

Chapter 4

Border Trade in Myanmar

4.1 Emergence of Border Trade

(A) Parliamentary Democracy Period (1948-1962)

Border trade was not very active in the post-independence period from 1948 to 1962. It was mostly carried out between the local people who were living near both sides of the border. Consumer goods were imported for the households' own use. Another type of border trade activity was importing illegal goods like gems, antiques, leather, drugs and opium which were banned from trade by the government. Those kinds of trade activities were done by private and individual traders. The risk of arrest by police and authorities was very high. At that time, road facilities, used to access border towns and cross the borders, were very poor. As a result, the country did not receive any tax revenue from border trade activities. Moreover, political instabilities and insurgencies in the frontier areas hinder the development of border trade at this particular period.

(B) Socialist Period under Military Rule (1962-1988)

In the Socialist Period from 1962 to 1988, the country had been pursuing a strict non-aligned foreign policy and an economic strategy of self-reliance and self-sufficiency. External trade was completely monopolized by the state. All external trade activities were operating by twenty-two state-owned trade

corporations. Private trade activities were banned. No one was allowed to buy and sell freely. Companies and enterprises, from large scale to small scale, were nationalized. Hence, border trade began to play a vital role in trade activities for importing consumer goods and other essential commodities by illegal channels from neighboring countries. The black market emerged and gained strength.

Similar to the post-independence period, border trade and the areas nearby were not developed. As a result, no tax revenue was collected as a country, and no significant improvement was made in transportation. The risk was much higher than during the post-independent period due to the growing insurgency in the border areas and the chances of getting arrested by the authority. Thailand and India were the very first countries engaging in limited border trade with Myanmar in those days and China joined later in the early 1970s.

(C) Market-oriented Period under Military Rule (1988 to present)

After 1988, a series of open-door policies were introduced for the transition towards a market-oriented economic system. A wide range of economic reforms were launched such as decentralization of central control, legalization of border trade, liberalization of trade policies, offering permission for foreign investment, encouraging and promoting private sector development and initiating new financial management systems. Individuals and private businesses were allowed to engage in external trade. Border trade has now been normalized with neighboring countries in an attempt to eliminate illegal border trade.

Border trade in Myanmar basically operates the same as normal international trade via sea and air.

4.2 Border Trade Policy

Border trade policy in Myanmar is to develop and strengthen trade relations with the five neighboring countries by employing the strategies of export promotion and export expansion.

4.2.1 Department of Border Trade

The Department of Border Trade was established in August 28, 1996 under the Ministry of Commerce (DOBT, n.d). It is piloted by a Director General and the Head Office consists of the following six divisions:

- Administration and Training Division
- Planning, Statistics and Policy Division
- Foreign Trade Promotion and Export-Import Research Division
- Border Export Division
- Border Import Division
- Accounts Division

The five objectives of the Department of Border Trade are:

- To further strengthen the existing friendship between the two countries
- To promote border trade between the two countries, putting it in line with normal trade

- To obtain reasonable revenue for the state
- To facilitate private business activities thereby allowing them to acquire reasonable profit
- To enhance the smooth flow of commodities

The main functions of the Department of Border Trade are as per below:

- Issuing the export/import licenses/permits for trading undertaken by border areas
- Establishing trade zones and wholesale markets
- Carrying out tasks to facilitate the trade activities
- Carrying out tasks to increase trade volume
- Attempting to export new items
- To facilitate illegal trade's transformation to legal trade
- Promoting transit trade
- Carrying out tasks to obtain reasonable revenue for the state
- Holding trade fairs and discussions for trade promotion
- Assisting businessmen who want to establish companies
- Arranging trainings for export/import procedures to be able to carry out the border trade

4.2.2 Rules and Regulations

There are four basic procedures to carry out border trade which are;

- 1) Export first, Import later
- 2) Import must be allowed against export earnings
- 3) Export must be equal with Import (Ex = Im)
- 4) Market places which sell all the commodities and products of Myanmar must be within the country's territories.

The Ministry of Commerce listed and set up rules and regulations of border trade practice on 13 November 2000. The details are as follows:

- a) Export First
- b) A company must have export earning in order to import
- c) Allow import against 90% of export value
- d) All export earnings must be deposited to the Myanmar Foreign Trade Bank (MFTB) with one of the permitted currencies (US\$, Yuan, Rupee and Baht)
- e) Companies must pay 10% of the export value to the Customs Department
- f) If the export has done with Myanmar Currency (Kyat), there is no need to deposit the export earnings at the government bank. Only 10% tax has to be paid to the Custom Department via the Myanmar Economic Bank.
- g) If an export was done using Kyat, US\$, Yuan, Rupee and Baht, then the type of currency used when importing would have to be the same.

4.3 Border Trade with Neighboring Countries

Myanmar shares a common border with Bangladesh, Laos, India, China and Thailand. The length of the contiguous frontier is 6,159 kilometers. Myanmar has thirteen border trade posts of which Myawaddy (bordering Thailand) and Muse (bordering China) have been the busiest. According to the Myanmar Department of Border Trade, currently there are eleven border trade posts in working status. But there are two more border trade posts with China which are located at Laiza and Kanpeikree (bordering China) which are temporarily closed.

In addition, new posts at Dawei, Maung Taung, Naintaung and Payathonesu along the Myanmar-Thailand border and at Mailar and Pansan along the Myanmar-China border are planned to open. The new border trade zone is planned to be built in Yan Lone Chai Township which is about 12.8 kilometers away from the Kokang capital of Laukkai, bordering China's Zhenkang, Gengma, Mengding and Longling areas. There are also plans to open a post at Wanpon along the Myanmar-Lao PDR border through a bilateral agreement which is yet to be signed. There are also plans to open posts at Palatwa and Shalattwa along the Myanmar-India border.

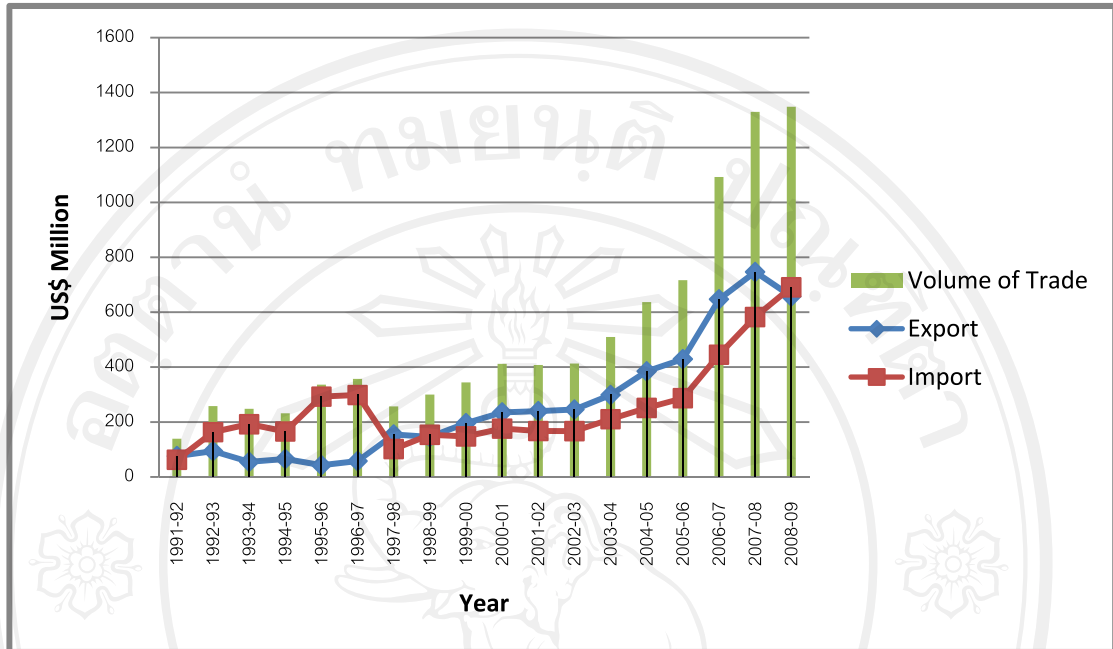
According to the recent news, the merchants and officials of Myanmar and Thailand have emphasized the extension of border trade areas in the transformation of border trade practice into normal trade. The responsible persons of both countries are negotiating to set up more trade zones at the border areas on both sides such Maw Tong of Myanmar and Sinchon of Thailand, Mongsat of Myanmar and Kayuparwat of Thailand, and Loikaw of Kayah State and Hwetong of Thailand. After these three

trade zones have been opened, there will be seven border trade zones between Myanmar and Thailand.

Border trade camps were also officially opened along the trade routes. They are Tamu (Myanmar-India), Maungtaw (Myanmar-Bangladesh), Tarchilade (Myanmar-Thailand) and Muse (105mile) (Myanmar-China).

In the early period, border trade was unstable because of instability of the border regions, especially Myanmar-China and Myanmar-Thailand. Trade routes had to be frequently closed according to the unstable conditions of the border regions. After formalization of border trade, the export and import volume of border trade gradually grew except during the 1997-98 Asian financial crisis. The share of border trade significantly rose to about 71% of total exports and 32% of total imports by 1988-89. The border trade volume made up 21% of total exports and 4% of total imports in 1985-86 (CSO). The export surge creating local shortages and price rise, led to the banning of 23 items of goods as regards to export through border trade in 1990 and export value fell by 20% in 1990-91. Imports from border trade however rose fast to one-third of total imports, partly owing to the “import first, export later system” policy in border trade. Later, this system was halted due to massive trade imbalance and loss of foreign exchange, and the “export first, import later” policy was launched in July 1997 which set up the priority lists of export and import commodities for private enterprises.

Figure 4.1 Changes in Export, Import and Volume of Myanmar Border Trade (1991-92 to 2008-09) (US\$ Million)



Source: Department of Border Trade, Myanmar

By 1994-95, border trade declined due to the political instability along the Myanmar-Thailand border. After 1995, a bilateral agreement has been officially made and border trade has succeeded substantially and most remarkably. Border trade expanded fast in 1997-98, due to healthy trade with China, Thailand and Bangladesh. Half of the total exports value consisted of border trade. The regional currency crisis in major partner countries impacted only the next two years, lowering exports by about one-eighth. Border trade since 1990-91 always involved a trade deficit for Myanmar which widened faster after the crisis. The changes in border trade are depicted in Figure 4.1.

Between 1992-93 and 2003-04, Myanmar's overall exports to neighboring countries increased at an average annual growth rate of 19% and its overall imports

grew at an average annual growth rate of 21%. Consequently, the country's total cross border trade grew steadily at an average annual rate of 14%. In terms of border trade balance, Myanmar has been in positive (surplus) balance of trade since 1999-2000.

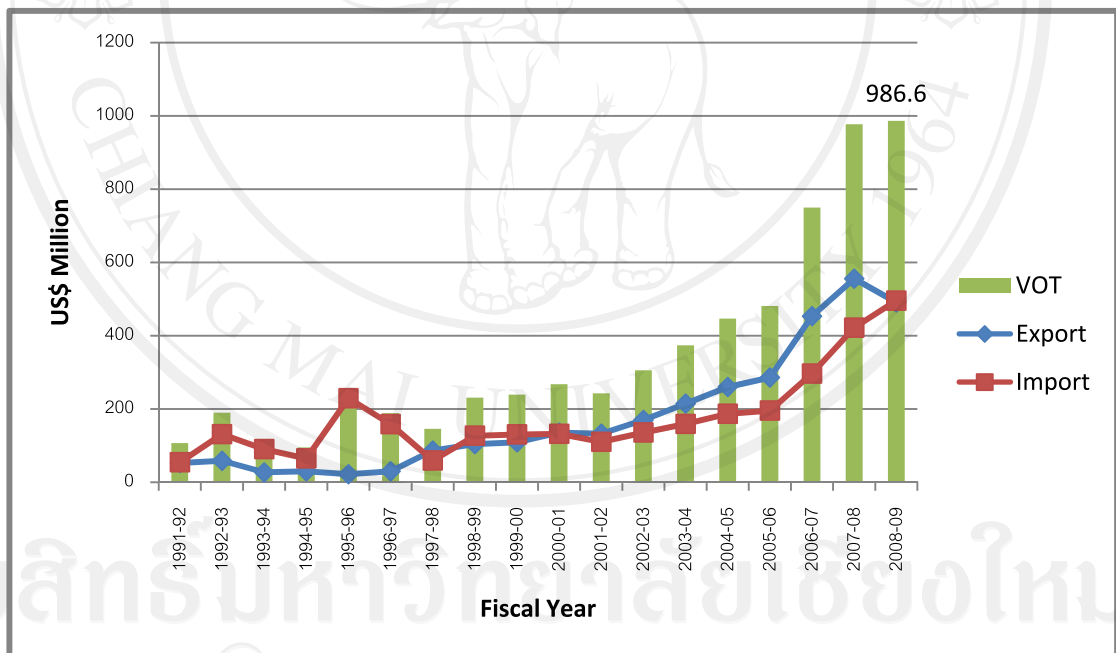
4.3.1 Cross Border Trade with China

The communist insurgency in the North East of Myanmar bordering on China has discouraged the overland trade between the two countries since 1968. Only normal overseas trade existed via the main port of Yangon. Starting from the early 1970s, Chinese consumer products have dominated the Myanmar market through illegal trade. After the Myanmar government liberalized trade restrictions in late 1988, the trade volume has increased significantly. Chinese products which vary from heavy machinery and spare parts to consumer goods have deeply influenced the Myanmar market. This can be seen as the impact of this bilateral trade relationship. China has become a major supplier of capital goods, intermediate goods and consumer goods to Myanmar.

Since 1988, China has become one of the important sources of trade and development assistance for Myanmar. Bilateral trade with China has been growing steadily since 1988. The volume of total foreign trade for the fiscal year 2003-04 accounts for US\$ 696.10 million and China enjoyed a trade surplus of US\$ 246.36 million. In the fiscal year of 2008-09, the volume of total foreign trade has rose to US\$ 1825.81 million, yet, again, China enjoyed a trade surplus of US\$ 590.38 million. The value of total foreign trade deficits was nearly double of the value of export (MOC, n.d).

Looking at Myanmar border trade with China, border trade was unstable at the earlier years before 1997-1998 because of the Asian financial crisis, instability of frontier areas and ethnic insurgencies. After the government signed the cease-fire agreements with ethnic groups, the government could normalize border trade with China in early 1998. Figure 4.2 depicts clearly the steadily growing volume of border trade after fiscal year 1998-99. The highest value of border trade has been documented at US\$ 986.6 million in 2008-09.

Figure 4.2 Changes in Export, Import and Volume of Myanmar Border Trade with China (1991-92 to 2008-09) (US\$ Million)



Source: Department of Border Trade, Myanmar

When looking at the trend of export and import, import was higher than export until 1996-97 along with the impact of the ‘import first, export later’

policy. Between 1997-99 and 2001-02, the value of exports and imports did not fluctuate significantly. From 2002-03 until 2007-08, the volume of export grew steadily. By the year of 2008-09, export had declined a bit due to the fighting between the Myanmar government and the Kokang ethnic insurgency, residing near the China border (Jagan, 2009). In terms of border trade with China, Myanmar has attempted, over the years, to limit trade deficit to China with little success. The volume of trade has been growing steadily year by year. As for foreign trade, China has been enjoying a trade surplus with Myanmar. The trade imbalance will continue to grow until it could possibly be offset by the trade deficit in the near future when natural gas export between the two countries has started. According to Myanmar government statistics, the share of border trade with China constituted 70% in 2008-09 in overall border trade and 54% of the China-Myanmar total foreign trade.

Myanmar mainly exports primary products ranging from agricultural products, raw materials, forest products to livestock and fishery products while China imports cheap finished products of intermediate goods and consumer goods from heavy machinery, clothing, to food products.

One has to take into account the illegal trade along the border areas of illegal logging and export of timber to China which is hard to estimate. Timber still remains the top of China import list from Myanmar. However, China-Myanmar bilateral trade accounts nearly 16% of the Myanmar total trade and

border trade constituted 73% of total border trade according to Myanmar's official statistics.

4.3.2 Cross Border Trade with Thailand

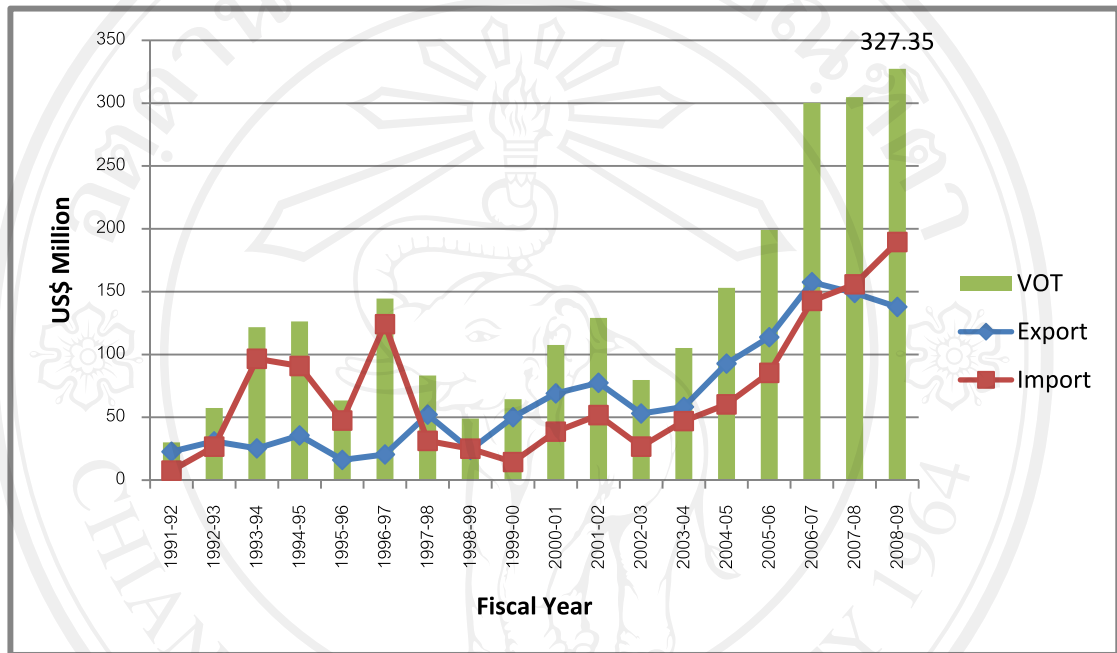
Myanmar began border trade relations with Thailand through illegal channels in the socialist period mostly via Pha Ya Thone Zu (Three Pagoda Pass). Myanmar and Thailand negotiated the Bilateral Trade Agreement on the 12th of April, 1989 in Yangon and border trade started on the 1st of December in the same year. Official border trade between the two countries was carried out based on the Normal Border Trade Method and strengthened by signing an MOU on Myanmar-Thai Joint Commission on Trade on 2nd February 1990.

In a view of balance of trade, Myanmar experienced wide trade deficits, nearly six fold of the value of export with Thailand, in 1996-97 mainly owing to the policy of “import first, export later”. Imported goods poured into the Myanmar market. Moreover the emergence of the import-substitution industries mainly depend on imported machineries and raw materials while Myanmar's exports largely rely on the primary products.

In bilateral trade with Thailand, the volume of total foreign trade for the fiscal year 2003-04 accounts for US\$ 971.26 million. Myanmar had a trade surplus of US\$ 589.66 million which was 61% of the total foreign trade with Thailand due to the export of natural gas. The volume of total foreign trade grew significantly in the 2008-09 fiscal year to US\$ 327.35 million, yet still Myanmar had a trade surplus of 74% over total trade. Figure 4.3 describes the trend of

export, import and volume of border trade with Thailand from 1991-92 to 2008-09.

Figure 4.3 Changes in Export, Import and Volume of Myanmar Border Trade with Thailand (1991-92 to 2008-09) (US\$ Million)



Source: Department of Border Trade, Myanmar

The share of imports had been growing up until 1996-97. As a consequence, the Myanmar government revised the trade policy and the “export first, import later” policy was introduced. The government banned 22 items from export but later loosened those restrictions.

By looking at figure 4.3, one can see that Myanmar border trade with Thailand was not stable until 2001-02. The period of 1991-92 to 1994-95, in terms of volume of trade, grew steadily. At the fiscal year 1995-96, border trade volume was reduced by half - for example, US\$ 144.45 million become 63.42

million - because of the battles near the Thai-Myanmar border between the Karen National Union (KNU), an armed ethnic group, and the government army. Only after this happened did Myanmar open official border trade posts at Kawthaung (bordering Ranong) and Tarchileik (bordering Mae Sai) in early 1996. In the following year, 1996-97, the volume of trade more than doubled. The bilateral border trade agreement of early 1996 and the policy of “import first, export later” resulted in the significant increase in the volume of border trade. But in the same year, Myanmar had a border trade deficit with Thailand of US\$ 103.71 million which was 72% of the total border trade. The import volume was six times larger than export because of to the “import first, export later” policy.

Due to wide deficits with Thailand and other countries, “export first, import later” policy was introduced in July 1997. Furthermore, the economic sanctions from the West and the Asian financial crisis in the middle of 1997 resulted in the fall of the volume of border trade with Thailand. The volume of border trade decreased 58% in 1997-98 when compared with the previous year. The border trade gradually decreased until 1999-00. In 1999-00, exports started to grow to be higher in volume than imports.

Border trade had been growing since the fiscal year 2000-01 when Myanmar started to export natural gas to Thailand. The volume of border trade grew until the fiscal year of 2008-09, except for the year 2002-03. The possible reason behind the decreasing volume of the trade in that year is the Myanmar banking crisis of early 2003. Since 2002-03, cross border trade has been

gradually grew until 2005-06. Again from 2005-06 the volume of border trade has been proliferated by 65% in 2006-07. Myanmar's cross border trade with Thailand reached the highest value throughout the years at US\$ 327.35 million in 2008-09. However, it is estimated to decrease to some extent in the coming year because of the Myawaddy border closure from the Myanmar side since July 12, 2010 (Pichai, 2010).

In 2008-09, Thailand's share represents 26.73% of Myanmar's total foreign trade and the share of border trade is 24.28% of the total foreign trade with Thailand.

4.3.3 Cross border trade with Bangladesh

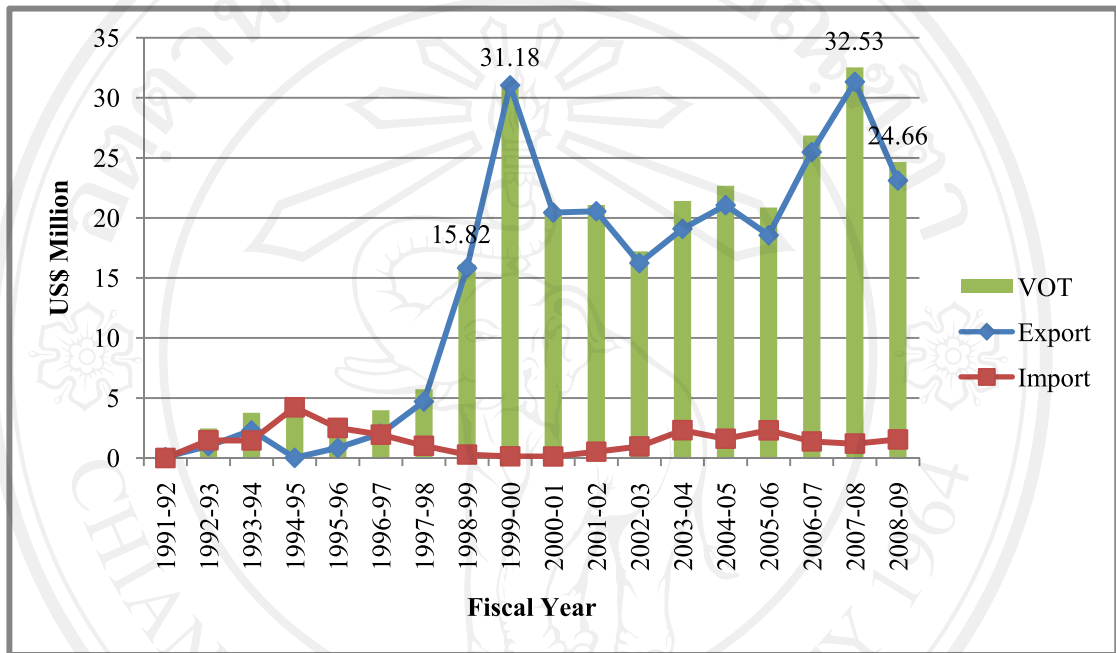
Cross border trade between Myanmar and Bangladesh at Maungdaw locating in Rakhine State was legalized as early as September 05, 1995. Unlike the trend of trade with China and Thailand, Bangladesh cross border trade has fluctuated widely. There are long standing political disputes with Bangladesh regarding the Rohingya¹ population and the maritime boundary argument over offshore oil and gas rights (Desk, 2008).

The major export items through cross border trade with Bangladesh have been marine products, agricultural products and forest products while major imports have been raw materials, second grade consumer goods and capital goods. Figure 4.4 shows that there were only minimal border trade activities

¹ The Rohingya is a Muslim ethnic group of the Northern Arakan State in Western part of Myanmar.

until 1998-99. After that, the volume of border trade with Bangladesh increased sharply due to the opening of second border trade post at Sittwe in late 1998.

Figure 4.4 Changes in Export, Import and Volume of Myanmar Border Trade with Bangladesh (1991-92 to 2008-09) (US\$ Million)



Source: Department of Border Trade, Myanmar

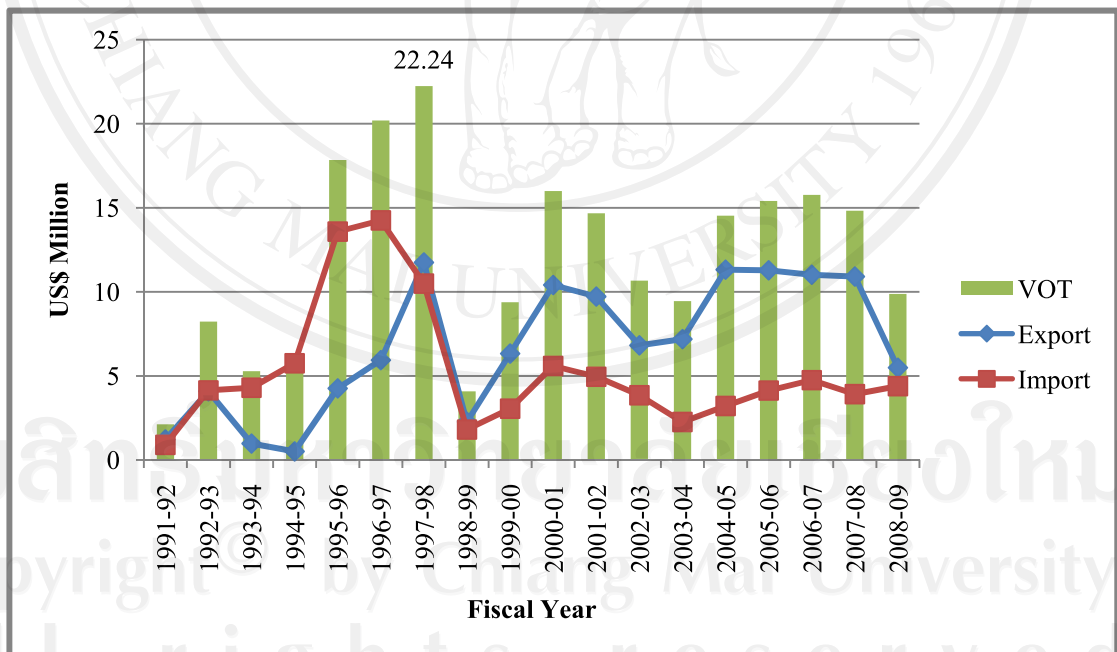
When the “import first, export later” policy was launched in July 1997, it created a situation where the export value with Bangladesh doubled and the volume of trade grew 36% in 1998-99. In the following year, the volume of trade was again doubled and reached US\$ 31.18 million. Since 1998-99, the export trend has always been higher than import value with fluctuations, which shows the unstable condition of border trade.

The average changes of export to Bangladesh are 13.57% when the average import stands only for 1.33% which is too low. Myanmar has enjoyed favorable border trade with Bangladesh ever since the fiscal year 1997-98.

4.3.4 Cross Border Trade with India

Cross border trade posts between Myanmar and India were legalized at Rhi (Mizoram State, India) in late 2003 which have still not become functional. The most active border trade post along the Myanmar-India border is in Tamu (Manipur State, India) and was opened on April 12, 1995.

Figure 4.5 Changes in Export, Import and Volume of Myanmar Border Trade with India (1991-92 to 2008-09) (US\$ Million)



Source: Department of Border Trade, Myanmar

The major exports to India via cross border trade are agricultural products, forest products, marine products, animal products and finished goods. The major imports are raw materials, consumer goods and capital goods. The bilateral trade with India accounted for US\$ 472.11 million in 2003-04. It doubled into 950.22 million in 2008-09. The changes in cross border trade with India are illustrated in Figure 4.4.

When looking at the trend of border trade with India, the volume of trade increased nearly threefold in 1995-96 just after the Tamu official border post was opened. The highest value of trade throughout the 18 year span was US\$ 22.24 million in 1997-98 in line with the introduction of “export first, import later” policy. In the following year, the volume of trade dramatically fell 5.45 times because the share of wheat flour import decreased. This was due to the new bilateral contract of wheat flour between Myanmar and Australia that was signed at that time. The decline in the diversity of imports from the Myanmar side was reflected in the volume of cross border trade between Myanmar and India until 2008-09.

4.4 Transport Linkages

4.4.1 East West Economic Corridor (EWEC)

The East West Economic Corridor (Map 3.2) is the only land link that connects the Indian Ocean to the Pacific. It is the transportation network which is a GMS flagship program, stretching for nearly 1,600 kilometers across Myanmar, Thailand, Lao PDR, and Vietnam. It runs from Mawlamyine in Myanmar through

Myawaddy and Mae Sot of Thailand. It continues through Phitsanlok and Khon Kaen in Thailand to the Laos border at Mukdahan and Savannakhet. It stretches on another 200 kilometers through Laos then into Vietnam where it finally ends at Danang.

4.4.2 Asian Highway Route in Myanmar (AH1)

The Asian Highway Network is set to expand approximately 140,000 km. It will start from Tokyo, Japan and end at Istanbul, Turkey. Along the way it will pass through North and South Korea, China, Vietnam, Cambodia, Thailand, Myanmar, India, Pakistan, Afghanistan, and Armenia.

The 1300 km route of the Trilateral Highway Project will extend from Moreh (Manipur, India) to Mae Sot of Thailand through Myawaddy and thus passing through Myanmar's commercial cities. The only route which is currently in a stage of development is the AH1 (Map 3.3) from Myawaddy to Thin Gan Nyi Naung of which 18 kilometers is being built by the Thai government under the umbrella of ACMECS². There are also plans to extend this route another 40 kilometers from Thin Gan Nyi Naung to Thaton.

² The Ayeyawady - Chao Phraya - Mekong Economic Cooperation Strategy (ACMECS) is a cooperation framework amongst Cambodia, Lao PDR, Myanmar, Thailand and Vietnam to utilize member countries' diverse strengths and to promote balanced development in the sub-region