

Chapter 3

Trade in Myanmar

3.1 A Brief History of Myanmar Trade (1885-1988)

The history of Myanmar's external trade and its policy can be divided into four chronological periods according to its political economy since British colonial rule. These periods are as follows.

1. British Colonial Period (1885-1948)
2. Parliamentary Democracy Period (1948-1962)
3. Socialist Period under Military Rule (1962-1988)
4. Market-oriented Period under Military Rule (1988 to present)

The policy of trade and its political economy for each period will be explained briefly.

A. British Colonial Period (1885-1948)

“Laissez-faire and competitive enterprise, two adjuncts of Anglo-Saxon liberalism, were the basic principles of commercial policy of British rule in Burma” (Mali, 1962).

Burma was defeated by the British after three Anglo-Burmese wars in 1824-1826, 1852 and 1885 respectively. The British annexed the whole of Burma in 1885 and occupied the country as a British colony. Burma was a province under the British India administration from 1886 to 1937. The free flow of currency and

immigration of Indian people such as basic workers, farmers, money lenders, white collar workers greatly increased. Foreign trade was dominated by British and Indian merchants. The emergence of the Suez Canal in 1869 developed Myanmar's international trade. To promote the export of rice, farmers were forced to expand rice cultivation. It was estimated that "the value of rice export rose from Rs.30 million in 1869 to Rs.389 million in 1913-14, and Rs.659 million in 1926-27"(Singh, 1979). Myanmar was largest rice exporter those days and well known as the "rice bowl of Asia." Earnings from rice exports were followed by exports of rubber, teak and petroleum which had no benefit directly to the Myanmar people.

At the end of this period, Myanmar was transformed into an export-oriented economy from the traditional economy that it experienced under British colonial rule.

B. Parliamentary Democracy Period (1948-1962)

Myanmar achieved its independence from Britain in 1948 and U Nu was elected as a first Prime minister of Myanmar. The structure of his government was parliamentary democracy and state investment was performed in public enterprises. The government nationalized the enterprises formerly run and owned by foreigners. This situation was described by (Furnivall, 1957) when he wrote, "Under a national government, these firms (foreign-owned monopolies) could not possibly be allowed so much power. Socialist theory indicated that they should be taken over by the State." U Nu's government faced a series of political and ethnic insurrections and collapsed by 1961. The military government took over power

under General Ne Win on March 1962 due to the disputes that had emerged among the parties and economic instability.

C. Socialist Period under Military Rule (1962-1988)

This period can be divided into two parts according to the political system. There was direct military rule by the Revolutionary Council from 1962 to 1974, and Socialist Republic Rule (BSPP)¹ from 1974 to 1988. Thein (2003) found the following: “The economy was incrementally shaped into a planned socialist economy which was supposed to be of the Sino-Soviet type, but actually in practice perhaps represented a form closer to centralized state capitalism. The economy was inward looking oriented as a closed economy according to the self-reliance and self-sufficient policy and nationalization. Foreign direct investment (FDI) was prohibited.”

The government nationalized all major enterprises except agriculture, small-scale trading and minor services in 1967. In the name of “Burmese Way to Socialism,” the important means of production, distribution, and external trade were nationalized. The government established state-owned enterprises. The main idea was that sustainable economic growth could be attained without relying on external sources such as foreign aid and investment. Imports were restricted when the government began to depend on domestic resources for its economic growth. “Import substitution” was its major policy regarding international trade. At this

¹ Burma Socialist Programme Party

time, the country was purposefully isolated from the international political economy.

In conclusion, during this period, because of the incompetent and poor economic management of U Ne Win's regime, the once wealthiest country in South East Asia became impoverished. U Ne Win's government was forced to step down after a series of protests and political uprisings in 1988. The army, again, took over the state with the formation of the SLORC².

3.2 Introduction to Myanmar's Current Trade (1989 – present)

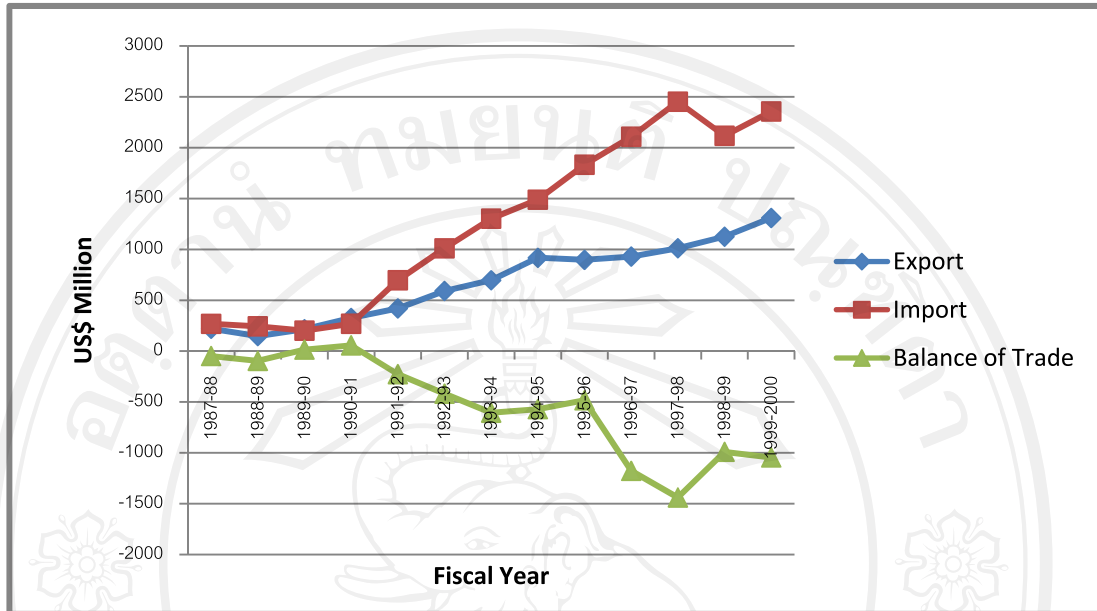
3.2.1 Market-oriented Period under Military Rule (1989 to present)

Thein (2003) summarized the new economic environment in this time period that the new 'open door policy' replaced the existing 'Burmese Way to Socialism'. The SLORC officially abandoned the establishing a socialist economic system and began to promote the market-oriented economy.

In terms of definition, market economy is a type of economic system in which the price of goods and services are determined by the invisible hands of supply and demand. This system is contrasted with a planned economy of the former regime where the price mechanism was totally regulated by the government. But in the market economy, the government's interventions are supposed to be minimal.

² The State Law and Order Restoration Council (SLORC)

Figure 3.1 Changes in the Performance of International Trade (1987-2000) (US\$ in Millions)



Sources: IMF Report (1998, 1999, 2001); UNCTAD Report (2001). Adapted from Economic Development of Myanmar by Myat Thein, pp 156

In the early 1990s, the government allowed private enterprises to engage in external trade. Border trade was normalized since it had been illegal before. The government reformed the liberalization of export and import excluding specified goods, and the deregulation of foreign currency and reviewed of laws related with external trade. Some of the rules and regulations of trade were eliminated and custom duties were revised. As a matter of external trade, export and import of the country has increased since the open-door policy has been put into practice. The volume of trade also increased significantly. However the terms of trade were unfavorable. Myanmar could not produce consumer goods and had to import with high prices when exports were mainly relying on the primary sector. Trade deficits were increasing because of the larger volume of import compared to the export volume.

Table 3.1 Performance of Exports, Imports and the Balance of Trade (1987-2000) (US\$ in Millions)

Year	Export	Import	Balance of Trade
1987-88	219	268	-49
1988-89	147	244	-97
1989-90	215	201	14
1990-91	325	269	56
1991-92	419	696	-227
1992-93	591	1010	-419
1993-94	696	1302	-606
1994-95	917	1488	-571
1995-96	897	1831	-484
1996-97	929	2107	-1178
1997-98	1011	2451	-1440
1998-99	1125	2116	-991
1999-2000	1309	2355	-1046

Sources: IMF Report (1998, 1999, 2001); UNCTAD Report (2001). Adapted from Economic Development of Myanmar by Myat Thein, pp 156

3.2.2 International Trade Policy

The “export first, import later” policy is practiced in current Myanmar international trade. Myanmar’s trade policies have been outlined by the Ministry of Commerce. The following four main objectives and three basic principles were set up as policy guidelines for trade performance.

Main Objectives of the Policy

1. To support internal and external trade activities for the economic development of the country.
2. To upgrade the commercial efficiency of the public and private trading houses.
3. To increase the foreign exchange earning of the country by export promotion.
4. To encourage the trading activities of co-operatives and private entrepreneurs.

Basic Principles of Trade

1. Trade activities should be aimed at the interest of the State and the People.
2. Trade activities should not be a burden to the people.
3. Trade activities should be aimed at structuring a long-term viable trading system, rather than to gain short-term profit.

Ministry Level Objectives

For the ministry level, the objectives of the Ministry of Commerce are:

1. To increase trade volume
2. To promote private sector development for strengthening the market-oriented economy
3. To attain the larger market share of export in international economy by collaborating with international institutions.
4. To support the flow of trade and market stabilization by balancing export and import in accordance with domestic production, consumption and surplus.

Export Policy

The main objective of Myanmar's export policy is the *export promotion policy* which is to export all exportable surpluses and to diversify foreign markets by using natural and human resources. It is also encouraged to produce value added goods and to increase, to diversify, and to improve the quality of products.

Import Policy

Import is allowed depending on export earnings along with a view to overcome trade deficits and to promote export. The private companies are encouraged to import capital goods, raw materials and other essential items.

3.2.3 Methods of Trade

Basically, the two types of trade which are allowed by the Myanmar government are conventional trade and border trade.

A. Conventional Trade

International trade could be engaged by *Conventional Trade* which is allowed in accordance with the standards and norms of the international trade system. Conventional trade activities are allowed via sea route, by air and through border trade.

The types of currencies which are allowed in conventional trade are:

1. US dollar
2. Euro
3. Japanese Yen
4. Singapore Dollar
5. Conditional Currency allowed by the government of Myanmar

B. Border Trade

Border trade is the trade which engages neighboring countries by using both countries' currencies and US dollar by the Central Bank of Myanmar.

The types of currency for the border trade are as follows:

1. Myanmar-China Kyat, Yuan, Dollar, and other
conditional currency

2. Myanmar-Thailand Kyat, Baht, Dollar, and other conditional currency
3. Myanmar-India Kyat, Rupee, Dollar, and other conditional currency
4. Myanmar-Bangladesh Dollar, and other conditional currency

Both types of methods are due to pay 8% on commercial tax and 2% on income tax which could take into account as much as 10% on every export. The total profit amount, from which the 10% tax has already been subtracted from, is called export earnings. There are other types of income to import commodities as well but most of the businessmen must have export earnings to import both in conventional trade and border trade methods. At the same time, those export earnings can buy and sell within companies. Export earnings from conventional trade via sea route can be re-usable in the same types of trade or even in border trade.

Engaging the conventional trade via border area is an act that requires an application for export/import licenses and permits, to open the letter of credit (L/C) and other procedures. It is the same with trade via sea route and by air.

3.2.4 License and Permit

Licenses and permits are required for every export and import. The Directorate of Trade is responsible for issuing export/import licenses and permits for conventional trade via overseas. The licenses/permits' validity is three months from the date of issue and is not extendable. The Department of Border Trade is responsible for overland trade with the neighboring countries.

The export license fee is not required for any commodity including agricultural crops while all the imports are subjected to pay license fees, customs duty and commercial tax. The rate of commercial tax depends on the type of goods and services which are being imported. The rates can significantly, for example 5%, 10%, 20%, and 25%. Commodities like cigarettes and liquor are levied more than 25%.

3.2.5 Foreign Trade and its Performance

According to the Ministry of Commerce, Myanmar has been practicing 'trade liberalization' and 'free and fair trade' Myanmar was a founding member of GATT and later it has been a member of the WTO. Therefore trade activities are carried out according to the WTO system (ASEAN, 2010). Myanmar has bilateral trade agreements with Thailand, China, India, Bangladesh, Singapore, Malaysia and Japan. Myanmar is also a member of UNCTAD³, ASEAN⁴, GMS⁵, and BIMST-EC⁶.

According to ADB (Figure 3.1), among the top ten major destinations of Myanmar's export in 2008, Thailand was in the first place, followed by India, and China was in third place. The 61% of exports was dominated by Thailand in 2008.

India and China stood with 14% and 11% which has far from the highest percent held by Thailand. Bilateral trade with Japan was also noticeable.

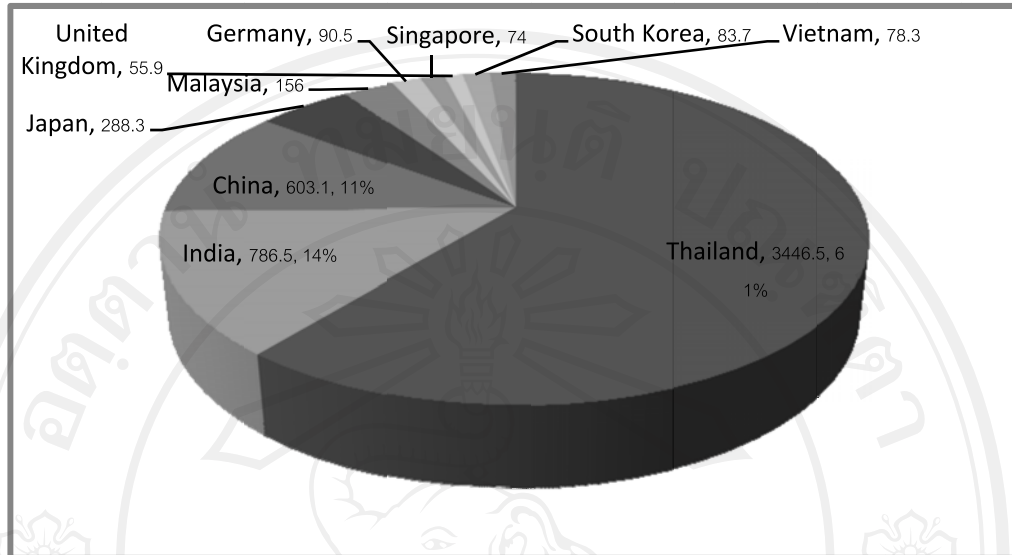
³ United Nations Conference on Trade and Development

⁴ The Association of Southeast Asia Nations

⁵ Greater Mekong Sub-region

⁶ Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation

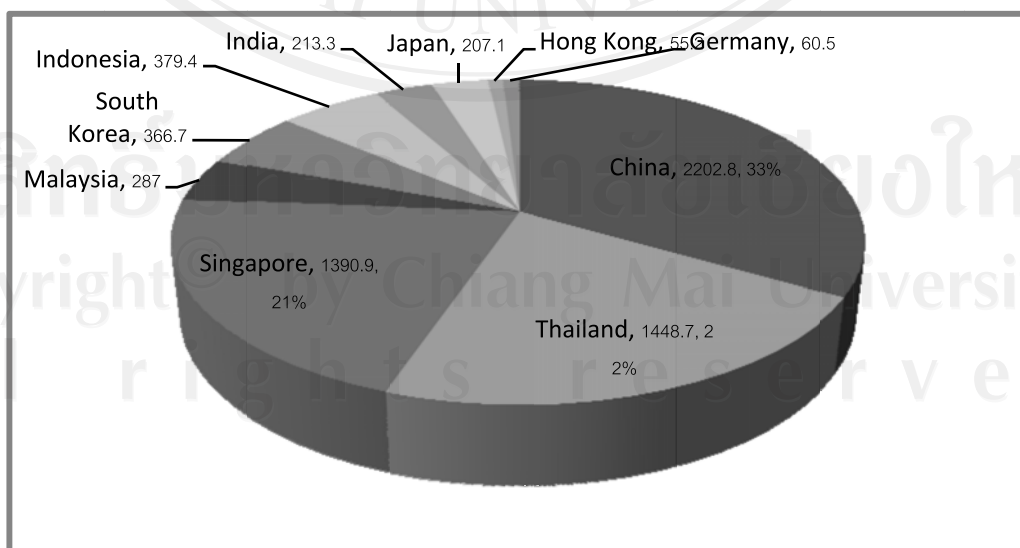
Figure 3.2 Top Ten Major Destinations of Myanmar’s Exports in 2008 (US in Millions)



Sources: Key Indicators of Asia and the Pacific (2009), ADB

The top three major origins of Myanmar imports in 2008 were China, Thailand and Singapore. Imports from China account for 33% while Thailand and Singapore were 22% and 21% respectively, which is depicted in (Figure 3.2).

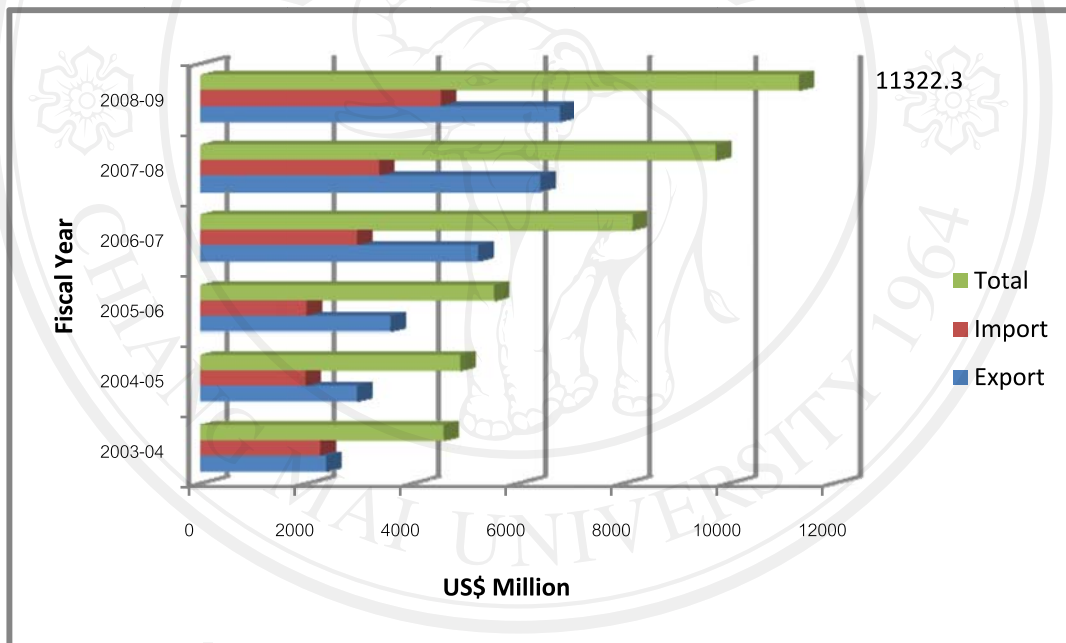
Figure 3.3 Top Ten Major Origins of Myanmar’s Import at 2008 (US\$ in Millions)



Sources: Key Indicators of Asia and the Pacific (2009), ADB

Myanmar's economy continues to be primarily agricultural although the industrialization process started in the early 1950s. The agricultural sector contributes 35 to 45 percent of GDP in recent years and provides employment for 60 and 70 percent of the national labor force (ADB, 2010). Agricultural products still dominate exports in spite of an increase in the export of natural gas to Thailand.

**Figure 3.4 Myanmar's Foreign Trade Performance (2003-04 to 2008-09)
(US\$ in Millions)**



Source: http://www.commerce.gov.mm/data_and_chart.html

Myanmar's external trade had been showing deficits for many years. As per Figure 3.1, Myanmar external trade has been growing throughout the years since 2002-03 mainly owing to the natural gas export. Currently Myanmar exports mainly consist of agricultural, forest, marine products and minerals and gems. Log export of teak and hardwood were dominant exports until 1994 when there was a

ban on log exports in order to maintain forests and encourage exports of finished and semi-finished food products.

3.3.6 Free Trade Area (FTAs)

The ASEAN free trade area (AFTA) agreement is a trade bloc agreement by the Association of South East Asian Nations. The AFTA agreement was signed on January 28, 1992 in Singapore when there were only six member countries: Indonesia, Malaysia, Singapore, Thailand, Philippines and Brunei. Vietnam joined in 1995, Laos and Myanmar followed in 1997 and Cambodia joined in 1999. The goals of AFTA are to increase ASEAN's competitive boundary as a production base in the world market through the elimination of tariffs and non-tariffs barriers within ASEAN and to attract more foreign direct investment to ASEAN (ASEAN, 2010). The principal mechanism for achieving the goals is the Common Effective Preferential Tariff (CEPT) scheme which was introduced in 1993 to eliminate intra-ASEAN import tariffs. The ASEAN-6 eliminated duties on all products by 1 January 2010, except for the limited sensitive and highly sensitive unprocessed agricultural products. Vietnam has reduced duties on all products down to 0-5 percent. Myanmar and Laos reduced duties down to not more than five percent and Cambodia followed suit in 2010.