, 2019), at the micro-level in the affected areas, the impacts can be much larger than what the estimates of total economic losses in terms of GDP suggest, as households are impacted by massive increases in the price of food and loss of household assets needed for income generation.

Myanmar has developed a multi-hazard disaster risk reduction strategy, as per Target E of the Sendai Framework, and all 14 of its states and regions and the capital territory have disaster risk reduction plans in place. However, there are still significant limitations in capacity for disaster risk reduction as well as preparedness for effective response, recovery and reconstruction. Risk assessments are available in Myanmar at local and national levels that are based on hazard data and vulnerability information, but due to limited availability of data particularly related to climate change these efforts are being hindered. The 2019 World Risk Report reveals that Myanmar has very high risk owing to lack of coping capacities further reflecting the need for greater capacity building required in disaster risk reduction and climate change adaption. The Vulnerability Profile (Annex I) refers to measures already taken by the government in this area and on the challenges going forward.

The effects of climate change are predicted to increase the irregularity and intensity of extreme and slow-onset weather events in Myanmar. With an increase in global temperatures of 1.5°C, the population affected by river flooding in Myanmar could increase by 47%, and economic damages from river flooding would increase 49% (UNESCAP, 2019b). Myanmar has a Climate Change Master Plan for 2018-2030 aimed at climate resilience and low-carbon growth. New forms of renewable energy, including solar and biomass, are expected to contribute 9 per cent of the country's energy mix by 2030. The government also has frameworks in place to address environmental problems, including the MSDP and the National Environmental Policy (2019), which now need to be implemented.

Other environmental factors could hamper sustainable development in the country. A recent assessment by the World Bank highlights the fast pace of deforestation and depletion of fish stocks (World Bank, 2019b). Both forests and fisheries are of primary importance for jobs and livelihoods in the country. Forests are also critical for their environmental services (including functions that reduce vulnerability to climate change and disasters), and as biodiversity hotspots of global importance. The country is facing new environmental challenges related to its recent development, including the impacts of large-scale development projects in mining, air pollution, the use of plastic, and urban waste without appropriate management and disposal.

C. Persistence of conflict

Despite a national ceasefire process started in 2015, conflict has intensified in several areas of the country since 2017. Development is significantly hampered in conflict areas and among displaced populations. An assessment conducted in 2018 (HARP-F and MIMU, 2018) finds that "an average of 19.8% of children in areas that were directly conflict-affected in 2015-2016 have never attended school, compared to 9.7% of children in townships not affected by conflict in that period" and that "conflict-affected townships see an average of 34.7% of their population achieving no educational attainment. In non-conflict-affected townships, this is 17.1%." While the greatest development gaps between townships affected and not affected by conflict are in education, the former fare worse in the coverage of improved drinking water sources and safe sanitation, holding formal identification, electrification, access to communication devices and other indicators (HARP-F and MIMU, 2018). Early in 2020 the IMF predicted that renewed conflict and limited progress on the ongoing refugee crisis would continue to limit donor financing and dampen investor sentiment (IMF, 2020c).

V. Would the withdrawal of international support measures for LDCs after graduation lead to a reversal of progress?

The impact assessment in Annex 2 contains a comprehensive review of the potential impacts of Myanmar's graduation. It is important to distinguish the impacts of graduation from the impacts of meeting other development thresholds or the impacts of events that may occur around the same period of time as graduation. Myanmar is already a lower-middle income country, and any changes in the assistance provided to Myanmar by most of its development partners, including the World Bank, will be independent of graduation from the LDC category.

A. Trade

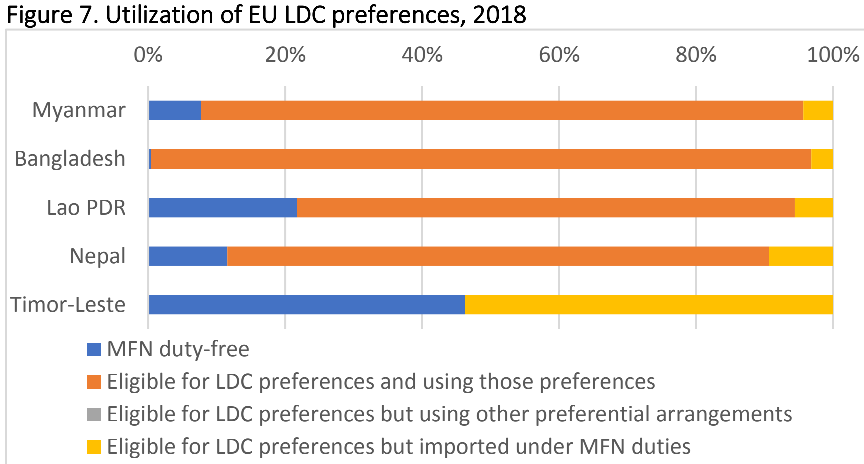
The most significant expected impacts of Myanmar's graduation are on trade**. The full impact assessment is contained in Annex 2.**

1) Myanmar will no longer be able to export under duty-free, quota-free (DFQF) schemes that are exclusive to LDCs and favorable rules of origin.

Most of Myanmar's main exports will not be affected as effective tariffs for those exports in the main markets including will remain the same. However, exports to some markets will be affected by the loss of DFQF market access and, in some cases, the loss of the more flexible rules of origin applicable to LDCs. Estimates by the WTO based on a partial equilibrium model indicate an expected reduction in annual exports of 499 million US dollars, mostly in exports to the EU. This estimate takes into consideration trade data for 2016-2018, and the reduction is equivalent to approximately 3.7% of total exports during that period (WTO and EIF, 2020a).

The largest impact is expected in the **EU market,** where Myanmar currently exports under the Everything But Arms (EBA) scheme. Myanmar would continue to have access to the EBA for three years after graduation, and would then, provided it retained eligibility to the GSP, be included in the standard Generalized System of Preferences (GSP). In practice, this will mean that tariffs will be applied for most (though not all) of its exports, and that Myanmar exporters will need to comply with more stringent rules of origin (including, for garments, a double as opposed to single transformation rule). The high rate of growth of exports after the reinstatement of trade preferences in 2013 and the high rate of utilisation of preferences according to WTO data (Figure 7) suggest the withdrawal of the EBA will have significant impacts.[14] [15]

Figure 7. Utilization of EU LDC preferences, 2018



Source: WTO Preferential Trade Arrangements database, accessed June 2, 2020

Myanmar also has a high rate of utilisation of LDC-specific preferences in Japan. After graduation, many of Myanmar's exports to Japan could continue to be exported to Japan duty-free under the ASEAN Japan Comprehensive Economic Partnership Agreement (AJCEPA). However, producers would need to comply with rules of origin under that agreement. MFN tariffs on

[14] Data on the EU include the United Kingdom, which is expected to adopt a preferential market access scheme equivalent to that of the EU.

[15] It is worth noting that access to any of the components of the EU's Generalized System of Preferences (GSP), including the duty-free, quota-free scheme for LDCs (Everything But Arms - EBA), is conditional upon the beneficiary country respecting the principles of 15 core United Nations (UN) and International Labour Organisation (ILO) Conventions on human rights and labour rights laid down in Annex VIII Part A of the GSP Regulation. The Foreign Affairs Council in its Conclusions from February 2018 identified Myanmar for "enhanced

garments are up to 10.9 per cent for Chapter 61 and 13.4 per cent for Chapter 62.

In both Europe and Japan, it is the garment industry that is expected to be most affected by graduation. It is also one of the industries most hard-hit by COVID-19. The labour-intensive nature of the industry makes it an important one in terms of employment and local development. Estimates of employment in the garment industry prior to Covid-19 range from a frequently quoted 550,000 to a recent estimate of nearly 730,000 (World Bank, 2018). According to the same source, 83 per cent of workers in the industry are women. Another figure often referred to by industry experts and practitioners, though the source has not been verified, is that for every garment worker there is an average of four dependent family members.

A number of factors make the garment industry vulnerable to the loss of duty-free, quota-free market access: high levels of foreign ownership and a large share of production through contract manufacturing at very low profit margins, the fact that the industry is for the most part limited to “Cutting, Making, Packaging” (CMP), and the fact that duty-free, quota-free market access is one of the main determinants of foreign direct investment (FDI) in the industry and the sector’s export competitiveness, which otherwise faces numerous supply-side challenges. Graduation will happen in the context of several other challenges (including Covid-19 impacts) and opportunities within the industry and its impacts will ultimately depend on both external factors and the development of the industry within Myanmar until LDC-specific preferential market access is withdrawn. It is noteworthy that in Europe Myanmar would retain DFQF market access for several years, including the years of the transition period (between decision by the General Assembly and the date of effective graduation) and an additional three-year smooth transition period. The simultaneous graduation of other garment-producing LDCs such Bangladesh – depending on the terms of market access for Bangladesh in the EU after graduation – could attenuate the impacts of Myanmar’s graduation on its garment industry. On the other hand, Covid-19 may have added additional difficulties to already relatively fragile industries.

UNCTAD (Vulnerability Profile, Annex I) notes that preferential market access has been a key factor in the development of Myanmar’s manufacturing industry. In addition to graduation, UNCTAD anticipates preference erosion in developed country markets as non-LDC ASEAN countries are engaged in negotiations in different trade agreements. The challenge of progressive preference erosion may be mitigated by the recently concluded Regional Comprehensive Economic Partnership (RCEP).

2) LDC-specific flexibilities under WTO agreements

Another potential impact of graduation is that Myanmar will no longer be eligible for LDC-specific flexibilities under WTO agreements. The consequences are, however, expected to be limited. Most special and differential treatment provisions for LDCs under the WTO agreements are time-bound and will have expired before Myanmar graduates; are not used by Myanmar; or are limited in scope. Please refer to Table 4 in the impact assessment in Annex 2. One of the effects of graduation is that Myanmar will no longer have access to the extended transition period granted to LDCs to implement the Agreement on Trade-Related Intellectual Property Rights (TRIPS) in pharmaceuticals, currently extended to 2033. The pharmaceutical sector in Myanmar is small and the foreseeable implications of graduation in this aspect are expected to be

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engagement” under the EBA. As at October 2020, no limits had been put on Myanmar’s eligibility to the EBA while Cambodia, going through a similar process, was given a partial suspension. Graduated LDCs can apply for the special incentive arrangement for Sustainable Development and Good Governance (GSP+), which grants duty-free market access for 66% of EU tariff lines and would be a significant improvement in market access compared to the standard GSP. The requirements for GSP+ include the ratification of 27 international conventions on human rights, labour rights, environmental protection and good governance and for the most recent conclusions of monitoring bodies of those conventions not to have identified serious failure by that country to effectively implement the conventions. Myanmar has not ratified three of the required human rights conventions and four of the ILO conventions: International Convention on the Elimination of All Forms of Racial Discrimination (ICERD); International Covenant on Civil and Political Rights; Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; ILO conventions No. 98 (Right to Organise and Collective Bargaining Convention); 105 (Abolition of Forced Labour); 111 (Discrimination (Employment and Occupation); and 100 (Equal Remuneration).

limited. Myanmar could be affected by Bangladesh's graduation from the LDC category, as it imports generic drugs from Bangladesh at low cost, in part made possible by the waiver.

3) Trade-related capacity-building

After graduation and applicable smooth transition periods, Myanmar will no longer have access to certain LDC-specific instruments for trade-related capacity-building:

- Myanmar will continue to be supported by the EIF for a period of 5 years after graduation in all modalities of funding except the "Sustainability Grant". Currently, Myanmar is benefiting from EIF projects amounting to USD 2.1 million, focusing on enhancing Myanmar services trade, developing e-Commerce strategy, updating the DTIS (2016), improving regulatory framework on services and institutional capacity building.
- The country will have to become a member of the Advisory Centre on WTO Law by making a one-off contribution in order to continue to use its services. It will also have higher co-financing requirements and lower priority under the Standards and Trade Development Facility (STDF).
- Myanmar will benefit from fewer country-specific technical capacity and training activities by the WTO and will no longer benefit from country-specific activities under the "China Programme" at the WTO.

Myanmar will continue to be supported by several partners in trade-related capacity-building, training and technical assistance through mechanisms that do not depend on LDC status.

B. Development cooperation and support for participation in international forums

Most development cooperation with Myanmar is not expected to be affected by LDC graduation (see Tables 3 and 4). The World Bank does not consider LDC status in determining resource allocation or the terms of loans and therefore graduation has no impact on funding by the World Bank (Myanmar is currently considered a "gap country" in the World Bank Group's International Development Association – IDA – meaning that it receives IDA financing on blend terms; it no longer receives IDA grants from the IDA); graduation is not expected to significantly impact ODA flows from most OECD-DAC Members; there is no indication that LDC status is a significant factor in South-South cooperation; graduation will not significantly affect operations by most United Nations system entities; and graduation will not affect assistance by GAVI or the Global Fund. Myanmar has a strong development assistance coordination mechanism led by the State Counselor Daw Aung San Suu Kyi and has created a project bank platform to facilitate coordination and working with development partners on development assistance.

Graduation will lead to relatively small changes in the assistance provided by a small number of partners (see the impact assessment in Annex 2 and Table 3 below for details). Notably, the terms of concessional loans by Japan, the Republic of Korea and the Asian Development Bank (ADB) after graduation would change slightly, while remaining concessional; Germany would initiate a shift from grants to soft loans (maintaining, however, grants in some areas and considering other variables beside graduation); and, depending on other factors, a portion of UNDP's core resources dedicated to Myanmar could be reduced. In all cases, the country's specific circumstances would be taken into account.

Graduation will lead, in some cases after a "smooth transition" period, to the withdrawal of the limited number of facilities that are exclusively dedicated to LDCs, including the LDC Fund (climate change) and some forms of support for the participation of Myanmar in international forums (lower mandatory contributions to United Nations budgets and support for travel – see Table 3). Impacts on trade-related capacity-building and technical assistance are addressed in the previous section.

It should be noted that development cooperation in Myanmar – like in other countries at a similar level of development – could change in the coming years not due to LDC graduation but due to Myanmar reaching other development milestones, according to the policies and strategic priorities of each development partner.

Table 3 Summary of expected impacts of graduation on development cooperation and support for participation in international forums

Partner	Impacts
Instruments specifically for LDCs	- Trade-related capacity-building (see above): EIF 5-year smooth transition (except for Sustainability Grant); fewer capacity-building/training activities at the WTO; requirement to join the ACWL to benefit from its services. - LDC Fund (climate change): would finance projects approved up until graduation until they are completed. - Technology Bank for LDCs and Investment Support Programme for LDCs: 5-year smooth transition. - (See UNCDF below)
OECD DAC bilateral partners and EU institutions	- Graduation is not expected to significantly impact ODA flows from most OECD-DAC Members. - Graduation may trigger a shift from grants to soft loans by some partners such as Germany. This would depend on other variables as well, and grants would be maintained in certain areas. - Graduation may entail higher (while still concessional) interest rates on ODA loans granted by Japan and the Republic of Korea, but the exact terms of concessional loans depend on several factors. Grants and technical cooperation from these two countries are not expected to be impacted by graduation.
South-South/regional partners	- There is no indication that LDC status is a significant factor in South-South cooperation/cooperation with regional partners.
Development banks	- The World Bank /IDA does not use LDC status as a determinant of its resource allocation or the terms of its concessional loans. Graduation will have no impact on financing by the World Bank. - At the Asian Development Bank, graduation might mean that Myanmar would shift into a category of countries that receives a blend of concessional and non-concessional financing. The extent to which this shift will affect financing by the ADB in practice depends on many factors including indicators of debt sustainability. Reclassification across groups is not a mechanical process and is assessed on a case-by-case basis. Reclassification could also open the possibility of applying for additional, semi-concessional, regular OCR loans under certain conditions
United Nations system organizations	Assistance by most United Nations system organizations is not expected to be significantly affected by graduation as it is based on numerous factors including the country's specific needs and vulnerabilities and the agreed partnerships framework. Graduation may entail a relatively small reduction in the resources available for country-specific activities in a small number of organizations or require a higher cost-sharing contribution for some activities: - UNDP graduation could potentially affect a portion of the core resources dedicated to the country in the subsequent UNDP integrated budget cycle. - UNCDF programmes will continue to be funded as they were prior to graduation for an initial three years. Assuming continued development progress, funding for the remaining two years of support would be sought from government or third-party cost-sharing on a 50/50 basis. Other modalities for engagement are possible after graduation. - The Universal Postal Union (UPU) would no longer finance certain technical assistance activities amounting to CHF 60,000 over a period of four years and would no longer deliver certain types of country-specific technical assistance. It would continue to involve Myanmar in all regional activities and capacity-building initiatives. UPU provides guidance for resource mobilization and donor relations to all developing countries. - International Atomic Energy Agency (IAEA): Myanmar will need to finance 5% of projects under the IAEA's Technical Cooperation Fund (TCF). - United Nations Volunteers (UNV): The minimum government cost-sharing support fee would be 8% as opposed to 3% as an LDC, but a number of factors influence the applied rate, which is negotiated with the country.
Other organizations / funds	GAVI, the Vaccine Alliance and the Global Fund base their support on criteria other than LDC status, and graduation is not expected to impact the assistance provided to Myanmar. GEF: With the exception of the LDC Fund (see above), funding from the GEF is available for all developing countries. Under the GEF's System for Transparent Allocation of Resources (STAR) which applies to the seventh replenishment of the GEF Trust Fund (GEF-7) (2019-2022). No deliberations have been made for the functioning of the fund after 2022, but based on current policy and practice, graduation from LDC status is not expected to lead to an automatic reduction of STAR funding. Green Climate Fund (GCF): after graduation Myanmar may no longer automatically be included in the category of vulnerable countries "including LDCs, SIDS and African States" that the GCF gives priority to in allocating adaptation funds and others. Access to funds depends on capacity to elaborate projects meeting fund requirements. Common Fund for Commodities (CFC) prioritizes projects submitted by organizations based in LDCs. However, this does not exclude any other countries, and graduation of Myanmar is not expected to reduce access by its organizations to instruments of support offered by the CFC.
Contributions to the budgets of the UN system	After graduation, Myanmar would no longer benefit from ceilings and discounts for mandatory contributions to budgets of the UN system. Graduation will result in higher mandatory contributions, including for the regular budget, peacekeeping, and the budgets of two of the three agencies that adopt class-based systems of contribution (ITU and WIPO). The exact impact depends on both the approved budgets and the country's relative performance on indicators used by the United Nations to assess capacity-to-pay relative to other United Nations Member States. An unofficial estimate of the impact if graduation happened in 2020 points to an increase in contributions of approximately 1.2 million dollars per year. At the International Telecommunications Union (ITU), where contributions would increase by approximately 40,000 dollars per year, in the past graduating countries have successfully requested an extension of the conditions applied to LDCs

Support for travel to intergovernmental meetings and others	Myanmar would no longer have access to LDC-specific support for travel to attend international meetings. Support for LDCs to attend the meetings of the General Assembly are available for a smooth transition period of 3 years, if requested. The country would still benefit from travel support extended to non-LDC developing countries. Myanmar would no longer benefit from more flexible reporting requirements under the UNFCCC. It would also no longer benefit from subsidies provided by the Canton of Geneva, Switzerland, for the operational costs of its diplomatic offices.

Sources: Impact assessment (Annex 2)

Table 4: Official Development Assistance to Myanmar, top donors, 2015-2018, gross disbursements, millions of dollars

	2015	2016	2017	2018	2015-2018	% of total ODA in 2015-2018	Expected impact of graduation
Japan grants	258	308	227	225	1018	17%	No impact
Japan loans	93	199	152	312	756	12%	See table 3
World Bank Group (IDA)	70	145	221	209	644	10%	No impact
United Kingdom	174	145	156	134	608	10%	No impact
United States	114	131	140	144	529	9%	No impact
EU Institutions	120	127	78	81	406	7%	No impact
Global Fund	40	114	106	46	305	5%	No impact
Australia	55	46	68	50	220	4%	No impact
Germany	26	44	48	60	178	3%	See table 3
Asian Development Bank	12	42	30	43	127	2%	See table 3
Republic of Korea grants	23	34	36	34	126	2%	No impact
GAVI	16	20	23	39	98	2%	No impact
UNICEF	18	18	15	16	67	1%	No impact
Other UN	16	15	12	22	65	1%	No impact
Republic of Korea loans	1	14	42	4	61	1%	See table 3
Thailand	18	25	8		52	1%	No impact expected
UNDP	9	8	6	5	29	<1%	See table 3

Source: OECD Creditor Reporting System, accessed June 4, 2020.

VI. Elements for a Smooth Transition Strategy

A graduation transition strategy can address both (i) the impacts of graduation and (ii) the country's broader development challenges and aspirations, in particular how to ensure continued progress towards structural transformation, poverty eradication, equality and sustainability, including recovery from the COVID-19 consequences and the achievement of the SDGs. A transition strategy should be the result of an inclusive, country-led process, supported by the United Nations system and development partners. The paragraphs below suggest elements for consideration and discussion.

A. Addressing the impacts of graduation

The component of the transition strategy that addresses the impacts of graduation may include efforts to (i) use of the remaining periods of LDC-specific support measures strategically; (ii) delay any impacts when possible; (iii) conceive, assess and negotiate alternatives in critical areas; and (v) adapt to the new context. Based on the analysis contained in this document, Table 5 suggests possible measures to take into consideration when formulating this strategy.

B. Advancing towards structural transformation, equality, resilience and sustainability

Graduation can be seen as a milestone of progress towards development goals, structural transformation and sustainable and equitable development pathways that will carry the country into the next stages of its development (UNCTAD, 2016).

For this component of the strategy, that should be integrated with the national sustainable development plans and the plans for recovery from the crisis induced by the COVID-19 pandemic, Chapter V in UNCTAD's Vulnerability Profile notes that "the momentum and the postgraduation performance will depend largely on strong human capital development" and recommends a coherent policy focus on building productive capacities and improving competitiveness; and mitigating and adapting to environmental shocks. In terms of building productive capacity, UNCTAD highlights the importance of private sector and enterprise development by ensuring an enabling business environment, including a transparent and simple regulatory and legal framework, efficient public administration, availability of financial services, skilled and educated workforce, access to land and infrastructure, particularly a reliable electricity supply.

It will be crucial that the smooth transition strategy consider current, emerging and future disaster risk and economic, climate, and environmental shocks and hazards that might occur during the transition period and post-graduation. The smooth transition strategy should support the implementation of the national disaster risk reduction strategy and national climate change plans to ensure that international support and domestic policies for structural transformation during the transition period build resilience, reduce existing risk and avoid the creation of new risk. Priorities identified in the Disaster Risk Reduction Status Report 2019 include increasing the availability, quality and accessibility of multi-hazard risk information including localized risks and hazards; strengthening risk governance across sectors; managing economic growth and urbanization in a sustainable and resilient manner, including in the context of expanding urban informal settlements; avoiding further loss of biodiversity, protecting the environment, and capitalizing on nature-based solutions for resilience; improving financing available for disaster risk reduction in the country; establishing a post-disaster resource pool to build back better in recovery, rehabilitation, and reconstruction; having extensive social protection systems developed on multi-hazards risk information and assessments targeted to relieve the financial burdens of at-risk and affected communities; and expand the collaborative, coordinated approach to disaster risk reduction, climate change mitigation and adaptation, and sustainable development at all levels of government. UNCTAD (Vulnerability Profile, Annex 1) observes that "The danger of not comprehensively addressing climate change within the development agenda is that the adaptation and mitigation programmes do not add value to the structural transformation objectives of the national development programme and therefore do not get the necessary funding in the national budget or from development partners."

In another recent assessment, the World Bank's Systematic Country Diagnostic (2019a) identifies a series of priority areas and policy actions in line with the MSDP goals and identified, based on analyses conducted in the country on the most critical constraints to progress towards accelerated, inclusive and sustainable growth, and consultations with technical experts and stakeholders. Priority areas include maintaining fiscal balance and macroeconomic stability; developing a sound, efficient and inclusive financial system; strengthening the environment for investing and operating businesses; closing the

Table 5 Possible elements of a transition strategy – addressing impacts

	Trade	Development cooperation and support for participation in international organizations and processes
Strategic use of LDC-specific support measures for the re maining eligibility period	Take advantage of the EIF and other trade-related capacity-building and technical assistance instruments that are exclusive to LDCs to address the trade-related challenges expected after graduation. Special attention should be given to the garment industry. Raise awareness and build capacity among the private sector and potential investors on the expected impacts of graduation on tariffs and rules of origin in key markets.[16] Clarity on the expected impacts may help reduce investor uncertainty in the period leading up to graduation.	Ensure full use of the maximum allocation under the LDCF before graduation. Work with the Technology Bank to secure inclusion in its activities for the remaining eligibility period. Assess whether the Investment Support Programme for LDCs can be of use for Myanmar.
Delay	If considered relevant, explore the possibility of applying for a temporary derogation from the EU rules of origin for the standard GSP (particularly in garments).[17] If considered relevant, consider engaging with WTO members to request an extension of the pharmaceuticals exemption under TRIPS beyond the date of graduation.	Work with partners to ensure that where a reduction of grants or other forms of assistance is expected, resources are secured, if necessary, to ensure continuity and avoid reversals. Request the 3-year extension of support for travel to the General Assembly meetings and, where applicable, apply for similar extensions in other organizations. Consider requesting the ITU Council to authorize Myanmar to continue to contribute to the ITU budget at the lowest rate.
Alternatives	Engage with EU on alternatives for the period after the smooth transition period of the EBA. Myanmar may become a member of the ACWL with a one-off contribution of CHF 81,000. In the past, countries not otherwise entitled to the ACWL's services have become members via a one-off donor-financed contribution.	Engage with entities such as the UNCDF in advance to secure modalities for cooperation to continue after graduation.
Adapting to the new context	Identify capacity-building needs in both sector-specific and cross-cutting issues for expanding and upgrading supply and consequently enhancing export capacity. Work with partners to ensure continuity, where necessary, of capacity-building in the areas currently covered by LDC-specific instruments such as the EIF.	Consider graduation as part of a broader context that may also include graduation from the concessional windows of development banks or from other forms of assistance. Ensure, in the period leading up to graduation, capacity-building in areas that are expected to require greater government involvement, such as capacity to mobilize finance for climate-related investments. While no major changes are expected in bilateral assistance by most partners, in due time, the government will need to engage directly with development partners, including the smaller partners, so as to be able to anticipate any changes and, where necessary, explore alternatives and avoid reversals of advances made under those programmes.
Possible issues for further research	Myanmar's ability to comply with rules of origin to take advantage of access to the EU market under the standard GSP and other markets under non-LDC-specific schemes, and identification of capacity-building needs. How to address any impacts the graduation of Bangladesh may have on pharmaceuticals supply prices in Myanmar. How Myanmar can make the best use of the services waiver prior to graduation. Myanmar's prospects in the global garment industry taking into consideration the impacts of COVID-19, industry trends, and the combined graduations of Myanmar, Bangladesh, Nepal, Lao PDR and Cambodia.	

[16] Tools such as the ITC's Market Access Map (www.macmap.org) and Rules of Origin Facilitator (findrulesoforigin.org) can be used by exporters, investors and potential investors to identify the precise impacts in terms of tariffs and rules of origin for their products in specific markets.

[17] See European Commission (2016), "The European Union's Rules of Origin for the Generalised System of Preferences – A Guide for Users", p. 5. https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/customs/customs_duties/rules_origin/preferential/guide-contents_annex_1_en.pdf.

gap between supply and demand for infrastructure and technology; improving income-generation opportunities and accessibility in rural areas; foster peace, social cohesion and more inclusive governance institutions; strengthen systems for the delivery of equitable and quality services and risk protection that allow people to lead healthy lives; ensure education for all and skills for productive employment; manage land and natural resources transparently, equitably and sustainably; build resilience to disasters and mitigate the impact of environmental degradation; and improve effectiveness, transparency and accountability of public sector institutions.

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Annexes

Annex 1: Vulnerability Profile (UNCTAD)

Annex 2: *Ex ante* assessment of the impacts of the graduation of Myanmar from the category of Least Developed Countries (LDCs) (UNDESA)

Annex 3: List of key documents

Annex 4: LDC Criteria – 2021 Data

Annex 5: Supplementary Graduation Indicators

List of Key Documents

United Nations, Myanmar (2020) Socio-Economic Impact of COVID-19 in Myanmar – Summary of findings from UN and non-UN impact assessments, October 2020 https://unitednations.sharepoint.com/sites/DCO-WG-UNSDG_CF/COVID19/Myanmar%20COVID19%20Impact%20Assessment%20Report%20-%20%20October%202020(2).pdf
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