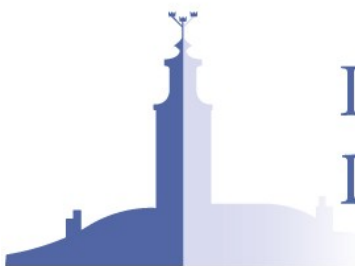


# The Role of Informal Cross-border Trade in Myanmar

Winston Set Aung

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## Executive Summary

In a country where there are constraints in formal practices, informal activities normally arise. Informal practices are not necessarily illegal and bad, however some of them tend to occupy a grey area and/or are illegal in accordance with local regulations. There are costs and benefits in minimizing these informal practices in a country. While constraints and restrictions still exist in the formal economy, any attempt to crush informal practices may realize more costs than benefits. Reduction of these constraints and restrictions in the formal economy may gradually erase informal practices in most cases.

In Myanmar, informal practices in trade have been in existence for quite some time. The main purpose is not necessarily tax evasion, although the tax levied on exports (i.e. 10 per cent on the total export value) is considerably high. There are a number of reasons for involvement in informal practices and these include, among others:

- to avoid the lengthy licensing process
- to import products without having earnings from exports
- to import/export products that are restricted on a temporary or permanent basis
- to evade tax

Since economic sanctions were first imposed by the West in 1997, and further stiffened in 2003 and 2007, cross-border trade has become more significant due to the fact that direct imports from and direct exports to the West have become much more difficult. As a result, Myanmar has relied more on its neighboring countries of China, Thailand, and India, to where most products are exported for consumption and also for re-export to the West.

It is noted that the value of Myanmar's exports to China, Thailand, and India accounts for 66 per cent of its total value of exports in 2007–08. In-

come generated from cross-border trade has also become one of the major sources of income for Myanmar, while income from other economic sectors such as foreign direct investment and tourism has diminished due to various factors that include economic sanctions. Since cross-border trade has become significant, trade through the border points with neighboring countries, especially China and Thailand, has become more active.

While natural gas, timber, and agricultural products are the major commodities for cross-border trade with China, Thailand, and India, the most common commodities flowing both formally and informally through border points (especially with China and Thailand) are timber, gemstones, fishery products, electronics, agro-industrial products, and clothing. Some timber, gemstone, and fossil products are not authorized for export yet still flow through various unofficial border channels. These products are also exported through formal channels by sea or by air freight with licenses issued by the Ministry of Commerce following approval by ministries such as the Ministry of Forestry and the Ministry of Mines. Hence commodities fall into both formal and informal categories of cross-border trade.

Although the value of border trade (according to official statistics) accounts for only 7 per cent of Myanmar's total trade value, the actual value of border trade is likely to be much higher due to the value of undocumented trade that flows through borders, which reached over US\$1 billion in 2006. If this undocumented trade were to be included in official statistics, the value of border trade would have accounted for around 25 per cent of Myanmar's total value of trade in 2006.

Although cross-border trade plays an important role in Myanmar's economy, there are still various constraints such as an export-first policy, licensing system, and high tax related to exports in conducting formal trade. This has led to a situation where informal practices have expanded drastically, especially in border areas. Brokers have become more systematic by incorporating trading companies and specializing in several sets of products. Licenses for exports and imports are issued by the border trade authorities under the Ministry of Commerce, whereas broker trading companies apply for such licenses in advance for imports/exports of their specialized products. As a result, individuals or companies wanting to im-



port/export can do so by purchasing the license acquired in advance by broker trading companies, or on their behalf at a fee (that includes a documentation fee) that varies depending on the market situation and seasonality. Through these practices, trade turnovers have increased, trade facilitation has improved tremendously, and job opportunities have opened up for more locals in border areas.

In addition to broker trading companies, there is another type of informal player that is normally called a “carrier.” These carriers are individuals who carry undocumented products, both legal and illegal, across borders and bypass all customs check-points within Myanmar until they reach their destinations. Although this type of activity seems to be a petty trade, the value and volume of such trade carried out by a considerable number of carriers could be high. These carriers mostly work under or together with broker trading companies.

These informal players are local people from around the border areas (especially in the case of Kawthaung, which borders Ranong, Thailand) although a majority of them have migrated internally from city areas such as Yangon or Mandalay (especially in the case of Muse bordering Ruili, China, and in the case of Myawaddy bordering Maesod, Thailand). In the case of Muse, some operators of broker trading companies are related to those in Jiegao across the border, whereas the relationship of a majority of operators in Ranong (in the case of Kawthaung) is just that of a business partnership without having a formal contractual relationship.

The increased flow of border trade both through formal and informal channels tends to have a positive effect on people around the border points. Interviews conducted in 2007 revealed that income levels amongst young men (under 21) have increased in line with improved formal and informal border trading operations. The chances of male respondents in the younger age category possessing increased incomes due to improved formal and informal border trade are high. Surveys and focus group discussions also highlighted that people around the borders have a positive view of increased border trade both through formal and informal channels and disagree with constraints, restrictions, and trade related policies that can be changed abruptly at any time.

The facilitating role of informal players is quite important in border areas, and any attempt to eliminate them could have an adverse effect on cross-border trade and people living around the borders. Existing trade policies should be tilted to incorporate measures favorable to the poor, so that border trade can not only contribute to economic development but also to poverty alleviation, opening up more opportunities for the ethnic minorities and disadvantaged in the border areas.

## Introduction

There is very little documentation relating to Myanmar's cross-border trade<sup>1</sup> because cross-border activities between Myanmar and its neighbors (India, Bangladesh, China, Thailand, and Lao PDR) are mostly informal and available secondary data does not reflect the actual situation. Although the annual total volume of border trade ranged between 10 and 14 per cent of the total foreign trade in 1994–95 and 2004–05 according to official statistics issued by the Central Statistical Organization under the Ministry of National Planning and Economic Development, anecdotal evidence and data from neighboring countries suggest that the actual value could be much higher.<sup>2</sup>

In Myanmar, licensing is required for export and import. Licenses are issued by the Department of Trade under the Ministry of Commerce. However, historically, licenses were only issued for international shipments by air or sea, while trade by road through borders was not approved until 1996. In other words, border trade was completely illegal in Myanmar until that year, although smuggling of small consumer goods by various human carriers (especially in and out of Thailand and China) took place in border areas. Furthermore, it was not easy to perform border trade in big volumes in the past due to a plethora of constraints including poor transportation, insurgent groups in border areas before cease-fire agreements, etc.<sup>3</sup> Border

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<sup>1</sup> Cross-border trade is trade with neighboring countries through shipments either by sea or by air (or by pipelines in the case of natural gas). Border trade is trade with neighboring countries through border points by road (or by coastal sea in the case of exports from Myeik to Thailand).

<sup>2</sup> Tin Maung Maung Than, "Myanmar's Foreign Trade under Military Rule: Patterns and Recent Trends," in Daljit Singh and Lorraine Carlos Salazar, eds., *Southeast Asian Affairs 2007* (Singapore: Institute of Southeast Asian Studies, 2007), pp. 242–54.

<sup>3</sup> Myanmar was granted independence from the British in 1948, but the autonomy promised to ethnic minorities by Britain was not realized and, as a result, these ethnic groups began taking up arms in 1949 to demand greater autonomy. From the early 1990s, Myanmar's government had conducted cease-fire agreements with several ethnic groups through its constructive engagement policy with trade

trade was legalized in 1996 with the establishment of the Department of Border Trade under the Ministry of Commerce, which resulted in significantly increased volumes of trade.<sup>4</sup> The role of cross-border trade became even more important when U.S. economic sanctions were imposed in 1997 – they were stiffened in 2003 and 2007 – which served to have a negative effect on trade flows to the West and on financial transactions for trade in US\$.

Although the Myanmar government has promoted formal/official cross-border trade, informal cross-border trade activities have still been significant due to a number of factors, in particular the complexities of the trade licensing system. This system requires various documents, including sales contracts, letters of credit, and bank transactions in a single currency prescribed by the government. Although licenses for trade are issued within a day in the border areas through one-stop service centers, it takes one to four weeks to prepare the application documents, depending on the value and type of commodity. Such a lengthy process in trade licensing and restrictions on imports and exports imposed from time to time, depending on the market and economic situation in Myanmar, have led to increased informal cross-border trade activities. Informal cross-border trade refers to registered or unregistered business activities undertaken across the borders based mainly on the popular economy.<sup>5</sup> Popular economy is an economy where products have a high demand in the importing countries and are traded mostly by smaller traders/brokers/informal players aiming at gaining arbitrage profits.

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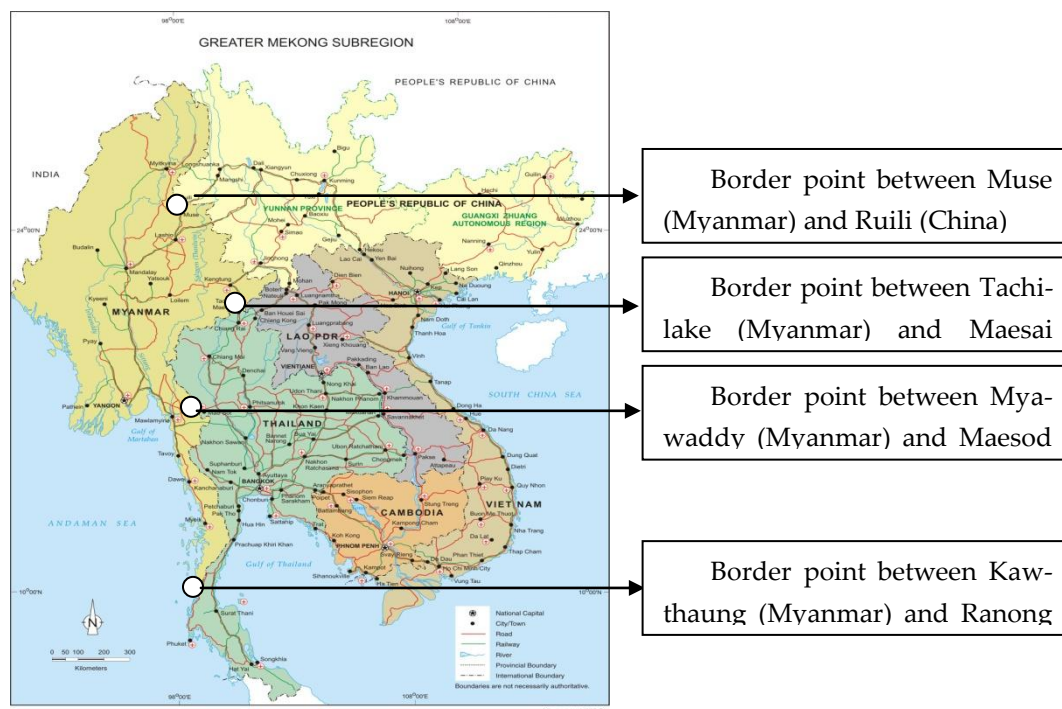
interests. Cease-fire groups mainly include United Wa State Army (UWSA), Kachin Independence Organization (KIO), New Mon State Party (NMSP), New Democratic Army-Kachin (NDA-K).

<sup>4</sup> Winston Set Aung, "Cross Border Economic Relations of Myanmar with China and Thailand: Impacts and Implications," paper presented at the workshop on Cross Border Economic Relations in Greater Mekong Subregion (GMS): Impacts and Implications, 2007, Institute of Asian Studies, Chulalongkorn University, Bangkok, Thailand.

<sup>5</sup> John Mwaniki, "The Impact of Informal Cross Border Trade on Regional Integration in SADC and Implications for Wealth Creation," <http://www.streetnet.org.za/english/corn.pdf> (accessed December 2008)

Myanmar borders five countries and has thirteen border trade points of which Myawaddy (bordering Thailand) and Muse (bordering China) have been the most busy (Figure 1). Out of Myanmar's five neighboring countries, only Thailand and China (Yunnan and Guangxi provinces) are involved in the Greater Mekong Sub-region (GMS). Myanmar is also a member.<sup>6</sup>

**Figure 1. Myanmar's Main Cross-border Points with China and Thailand**



In spite of being a member, Myanmar has not yet reaped any benefit from the GMS economic cooperation program due to various limitations, among them the economic sanctions imposed on the country. However,

<sup>6</sup> Countries and regions in the GMS include Thailand, Yunnan and Guangxi provinces of China, Vietnam, Cambodia, Lao PDR, and Myanmar. The economic cooperation program in the GMS was initiated by the Asian Development Bank in 1992. The program is designed to enhance economic relations among the countries in the sub-region, which is composed of the aforementioned countries and regions that the Mekong River passes through. The program has contributed to the development of infrastructure promoting the development and sharing of the resource base as well as the freer flow of goods and people in this sub-region (Asia Development Bank).

economic sanctions have increased cross-border trade with neighboring countries (especially GMS countries) due to restrictions on trade with large markets such as the United States and Europe. Although cross-border trade has been one of the major outlets for Myanmar export commodities, stringent trade related policies have made trade facilitation cumbersome and hindered its development, making the role of informal players and informal cross-border trade activities essential. Unless the stringent trade policies are relaxed, any attempt to restrict these informal activities would have an adverse impact on cross-border trade. However, informal activities tend to produce undesirable outcomes such as increased corruption, smuggling, and human trafficking through informal trade routes, deteriorating ethics, etc. In the long term, this requires a formalization of these policies if these policies are to contribute to economic development.

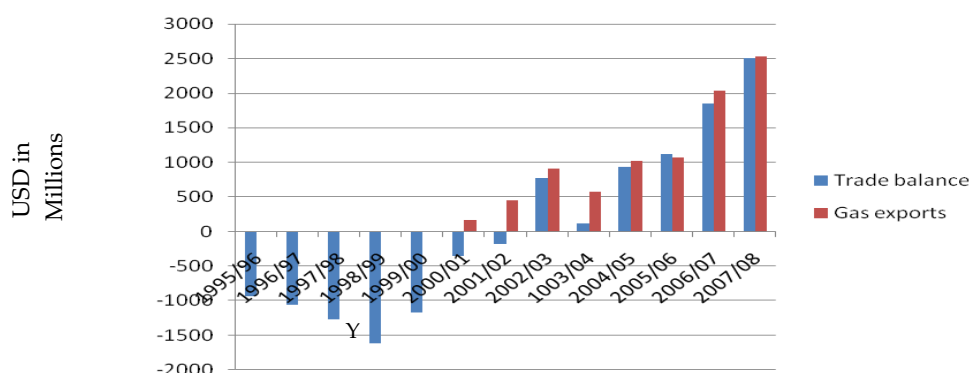
This paper aims at identifying the role that informal cross-border trade activities plays in facilitating trade between Myanmar and Thailand and Yunnan province of China, that is, the neighboring GMS members, and the perceived impact of cross-border trade on the income level of members of average households in the border areas. The paper also attempts to identify commodities in which Myanmar has comparative advantage compared to other GMS members, and to draw possible policy implications.

Hence, the paper attempts to answer the research questions on how informal cross-border trade activities affect trade facilitation and how they should be improved and formalized. Accordingly, this paper examines Myanmar's major trade items, the major destination markets for its products, the commodities in which it has a greater comparative advantage compared to similar products of other GMS members, the nature of informal cross-border trade activities and their role in trade facilitation, their impact on households in border areas, and, finally, recommends proposals for policy measures that could be adopted to improve cross-border trade facilitation.

## Overview of Myanmar's Trade Sector

Although Myanmar is an export-oriented country with exports totaling over US\$4 billion in 2006, its total export value has been low compared to Thailand and Vietnam due to factors like economic sanctions, the licensing system with its stringent requirements, and a lack of effective trade promotion. The value of Myanmar's total trade (both exports and imports) in 2006 accounted for only 10 per cent of Vietnam's trade, 3 per cent of Thailand's, and 0.4 per cent of China's; but it constituted 90 per cent of Cambodia's trade, and was three times greater than that of Lao PDR.<sup>7</sup> Although Myanmar's export value has been lower than for other countries, its trade performance has been positive during the past five years since the export of natural gas to Thailand began (Figure 2).

**Figure 2. Myanmar's Trade Balance and Natural Gas Exports (US\$ million)**



*Source: Central Statistical Organization of Myanmar (CSOM)*

In terms of exports, the value of Myanmar's total exports in 2006 was only 3 per cent of Thailand's and 11 per cent of Vietnam's, whereas it was 0.16 per cent higher than Cambodia's and four times higher than Lao PDR's.<sup>8</sup> The main destinations for Myanmar's exports are Thailand (50 per

<sup>7</sup> United Nations Commodity Trade (henceforth: UN Comtrade), <http://comtrade.un.org/db/> (accessed December 2008).

<sup>8</sup> UN Comtrade

cent), India (17 per cent), China and Japan (5 per cent each). Meanwhile, Myanmar imports mostly from China (34 per cent), Thailand (22 per cent), Singapore (16 per cent), Malaysia (5 per cent), and India (4 per cent).

Top export products of Myanmar in 2006 included natural gas (accounting for 43 per cent of its total value of exports), wood products (16 per cent), vegetables and certain roots and tubers (13 per cent), apparel and garment products (7 per cent), and fish and aquaculture products (6 per cent) (see Table 1, and Figures 3, 4). Natural gas is exported mainly to Thailand, wood products to India, China, Thailand, and Vietnam, vegetables to India, Pakistan, Malaysia, Indonesia, and the United Arab Emirates, apparel and garment products to Germany, Japan, Spain, UK, and Korea, and fish and aquaculture products to Japan, Thailand, Malaysia, Singapore, and the United Arab Emirates, respectively.<sup>9</sup> In 2005–06, according to the Central Statistical Organization of Myanmar (CSOM), the share of export value of natural gas was the largest, followed by teak and hardwood (13 per cent), agricultural products (12 per cent), garment products (8 per cent), silver, precious stones and pearls (7 per cent), and fish and prawns (6 per cent).

**Table 1. Top Export Commodities and Top Export Destinations (2006)**

<b>Top 5 Export Commodities of Myanmar</b>	<b>Top 5 Export Destinations of Myanmar</b>
Natural gas	Thailand
Timber/wood	India
Vegetables	China
Apparel (non-knitted)	Japan
Fish and aquaculture	Germany

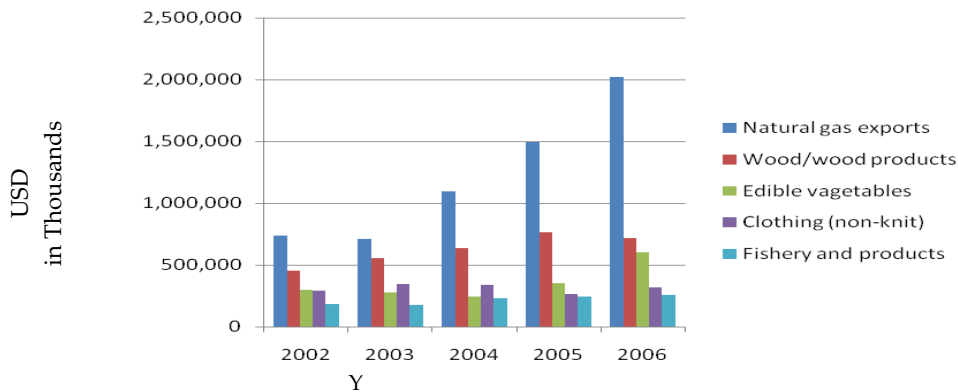
*Source: UN Comtrade*

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<sup>9</sup> Ibid.

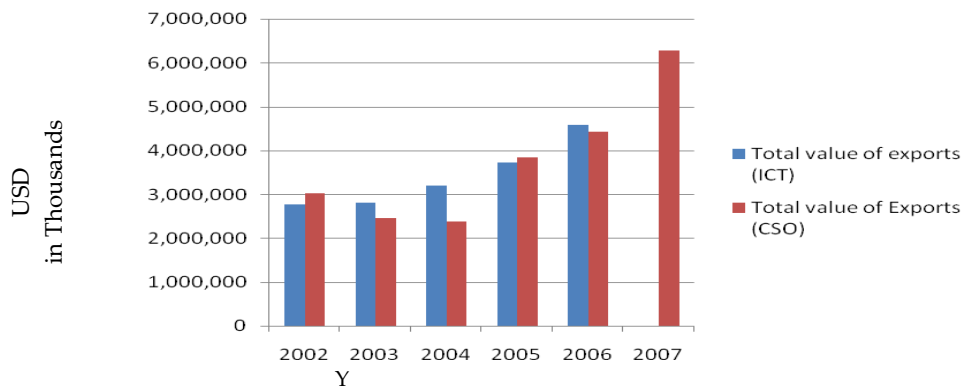


**Figure 3. Trend of Top Export Commodities**



Source: International Trade Center (ITC)

**Figure 4: Total value of Myanmar's exports**



Source: ITC and CSOM

Top import products of Myanmar in 2006 included boilers and machinery (accounting for 12 per cent of the total value of imports), mineral fuels, oils, and distillation products (10 per cent), iron and steel products (6 per cent), electrical and electronic equipment (6 per cent), and plastic and articles (5 per cent), respectively (see Table 2 and Figures 5, 6). Boilers and machinery are imported mainly from China, Singapore, Japan, Thailand, and Germany; mineral fuels and distillation products from Thailand, China, Singapore, Malaysia, and Iran; iron and steel products from China, India, Thailand, Singapore, and Malaysia; electrical and electronic equipment from China, Thailand, Singapore, India, and Japan; plastics and articles from Thailand, Singapore, China, Korea, and Malaysia. In 2005–06, according to CSOM, the top import products included refined mineral oil (14 per

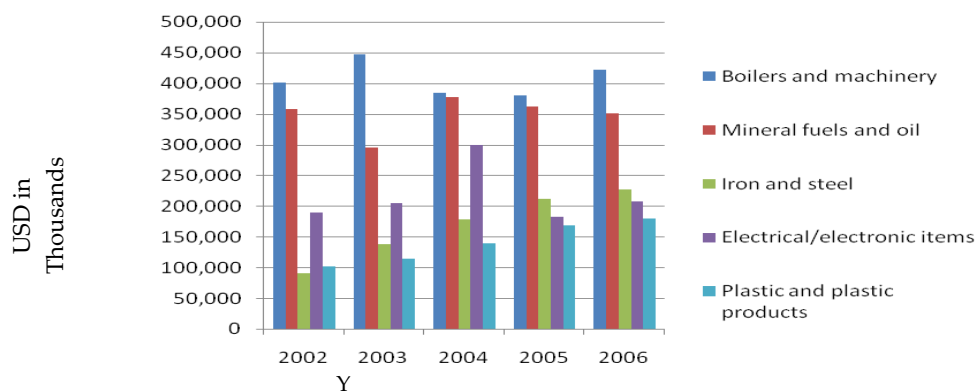
cent), machinery (non-electric) and transport equipment (16 per cent), base metals and manufactures (10 per cent), fabrics (9 per cent), and electrical machinery and apparatus (6 per cent). These products are mainly imported from China, Singapore, and Thailand.

**Table 2. Top Import Commodities and Top Source Countries for Imports (2006)**

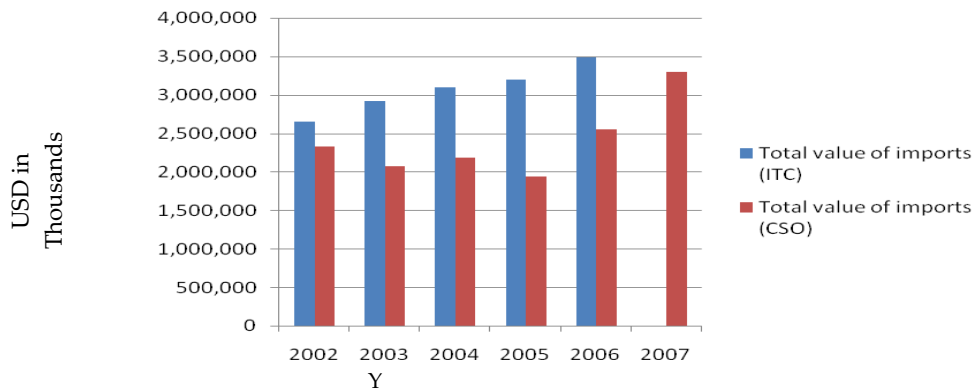
Top 5 Import Commodities of Myanmar	Top 5 Source Countries of Myanmar
Boilers and machinery	China
Mineral fuels and oil	Thailand
Iron and steel	Singapore
Electrical/ electronic items	Malaysia
Plastic and articles thereof	India

Source: UN Comtrade

**Figure 5. Trend of Top Import Commodities**



Source: ITC

**Figure 6: Total value of Myanmar's imports**

Source: ITC and CSOM

Myanmar has had a positive trade balance since it started exporting natural gas to Thailand in 1999. According to CSOM, the trade balance reached over US\$2 billion in 2006–07. The average share of foreign trade in the Gross Domestic Product (GDP) from 2001–02 to 2005–06 was 23.4 per cent. Foreign trade has been a major foreign currency earner since 1997 because of two factors: the Asian financial crisis (when foreign direct investment was marginalized) and the first economic sanctions being imposed by the U.S.

Myanmar's trade sector is governed mainly by the "Myanmar Export/Import Rules and Regulations for Private Business Enterprises" as well as ministerial orders and directives that are enforced by the Ministry of Commerce and the Trade Council, the highest policymaking bodies for trade issues.

On the international front, Myanmar was a founding member of the General Agreement on Tariffs and Trade (GATT) and became a member of the World Trade Organization (WTO) in 1995. It has also been a member of the Association of Southeast Asian Nations (ASEAN) since July 1997. Thus it subscribes to the ASEAN Free Trade Area (AFTA) and its Common Effective Preferential Trade (CEPT) scheme, which committed Myanmar to reducing tariffs on products in the Inclusion List to no more than 5 per cent in 2008.

Myanmar signed a border trade agreement with Thailand on March 17, 1996, covering border trade between the two countries through the border

trade posts of Maesai, Maesod, and Ranong on the Thai side and Tachileik, Myawaddy, Kawthaung, and Myeik on the Myanmar side. Similarly, Myanmar signed a border trade agreement with India on January 21, 1994, with Bangladesh on May 28, 1994, with China on August 13, 1994, and with Lao PDR on December 6, 2000. With a view to simplifying financial transactions relating to border trade between Myanmar and Thailand, a Memorandum of Understanding (MOU) was signed in August 2006 between each of Myanmar's banks (the Myanmar Economic Bank and the Myanmar Investment and Commercial Bank) and each of Thailand's six banks (the Bank of Ayudhya, the Bangkok Bank, the Krung Thai Bank, the Siam City Bank, the Thai Farmers Bank, and the Thai Military Bank).

## Myanmar's Comparative Advantage

The comparative advantage of a country for a commodity changes as factor endowments, technology, factor prices, and levels of income change. Accordingly, it is necessary to pay attention to changes in comparative advantages of countries in various commodities. As is well-known from trade theory, the Heckscher-Ohlin theory suggests that a country's comparative advantage is determined by its relative factor scarcity, i.e. its factor endowment ratios relative to the rest of the world or a set of countries. However, it is very difficult to test the Heckscher-Ohlin theory to measure the comparative advantage of Myanmar.<sup>10</sup> Hence, the economist Bela Balassa has proposed that it might not be necessary to include all factors affecting a country's comparative advantage.<sup>11</sup> Instead, he suggested that the comparative advantage is "revealed" by observed trade patterns, and in line with the theory, one needs pre-trade relative prices which are not observable. Thus, inferring comparative advantage from observed data is called "revealed" comparative advantage (RCA), which has become a commonly accepted method for analyzing trade data with the "Balassa Index" which measures a country's comparative advantage.<sup>12</sup>

The Balassa index or RCA index is used to clarify whether a country has a "revealed" comparative advantage rather than to determine the underlying sources of comparative advantage.

$$RCA = ( X_{ij} / X_{nj} ) / ( X_{it} / X_{nt} )$$

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<sup>10</sup> Bela Balassa, *Comparative Advantage, Trade Policy and Economic Development* (New York: Harvester Wheatsheaf, 1989).

<sup>11</sup> Bela Balassa, "Trade Liberalization and Revealed Comparative Advantage," *The Manchester School*, Vol. 33 (1965), pp. 100–23.

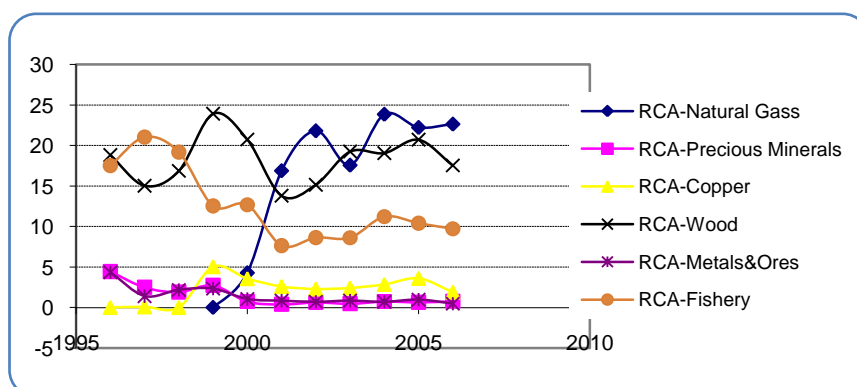
<sup>12</sup> Utku Utkulu and Dilek Seymen, "Revealed Comparative Advantage and Competitiveness: Evidence for Turkey vis-à-vis the EU/15," European Trade Study Group 6th Annual Conference, 2004.

where  $X$  represents exports,  $i$  is a country,  $j$  is a commodity (or industry),  $t$  is a set of commodities (or industries), and  $n$  is a set of countries. The index measures a country's exports of a commodity (or industry) relative to its total exports and to the corresponding exports of a set of countries or of the world. A comparative advantage is "revealed," if the index is greater than 1, whereas the country is said to have a comparative disadvantage in the commodity (or industry) if the index is less than unity.

In this section, commodities in which Myanmar has a comparative advantage are identified and compared to the comparative advantages of other GMS countries. Although it is easy to determine the top export items, the country in focus does not necessarily have a comparative advantage in them. This section explores whether Myanmar has a comparative advantage in its top two export items.

Myanmar's top five export items are natural gas, timber/wood products, vegetables, non-knitted garment products, and fishery products, of which natural gas is exported mainly to Thailand, and the top export markets for Myanmar's timber/wood products are China and Thailand (Figure 7). The total value of exports of the top two items (natural gas and timber/wood products) accounts for nearly 60 per cent of Myanmar's total value of exports, and the major markets are the neighboring GMS countries (i.e. China and Thailand).

**Figure 7. Dynamic RCA Indices of Main Natural Resources in Myanmar**



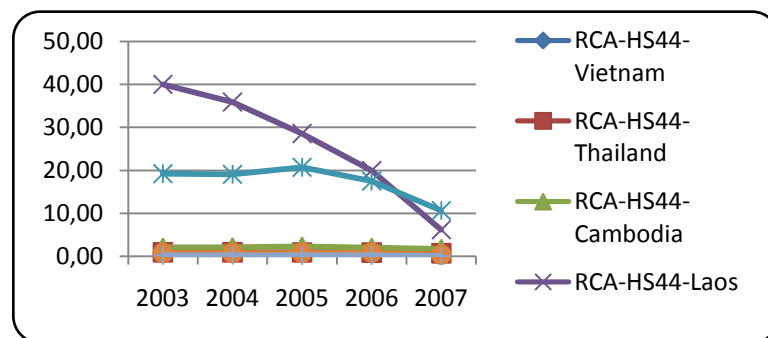
Source: Calculations based on data from UN Comtrade

It is evident that Myanmar has a strong comparative advantage in exports of both natural gas and timber/wood. In 2006, RCA indices of these products were found to be much greater than 1 whereas those of precious minerals and metals/ores were less than this. Hence, Myanmar's comparative advantages in natural gas and timber/wood are strongly "revealed" whereas it has a comparative disadvantage in precious minerals and metals/ores. This fact could be attributed to increased smuggling of precious minerals to China and Thailand, which has resulted in the export data for these products being highly undervalued.

Myanmar ranked 72 in the world in terms of the value of natural gas exports in 2006. Its share of world exports amounted to 0.12 per cent. For timber/wood exports, it ranked 31 with a share of 0.65 per cent.<sup>13</sup>

Since Myanmar has a high RCA in exports of natural gas and timber/wood products, a comparison of the RCA indices of these products with those of other GMS countries shows the position of Myanmar's comparative advantage for these products among other GMS countries (Figure 8).

**Figure 8. Dynamic RCA Indices of Timber/Wood Products of GMS Countries**



*Source: Calculations based on data from UN Comtrade*

Myanmar has been the only major exporter of natural gas in the GMS. Thus, it is not necessary to compare the comparative advantage with other GMS members. The dynamic revealed comparative advantages in timber/wood products of GMS countries are given in Figure 8.

<sup>13</sup> International Trade Committee.

In the analysis, data on India is included although it is not a member of the GMS, it is involved in the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC) in which Myanmar is also involved. The reason for taking India into account is that exporters of agricultural and timber products rely heavily on the Indian market. It is evident that Myanmar's comparative advantage in timber/wood products is at a similar level to Lao PDR's, whereas it is higher than for other GMS countries and India. If data for illegal logging and smuggling was added, Myanmar's comparative advantage would have turned out even higher.

Since Myanmar has a strong comparative advantage in timber/wood products while other GMS countries (except Lao PDR) and India have a comparative disadvantage, the prospects for intra-regional trade is bright for Myanmar's timber/wood products. Although one of the major markets for Myanmar's timber/wood products is Europe, a majority of these products end up in China, Thailand, and India through intra-regional trade due to Myanmar's lack of market diversification and product development.

The trend for Myanmar's comparative advantage in timber/wood products is declining, however, due to the country's export restrictions and the increased share of natural gas exports in its total exports. It can be estimated that the comparative advantage in these products will decline further in 2008–09 due to the decline of import demand and consumption in its major export markets such as India, China, and Thailand as a result of the indirect impact of the global economic crisis. Due to the lack of product diversification (as a result of concentration in exports of a few products, with natural gas exports accounting for a nearly 50 per cent share of total exports) and to the lack of market diversification (as a result of export concentration in a few markets such as China, India, and Thailand), Myanmar's trade sector is vulnerable to external shocks such as the Asian financial crisis 1997–98 and the on-going global economic crisis. Although Myanmar is not directly impacted by the global financial crisis due to its lack of developed financial markets, the indirect impact of the crisis began to hit its trade sector in November 2008, when most intra-regional as well as international trade orders began to be cancelled due to importers' lack of trade credits. This left Myanmar exporters stuck with piles of un-exportable commo-



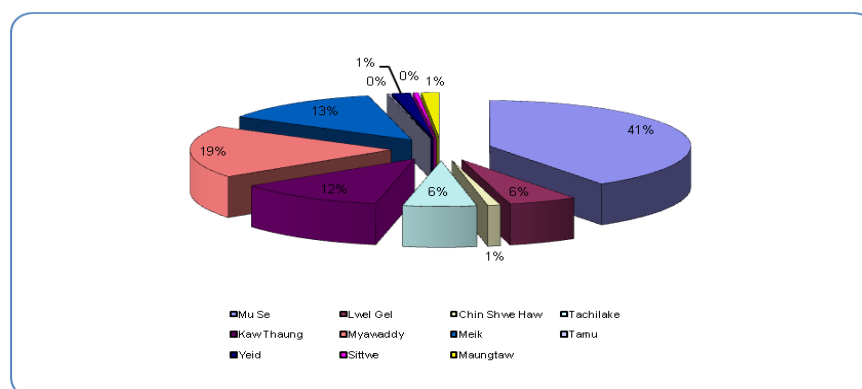
ties, leading to a drastic decline in prices. Many exporters as well as producers in Myanmar have recorded huge losses and some of them have broken forward commitments.

## Myanmar's Cross-border Trade

The lion's share of Myanmar's documented cross-border trade is with China and Thailand, accounting for 47 and 51 per cent, respectively. The largest border trade transactions in terms of documented trade<sup>14</sup> (in US dollars) are at Muse (bordering China) and Myawaddy and Kawthaung (bordering Thailand). The value of trade between Muse (on the Myanmar side) and Yunnan province of China accounts for 39 per cent of Myanmar's total documented cross-border trade, whereas the value of trade between Myawaddy (on the Myanmar side) and Mesod, Thailand, and Kawthaung (on the Myanmar side) and Ranong, Thailand, accounts for 24 and 15 per cent.<sup>15</sup>

In terms of cross-border exports, Muse, Myawaddy, and Kawthaung also play significant roles. Myanmar's documented cross-border exports through Muse, Myawaddy, and Kawthaung account for 41, 19, and 12 per cent, respectively, of the total value of documented cross-border exports from Myanmar.<sup>16</sup> Major exports include agricultural products, fishery products, and timber/wood products (Figure 9).

**Figure 9. Documented Cross-border Exports of Myanmar**



*Source: Department of Border Trade, Ministry of Commerce, Myanmar*

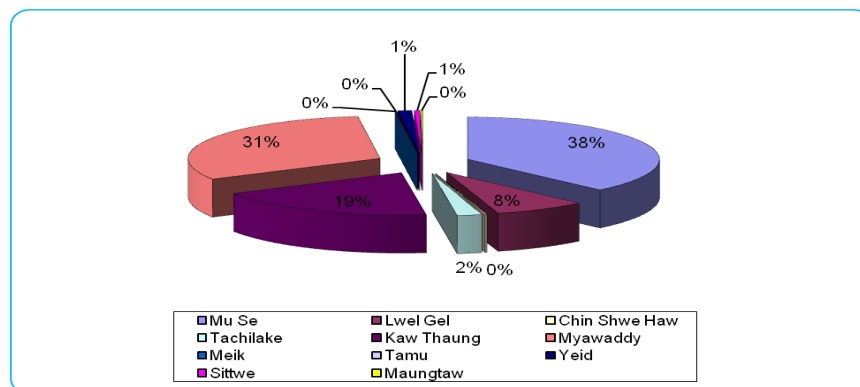
<sup>14</sup> Value of documented trade is the combination of value of documented exports and imports.

<sup>15</sup> Calculations are based on the data of the Department of Border Trade, Ministry of Commerce, Myanmar.

<sup>16</sup> Tin Maung Maung Than, "Myanmar's Foreign Trade under Military Rule."

In terms of cross-border imports, the same border points are important. Myanmar's documented cross-border imports through Muse, Myawaddy, and Kawthaung account for 38, 31, and 19 per cent, respectively, of total documented cross-border imports.<sup>17</sup> Major import products include machinery, electric and electronic products, and other industrial and agro-industrial products (Figure 10).

**Figure 10. Documented Cross-border Imports of Myanmar**



*Source: Department of Border Trade, Ministry of Commerce, Myanmar*

Myanmar's documented cross-border exports accounted for 10 per cent out of the total value of documented exports between 2003 and 2005 and 7 per cent in 2005–06, while Myanmar's total documented cross-border imports accounted for 9 per cent in 2003–04, 10 per cent in 2004–05, and 11 per cent in 2005–06. Since the value of documented cross-border exports and imports account for around 10 per cent of total trade, cross-border trade is important for Myanmar trade. Increases in cross-border trade are attributed to Myanmar's bilateral cooperation with neighboring countries following the 1996 border trade agreement with Thailand, which led to a 186 per cent rise in Myanmar's cross-border exports in 1996–2007.<sup>18</sup>

Myawaddy has been the most important area for cross-border trade with Thailand, accounting for 60 per cent of total cross-border exports to Thailand in 2006–07. The second major cross-border trade area is Muse,

<sup>17</sup> Ibid.

<sup>18</sup> Calculations are based on data of the Central Statistical Organization of Myanmar and Department of Border Trade, Ministry of Commerce, Myanmar.

which accounted for 83 per cent of documented cross-border exports to China in the same period.<sup>19</sup>

According to official statistics, Myanmar had a positive cross-border trade balance both with China and Thailand between 2002 and 2007 (except in 2005/06 with China). Myanmar's cross-border trade balance with Thailand is much greater, since exports of fishery products by sea from Myeik are included (Table 3).<sup>20</sup>

**Table 3. Documented Cross-border Trade balance with China and Thailand (US\$ million)**

	2002/03	2003/04	2004/05	2005/06	2006/07
Trade balance with China	25.597	13.412	43.892	-4.179	34.018
Trade balance with Thailand	57.9	57.403	77.844	121.223	143.41

*Source: Department of Border Trade, Ministry of Commerce, Myanmar*

Apart from documented cross-border trade, the volume of undocumented cross-border trade has been significant since informal activities and trade are rampant in border areas. Cross-border trade in Myanmar can be divided into four categories: legal/documented trade, legal/undocumented trade, illegal-but-licit/undocumented trade, and illegal-and-illicit/undocumented trade. Legal/ documented trade includes the trade of any commodity that is exported or imported with an official license issued by the border trade authority, whereas legal/undocumented trade includes exports and imports of legal commodities without official import or export licenses. Legal/undocumented trade is undertaken by many traders and brokers with the purpose of evading tax and/or avoiding lengthy licensing procedures and is undocumented on the Myanmar side. Illegal-but-licit/undocumented

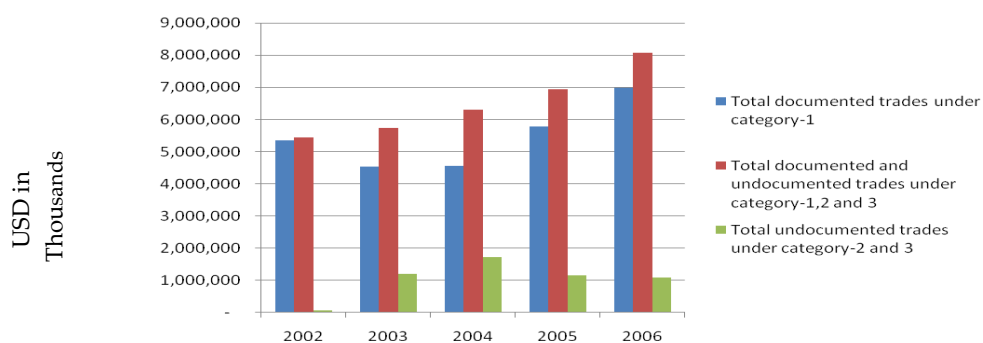
<sup>19</sup> Tin Maung Maung Than, "Myanmar's Foreign Trade under Military Rule."

<sup>20</sup> Myeik is not a border area but it is rather close to Kawthaung bordering Ranong of Thailand. It is in the southern part of Myanmar's coastal region and it lies adjacent to the Andaman Sea. Mostly fishery products are shipped from the port of Myeik to Thailand.

trade includes exports and imports of commodities that are prohibited by either the trade authorities of Myanmar or the partner country, such as imports of vehicles and parts, monosodium glutamate, etc. (prohibited on the Myanmar side). Thus, they are undocumented on the Myanmar side but may be documented by the partner country. Illegal-and-illicit/undocumented trade includes the trade of illegal drugs and drug related products such as amphetamine and is undocumented either in Myanmar or the partner country.

Out of four categories of trade, trade data for the legal/documented trade is available on the Myanmar side but not for legal/documented, legal/undocumented, and illegal-but-licit/undocumented trade. However, data on these three categories may be available in the partner countries. For instance, in the case of cross-border trade between Myanmar and Thailand, especially at Myawaddy-Maesod, there is one legal check-point on the Myanmar side, whereas there are around 18 check-points that are illegal on the Myanmar side but legal on the Thai side. Although this trade is undocumented on the Myanmar side, it can be documented on the Thai side. As a result, trade data for the three categories can be acquired from the Thai side. However, trade data for illegal-and-illicit/undocumented trade is not available on either side, since the trade of these commodities takes place entirely on the black market.

Undocumented trade (category 2 and 3) reached over US\$1 billion in 2006 and figures would have been even higher if data on illegal-and-illicit/undocumented trade had been included (Figure 11). Illegal exports of logs/timber are classified as category 2 and 3 because exports of logs are permitted only through official bidding, and exports outside the official bidding process are illegal on the Myanmar side. Likewise, exports of precious minerals are also classified as category 2 and 3 because exports without the approval of the Ministry of Mines are illegal on the Myanmar side.

**Figure 11. Documented and Undocumented Trades of Myanmar**

Source: For documented trade: CSOM; for undocumented trade: ITC

A brief qualitative analysis of factors behind the undocumented trade based on interviews with local authorities and focus group surveys with 27 local traders was conducted in 2007. The analysis revealed that the rise of undocumented trade is attributed primarily to the export first policy, import restrictions, and the import and export licensing system. These policies are very good for protecting the domestic market but they may sometimes trigger undesirable outcomes that result in undocumented trade.

The export first policy is practiced by the Myanmar trade authorities with a view to earning more export income and for maintaining a favorable trade balance. As a result, traders are required to export first in order to earn export earnings which can be used to pay for imports. In reality, every exporter cannot be an importer and every importer cannot be an exporter. Hence there is a growing need for agents/brokers to meet this requirement. As a result, small- and medium-sized traders are encouraged to involve themselves in undocumented trade to avoid this complication.

Imports of several goods are restricted by the Myanmar trade authorities depending on the domestic market situation. Furthermore, only 20 per cent of a company's export earnings can be used to pay for imports, whatever goods it wants to import, whereas 80 per cent of export earnings can only be used for the imports of priority items such as industrial, agro-industrial goods, etc. As a result, import restrictions tend to encourage small- and medium-sized traders to carry out undocumented trade transactions.

A one-stop service center has been successfully established on the Myanmar side in order to speed up and smooth the way for cross-border

trade activities. However, an export and import licensing system still exists. An import or export license can be acquired within a day through the one-stop center but it takes between one and four weeks to complete application papers and banking requirements. Some small- and medium-sized traders find the licensing procedure too complicated. As a result, they tend to get involved in informal trade transactions.

## The Role of Informal Cross-border Trade Activities

Due to the licensing system and trade policies that tend to be restrictive, informal cross-border trade activities arise. Many trade agents/brokers are registered as trading companies and depending on specialization, they apply for trade licenses in advance. Any trader wanting to import a commodity can do so through a broker trade company specialized in this product. Broker trade companies are responsible for making the necessary adjustments to meet the specific requirements of trade authorities so that actual traders can avoid restrictions and requirements by going through them. The information that traders need to know from them is just “yes,” or “no” (whether or not they can accept), “how much” (how much it costs), and “how long” (how long it takes to reach the destination).

The role of these broker trade companies is very important for trade facilitation and for turning undocumented trade into documented trade. Broker trade companies are brokers/trade facilitators who are registered as exporters/importers. They import and export products in their name, not for themselves but for other people (who are not registered exporters/importers), and/or for companies which do not want to go through the lengthy licensing process. Most of them belong to ethnic groups, especially in the case of Kawthaung (bordering Ranong, Thailand), whereas in the case of Muse (bordering Ruili, China) and Myawaddy (bordering Maesod, Thailand) a majority of them have migrated from city areas such as Yangon and Mandalay. Most of them live on the Myanmar side and some of them have their own warehouses in neighboring countries and are connected to informal agents/traders in major cities of these countries. They normally charge for delivery according to size or weight of cargo. Cargos for imports are collected by informal agents/traders stationed in major cities of neighboring countries, are transported to borders, and then transferred to broker trading companies. This means that two forms of costs are incurred by the traders – packaging and transport cost for informal agents/traders on the side of a neighboring country, and license processing and delivery cost for a



broker trading company on the Myanmar side. By going through informal agents/traders and local broker trading companies, trade facilitation is improved and, as a result, traders find it more convenient to deal with them.

There are two types of informal players in border areas. One is the broker trading companies taking responsibility for documented trade, and another is smugglers (often called carriers) responsible for undocumented trade. The route used by the former is called the “upper channel” and the route used by the latter is called the “lower channel.” Products restricted in the upper channel simply go through the lower channel. Products that are expensive to get through the upper channel also go through the lower channel. The lower channel is sometimes risky and the chance of losing some products is high. Carriers carry undocumented trade through unofficial routes in order to bypass check-points in Myanmar.

Traders wanting to import a product can start with individual agents (responsible for sourcing), who are normally Myanmar citizens staying in neighboring countries or in border areas and who are often called “purchasers.” These agents or purchasers can source appropriate products at reasonable prices in their respective countries at the commission rate of around 2–3 per cent. These products are then imported into Myanmar through agents/brokers responsible for their respective parts/sections. The cost of a delivery (imports) of any item (e.g. a garment) with an approximate size of 20 cubic feet from Bangkok to Yangon is around Kyat 70,000 (around US\$64). At this price, it costs around Kyat 200 (around US\$0.18) per piece. By early 2008, the cost of imports of some items (that included garments and footwear) through the upper channel tended to be even cheaper than those going through the lower channel due to improved trade facilitation provided by broker trading companies, thus pushing away the lower channel.

The way broker trading companies import or export various commodities through the upper channel (allowing traders to avoid the lengthy licensing process) is an informal cross-border trade activity. They are neither real exporters nor importers and just facilitate trade for actual exporters and importers. As long as a licensing system still exists and some restrictions on trade are in place, the role of these broker trading companies becomes more

important in promoting upper channel trade (through which documented trade flows) which tends to marginalize, to some extent, the lower channel for undocumented trade.

If the role of these companies is not recognized and these informal cross-border trade activities are restricted at the same time as trade licensing system and trade restrictions are in place, the volume of undocumented trade would soar and small- and medium-sized real traders would face many difficulties resulting in decreased volume and value of trade. While long-term measures to promote cross-border trade should include the elimination of the trade licensing system as well as trade restrictions, tariffs, and other non-tariff barriers, the role of those broker trading companies in creating the short-term benefits of increased documented trade should be recognized.

## Impacts of Cross-border Trade on Households in a Border Area

Surveys among 182 households around Myawaddy (bordering Thailand) and Muse (bordering China) were conducted in 2007 as part of a project in cooperation with the Institute of Southeast Asian Studies of the Chulalongkorn University of Thailand. The purpose of the survey was to identify perceived economic and social impacts of cross-border trade activities on normal households in the border areas. During the survey, questions were asked to household heads or responsible persons of various households, who were categorized based on age level, income level, and current occupation. Age level is categorized into “younger” (up to the age of 20), “middle aged” (21 to 50), and “older” (above 50); and level of income is also categorized into “no income,” “low income” (earning less than Kyat 100,000 per month), “middle income” (earning between Kyat 100,001 and Kyat 300,000), and “high income” (earning above Kyat 300,000). Current occupation is also categorized into four categories: employee, student, merchant, and others (Tables 4, 5, 6).

**Table 4. Age of Respondents**

		Frequency	%	%, valid	%, cumulative
Valid	1.00	31	17.0	18.5	18.5
	2.00	125	68.7	74.4	92.9
	3.00	12	6.6	7.1	100.0
	Total	168	92.3	100.0	
Missing	System	14	7.7		
Total		182	100.0		

*Source: Primary data from questionnaire surveys*

**Table 5. Income of Respondents**

		Frequency	%	%, valid	%, cumulative
Valid	No income	36	19.8	19.8	19.8
	Under K 100,000	123	67.6	67.6	87.4
	100,000~300,000	21	11.5	11.5	98.9
	Above 300,000	2	1.1	1.1	100.0
	Total	182	100.0	100.0	

Source: Primary data from questionnaire surveys

**Table 6. Occupation of Respondents**

		Frequency	%	%, valid	%, cumulative
Valid	Employee	63	34.6	34.6	34.6
	Student	29	15.9	15.9	50.5
	Merchant	34	18.7	18.7	69.2
	Other	56	30.8	30.8	100.0
	Total	182	100.0	100.0	

Source: Primary data from questionnaire surveys

A majority of respondents (68.7 per cent) were middle-aged. A majority (67.6 percent) had a low income, and most of them worked in private businesses. Through the questionnaires and interviews, respondents were asked to rate the following impacts of cross-border trade on their daily lives:

- on level of income
- on businesses
- on living standards
- on road infrastructure
- on standard of transportation

A majority of respondents (87.9 per cent) believed that cross-border trade development and increased documented trade as well as undocumented trade had improved their households' business activities and in-

come levels, resulting in a situation where most respondents (95.1 per cent) perceived that such developments had improved their standard of living. Furthermore, a majority of them thought that transportation standards had been improved due to the development of cross-border trade with the neighboring countries (both legal and illegal) and that road infrastructure had been much improved (although it is still in poor condition).

**Table 7: Output of multivariate multinomial logistic regression**

		B	Std. Error	Wald	df	Sig.	Exp (B)
Better effect of cross-border trades on income	Intercept	.550	1.316	.175	1	.676	
	[Male]	.202	.689	.086	1	.769	1.224
	[Female]	0 <sup>b</sup>	.	.	0	.	.
	[Younger]	1.560	1.628	.918	1	.338	4.759
	[Middle aged]	.572	1.286	.198	1	.657	1.771
	[Older]	0 <sup>b</sup>	.	.	0	.	.
Average effect of cross-border trades on income	Intercept	1.928	1.146	2.830	1	.093	
	[Male]	.371	.642	.334	1	.563	1.450
	[Female]	0 <sup>b</sup>	.	.	0	.	.
	[Younger]	.949	1.482	.410	1	.522	2.582
	[Middle aged]	.075	1.116	.004	1	.947	1.078
	[Older]	0 <sup>b</sup>	.	.	0	.	.

*a: reference category is "worse effect on income"*

*Source: Primary data from questionnaire surveys*

Through multivariate multinomial logistic regression, it can be estimated that the cross-border trade activities have had a more positive effect on income levels amongst men than those of women. In terms of age, the chances of younger respondents having a higher income level are over four times higher than that of older respondents. The chances of middle-aged respondents having a higher income are 1.7 times higher. For the average effect on income, the chances of younger respondents are also higher than that of older ones (Table 7). As a result, cross-border trade is seen to have a better effect on the income of most "male" respondents in the "younger" category. However, levels of statistical significance are very low.

The qualitative interviews revealed that, on average, most households regard the effect of cross-border trade as positive. However, on average, households involved in small noodle shops, video rental shops, and other micro home businesses regard the effect of cross-border trade as negative because of increased prices.

## Conclusion and Policy Implications

Myanmar has had a positive trade balance in recent years due to the huge value of its natural gas exports to Thailand, which account for nearly 50 per cent of total export value. The top export items in which Myanmar enjoys a strong comparative advantage are natural gas and timber/wood products, accounting for nearly 60 per cent of its total exports. Top import items, meanwhile, are machinery, refined mineral fuels, iron/steel, electrical/electronic products, and plastic products, which in all account for nearly 40 per cent of total imports.

As previously mentioned, the key market for natural gas is Thailand, whereas the major markets for timber/wood products are China, India, and Thailand. While there is no similarity regarding the level of its comparative advantage in natural gas among the GMS countries, Myanmar's comparative advantage in timber/wood products is similar to that of Lao PDR in the sub-region. However, comparative advantages in the timber/wood products of Myanmar and also that of Lao PDR have decreased and are expected to further decline due to reduced international demand – an effect of the global financial crisis which broke out in September 2008.

Myanmar's exports are, thus, overwhelmingly concentrated in a single product, natural gas, which is exported to one country, Thailand, although Myanmar is planning for export to China and India. And in possessing a comparative advantage in only a few other export products such as timber/wood, fisheries, and copper, it does not seem to have product or market diversification. Under such circumstances, its export sector is vulnerable to external shocks, like the Asian financial crisis of 1997–98 and the ongoing global economic crisis. Appropriate measures should be taken to enter into more bilateral or multilateral trade agreements, to strengthen trade promotion, to facilitate trade, to eliminate complicated and lengthy legal procedures, and to make trade policies and procedures stable, transparent, convenient, and affordable for small- and medium-sized traders, as well as to make trade credits available. In addition, a favorable investment/business

environment should be created to attract foreign direct investments in the manufacturing and processing sectors whose products have high added value. If Myanmar could increase exports of such products instead of exporting its unprocessed natural resources, the value of its exports would be much higher and contribute more to the country's economic development and, at the same time, provide employment opportunities and a better livelihood to local people and would contribute to human resources development through technology transfers.

Regarding cross-border trade, Myawaddy and Muse are Myanmar's busiest cross-border trade points. Documented exports going through the Muse border point account for 21 per cent of total cross-border exports, and those going through Myawaddy account for 19 per cent. Documented imports going through these border points account for 38 and 31 per cent, respectively.

Regarding undocumented trade, the value of undocumented imports from China accounts for approximately 41 per cent of Myanmar's total imports from China, whereas the value of undocumented imports from Thailand accounts for about 60 per cent. Factors behind these undocumented trades include the existence of an export first policy, trade restrictions, and the trade licensing system.

Documented trade flows through the upper channel whereas undocumented trade flows through the lower channel. The way through which broker trading companies that are neither real exporters nor importers are involved in cross-border trade, providing informal trade facilitation by allowing real traders to avoid lengthy trade licensing process, refers to informal cross-border trade activities. Informal cross-border trade activities have been rampant in border areas and have been important in marginalizing the lower channel.

In the short term, under the existing licensing system and the prevailing stringent requirements, the role of broker trading companies and their informal cross-border trade activities should be recognized. However, in the longer term, the trade licensing system for some specific commodities should be relaxed and/or replaced by a trade reporting system. Non-tariff barriers should be reduced. The process of bank transactions and transfers



using a letter of credit should be improved. Through “more relaxed” or “less stringent” requirements and increased trade facilitation, real exporters and importers will be able to handle their exports and imports without having to go through broker trading companies. Through capacity building, training programs, and trade promotion, broker trading companies will expand their cross-border and international networks through which they can handle their own trading businesses. Then, informal cross-border activities will be formalized, and the “lower channel” will be replaced by more “upper channel” trade activity, resulting in increased documented cross-border trade.

At present, despite the existence of stringent requirements and the licensing system, cross-border trade has flourished due to the importance of informal cross-border trade activities for creating jobs in border areas. As a result, in the surveys, most respondents of average households thought that the development of cross-border trade had impacted positively on their income. Since priority is normally given to ensuring the contribution of the trade sector to economic development, its contribution to poverty reduction and sustainability has not yet been secured.

In order for cross-border trade development to benefit people in border areas and contribute to poverty alleviation, policy should be revised to include a pro-poor approach through which more disadvantaged people will benefit. Through this approach, cross-border trade development will contribute not only towards the economic development of Myanmar but also towards poverty alleviation, at least around the areas close to the borders.

## **About the Author**

Winston Set Aung is a Founder and Director of Research of the Asia Development Research Institute (ADRI) ([www.asiadevelopment.org](http://www.asiadevelopment.org)) and also a Founder and Executive Director of the Asia Language and Business Academy (ALBA) ([www.alba-edu.com](http://www.alba-edu.com)) in Myanmar. He also serves as a Faculty Member of the Executive MBA Programme of the Yangon Institute of Economics. He has been involved in more than 40 international research projects in various countries in the Greater Mekong Sub-region in cooperation with several international organizations such as the Institute of Asian Studies of Chulalongkorn University of Thailand, Mekong Institute of Thailand, Stockholm Environment Institute, University of Tokyo, Research Institute on Contemporary Southeast Asia of France, Nomura Research Institute of Japan, UNDP, JICA, among others.

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