

MYANMAR
DIAGNOSTIC TRADE INTEGRATION STUDY (DTIS):

OPENING FOR BUSINESS



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ABBREVIATIONS AND ACRONYMS	xi
ACKNOWLEDGEMENTS	xiv
FOREWORD	xvi
OVERVIEW	xviii
EXECUTIVE SUMMARY	xxiv
1. Following through on reforms to encourage trade openness is critical for poverty reduction	xxvii
2. Diversification into light manufacturing, services and sustainable agri-business would be a powerful way of reducing poverty, while also rebalancing the economy away from its over-dependence on natural resources	xxix
3. Infrastructure development and regulatory reforms can occur in tandem	xxxi
POLICY PRIORITIES	xxxvi
1. TRADE POLICY REFORMS	xli
2. ENSURING INCLUSIVE EXPORT-LED GROWTH	xliv
3. BUILDING CAPACITY IN A QUALITY INFRASTRUCTURE	xliv
4. ENCOURAGING GROWTH IN TRADE IN SERVICES	liii
5. DEVELOPING EFFICIENT TRADE CORRIDORS	lvi
6. FACILITATING TRADE THROUGH BETTER LOGISTICS AND FINANCE	lxi
ACTION MATRIX	lxvi
TRADE POLICY	lxvi
INCLUSIVENESS	lxx
QUALITY INFRASTRUCTURE	lxxii
TRADE IN SERVICES	lxxiv
CORRIDORS	lxxvi
TRADE FACILITATION AND LOGISTICS	lxxvii
CHAPTER 1	
OPENNESS AND MYANMAR'S STRUCTURAL TRANSFORMATION	1
1.1 Can Myanmar achieve its targeted growth? International experience	3
1.1.1 What are the precedents?	3
1.1.2 Structural transformation: What are the drivers?	4
1.2 How strong is Myanmar's starting point?	6
1.2.1 Macroeconomic policy has shifted after reopening up to global trade	6
1.2.2 ... but with remaining challenges and renewed external risks	8
1.2.3 Allowing flexibility of the exchange rate is important	9

CHAPTER 2

MYANMAR'S AGE OF OPPORTUNITY 11

2.1	A potential waiting to be tapped	13
2.1.1	Myanmar trades less than its potential but is opening up rapidly	13
2.1.2	Imports are critical for investment and growth	14
2.1.3	Myanmar's export destinations: Redeployment and diversification	15
2.1.4	A sectoral structure with strong diversification potential	17
2.1.5	Making garments a catalyst for manufacturing-led development	19
2.2	Myanmar's opportunities are huge	23
2.2.1	Dynamic markets are around the corner	24
2.2.2	Global opportunities opening up	30
2.3	Leveraging the opportunities	30
2.3.1	A moderate tariff structure that could be streamlined	30
2.3.2	NTMs: Myanmar's licensing reform is well under way	32
2.3.3	Regional engagement and commitments	34
2.4	Summing up: Recommendations	38

CHAPTER 3

REDUCING POVERTY THROUGH TRADE 39

3.1	Poverty is prevalent, although its incidence varies	41
3.2	Deprived and vulnerable	43
3.2.1	Poverty relates to gender, limited access to of land, and limited supply of of skills	43
3.2.2	...all of which feed back into low productivity	47
3.2.3	The poor are also vulnerable to price shocks	49
3.3	Trade can reduce poverty and vulnerability	49
3.3.1	Export-led growth can improve outcomes for many	49
3.3.2	...provided that key bottlenecks on factor markets are addressed	50
3.4	Policy Options	53
3.4.1	Education	53
3.4.2	Active labor-market policies	54
3.4.3	Closing the data gap	54

CHAPTER 4**OPENING UP FOR PEACE 55**

4.1	Shaking off a legacy of conflict	58
4.2	Trade can help peace in Myanmar	60
4.2.1	Trade can provide opportunities for border regions...	60
4.2.2	...provided that it is inclusive	62
4.3	Developing opportunities in ceasefire Areas	65
4.3.1	Agriculture	65
4.3.2	Tourism	66
4.3.3	Timber	66
4.3.4	Mining	68
4.3.5	Manufacturing	68
4.4	Implications for Policies and Projects	69
4.4.1	Positive list	70
4.4.2	Negative list	70

CHAPTER 5**TOWARD AN EFFECTIVE SPS/QUALITY INFRASTRUCTURE 71**

5.1	Today's markets require complex quality infrastructures	73
5.1.1	Myanmar is opening up to a different world	73
5.1.2	What is a quality infrastructure?	73
5.1.4	Avoiding the rent-seeking trap	79
5.2.	A regulatory framework in need of modernization	80
5.2.1	Technical regulations and SPS regulatory framework	80
5.2.2	Standards	82
5.2.3	Conformity assessment	84
5.2.4	Accreditation	85
5.2.5	Metrology	85
5.3	Case studies	86
5.3.1	Garments	86
5.3.2	Fishery products	88
5.3.3	Rice	89
5.3.4	Beans and Pulses	90
5.3.5	Timber	92

CHAPTER 6**TRADE IN SERVICES 93**

- 6.1 A relatively open overall regime 95
- 6.2 ... but a fragmented policy-making framework 96
- 6.3 A relatively open regime but lingering restrictions 98
 - 6.3.1 Regulatory regimes have been modernized 98
- 6.4 Sectoral policies 104
 - 6.4.1 Telecom services 104

CHAPTER 7**IMPROVING MYANMAR'S MAIN CORRIDORS 111**

- 7.1 Myanmar's key trade corridors need upgrading 113
 - 7.1.1 Yangon-Mandalay: Myanmar's backbone 114
 - 7.1.2 Mandalay-Lashio-Muse/Chin Shwe Haw corridor: China's overland gateway 115
 - 7.1.3 Yangon-Myawaddy: Myanmar's gateway to ASEAN 116
 - 7.1.4 Mandalay-Kalay-Tamu/Rih corridor: Huge long-term potential 117
 - 7.1.5 Other than roads, other logistics infrastructure also needs to be developed and upgraded 119

CHAPTER 8

FACILITATING TRADE THROUGH SMOOTH LOGISTICS 123

8.1	Leveraging Myanmar's location through powerful logistics	126
8.1.1	The demand for logistics services will grow	126
8.1.2	Port congestion and low productivity would have to be addressed	127
8.1.3	Making Myanmar's trucking industry competitive	129
8.2	Streamlining the bureaucracy in trade facilitation	130
8.2.1	The burden of heavy procedures penalizes Myanmar's ratings	130
8.2.2	Building momentum on the on-going Customs modernization	134
8.3	Improving access to trade finance	137

REFERENCES 141

INTERVIEWS AND FIELDWORK

LIST OF TABLES

Table 2.1	Myanmar's trade with China expanded rapidly, while stagnating with other partners	15
Table 2.2	Ad-valorem equivalent of ASEAN's ROO	28
Table 2.3	Too many tariff rates invite fraud and bureaucracy	31
Table 5.1	Illustrative quality and safety issues for Myanmar's exports	77
Table 6.1	SOEs in the services sector	99
Table 6.2	Myanmar's MRAs on professional services	105
Table 8.1	Requirements for export or import processing and verification by Customs	132
Table 8.2	Moving towards modern trade facilitation and logistics: incorporating a new focus	136

LIST OF FIGURES

Figure 1.1	How Myanmar's target growth compares with historical precedents	3
Figure 1.2	Average growth as a function of initial year	4
Figure 1.3	Structural transformation in Indonesia and Thailand	4
Figure 1.4	Manufacturing is an engine of convergence	6
Figure 1.5	Inflation rates (% YoY)	7
Figure 1.6	Real effective exchange rate	7
Figure 1.7	Balance of payments (US\$ million)	8
Figure 1.8	Contribution to import growth (% YoY)	8
Figure 1.9	Nominal exchange rate (US\$ vs. local currency) (% change, YoY)	9
Figure 1.10	Official and parallel exchange rates	9
Figure 1.11	Real effective exchange rates	10
Figure 1.12	Gross reserves (US\$ billion, cumulative change)	10
Figure 2.1	Myanmar's trade openness is still below benchmark...	13
Figure 2.2	...but already catching up	14
Figure 2.3	Myanmar's imports are dominated by capital equipment and intermediates (US\$ million)	14
Figure 2.4	Thailand weighs heavily in Myanmar's export portfolio, but China is rising rapidly (US\$ million)	15
Figure 2.5	Myanmar's trade was massively rebalanced by sanctions	16
Figure 2.6	Myanmar's exports are still concentrated like those of other LDCs	17
Figure 2.7	Myanmar's exports remain dominated by primary products	18
Figure 2.8	International gas prices are volatile	18
Figure 2.9	Similar to Cambodia, Myanmar's comparative advantage lies in the downstream, labor-intensive segment of the textile value chain	21
Figure 2.10	China's comparative advantage in garments is starting to fade, creating opportunities for relocation	21
Figure 2.11	Myanmar's trade is developing rapidly with key partners	23
Figure 2.12	Night lights show large population and activity centers around Myanmar, suggesting potential trade increases	25
Figure 2.13	Myanmar trades substantially through overland border posts	24
Figure 2.14	Myanmar is developing trade complementarity with key partners	26
Figure 2.15	ASEAN's tariff preferential margins are substantial	26
Figure 2.16	...but so is the use of NTMs	27
Figure 2.17	Myanmar's MFN tariffs are moderate	30
Figure 2.18	Myanmar's tariff escalation avoids penalizing imports of capital equipment and intermediates	31
Figure 2.19	ASEAN schedule for tariff reductions under ATIGA	36

Figure 3.1	Increase in night lights shows rising spatial agglomeration	41
Figure 3.2	Households in remote regions face higher prices	42
Figure 3.3	Poverty correlates with landlessness in rural Myanmar	45
Figure 3.4	Workers' employment status	45
Figure 3.5	Women face fewer income-earning opportunities	45
Figure 3.6	Women are also have few educational opportunities	46
Figure 3.7	Share of employment, labor productivity and share of sector in the economy	47
Figure 3.8	Food staples dominate the poor's budgets	48
Figure 4.1	Many areas were still controlled by EAGs in 2014	57
Figure 4.2	The locus of armed conflict areas has shifted	58
Figure 4.3	Average distance between villages to the closest markets (in hours)	60
Figure 4.4	Natural resources concessions and conflict areas	61
Figure 4.5	Foreigners' arrivals, border vs. other entries	65
Figure 5.1	Organization of the NSQD within Myanmar's quality infrastructure	80
Figure 6.1	Myanmar's STRI is broadly in line with comparators (2012)	95
Figure 6.2	Several ministries involved	97
Figure 6.3	Myanmar's governance indicators are lagging its peers	103
Figure 6.4	Myanmar's telecom sector has been booming	104
Figure 6.5	IT-enabled services suffer lagging infrastructure	106
Figure 6.6	Dynamic tourism indicators highlight Myanmar's potential	107
Figure 6.7	Despite a lack of infrastructure, tourism has great potential	107
Figure 7.1	Myanmar's highway network ('000 km)	113
Figure 7.2	Myanmar's major trade corridors	113
Figure 7.3	Capacity and traffic along the Yangon-NPT axis	114
Figure 7.4	Transport options between Central China and Myanmar/India	115
Figure 8.1	The need to improve logistics and trade facilitation in Myanmar	126
Figure 8.2	Container throughput at the Port of Yangon	127
Figure 8.3	Number of registered vehicles in Myanmar ('000)	129
Figure 8.4	Trading across borders – time to trade sub-indicators	130
Figure 8.5	Number of registered vehicles in Myanmar	131



LIST OF BOXES

Box 1.1	Recent policy changes in foreign exchange management	7
Box 2.1	How the lack of a support infrastructure hurts Myanmar's bean and mango exporters	20
Box 2.2	Minimum wages as a safeguard to protect workers	22
Box 2.3	Market access and the EU's GSP	28
Box 2.4	Capacity-building: It's about more than just training	29
Box 2.5	ASEAN Trade in Goods Agreement (ATIGA)	35
Box 3.1	Better understanding the role of gender in formulating trade policy	46
Box 3.2	Labor shortages and migration	51
Box 4.1	The precedent of Kachin State	63
Box 5.1	Changing market requirements	73
Box 5.2	What is a quality infrastructure?	74
Box 5.3	Questions to ask before investing in a quality infrastructure to promote exports	79
Box 5.4	Rice quality parameters	86
Box 6.1	Policymaking benefits from effective intra-governmental coordination	96
Box 7.1	Protocol for Myanmar-India border trade	118
Box 8.1	The mango export supply chain	125
Box 8.2	Why a bonded-warehouse system?	128
Box 8.3	The "gate" system in Myanmar's trucking industry	130
Box 8.4	The bureaucratic burden of licensing	131
Box 8.5	Women face special obstacles at border checkpoints	135
Box 8.6	Off-shore trade financing by Myanmar's importers and exporters	139

ACIA	ASEAN Comprehensive Investment Agreement
ACLED	Armed Conflict Location Events Dataset
AEC	ASEAN economic Community
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
ADB	Asian Development Bank
AML	Anti-Money Laundering Rules
ASEAN	Association of South East Asian Nations
ASW	ASEAN Single Window
ATIGA	ASEAN Trade in Goods Agreement
CBM	Central Bank of Myanmar
CIF	Cost Insurance and Freight
CIS	Customs Intelligence Database System
CLMV	Cambodia, Lao PDR, Myanmar and Vietnam
CMT	Cut Make Trim
CSIS	Centre for Strategic and International Studies (Indonesia)
CSO	Central Statistical Organization
CSR	Corporate Social Responsibility
DFAT	Department of Foreign Affairs and Trade (Australia)
DFID	Department for International Development (UK)
DICA	Directorate of Investment and Company Administration
DNSQ	Department of National Standards and Quality
DTIS	Diagnostic Trade Integration Study
EAG	Ethnic Armed Group
EBA	Everything-But-Arms Initiative
EIF	Enhanced Integration Framework
EITI	Extractive Industries Transparency Initiative
EPZ	Export Processing Zone
EU	European Union
EUTR	European Union Timber Regulation
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FIQCD	Fish Inspection and Quality Control Division
FLEGT	EU Forest Law Enforcement, Governance and Trade
FOB	Free On Board
FSC	Forest Stewardship Council
FVO	Food and Veterinary Office
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German International Development Organization)
GSP	Generalized System of Preferences
GVC	Global value Chain
HACCP	Guidelines for ASEAN Audit and Certification of Food Hygiene and Hazard Analysis and Critical Control Points
ICD	Inland Container Depot

ABBREVIATIONS AND ACRONYMS

IMF	International Monetary Fund
IMF DOTS	International Monetary Fund Direction of Trade Statistics
INGO	International Non-Governmental Organization
IOM	International Organization for Migration
ISO	International Standardization Organization
ITES	Information Technology-Enabled Services
IWT	Inland Waterway Transport
JICA	Japan International Cooperation Agency
KIA	Kachin Independence Army
KIO	Kachin Independence Organization
KNU	Karen National Union
KOICA	Korea International Cooperation Agency
KYC	Know-Your-Customer Rules
L/C	Letter of Credit
LDC	Least-Developed Country
LPI	Logistics Performance Index
MACCS	Myanmar Automatic Cargo Clearance System
MAFPEA	Myanmar Agro-Based Food Processors and Exporters Association
MAST	Multi-Agency Support Team
MFN	Most Favored Nation
MGMA	Myanmar Garment Manufacturers Association
MIC	Myanmar Investment Commission
MITS	Myanmar Inspection and Testing Services
MNDAA	Myanmar National Democratic Alliance Army
MoPF	Ministry of Planning and Finance
MNSQ	Myanmar National Standards and Quality Department
MALI	Ministry of Agriculture, Livestock and Irrigation
MoC	Ministry of Commerce
MoHT	Ministry of Hotels and Tourism
MREC	Ministry of Natural Resources and Environmental Conservation
MLIP	Ministry of Labor, Immigration and Population
MoTC	Ministry of Transport and Communications
MPA	Myanmar Port Authority
MRA	Mutual Recognition Agreement
NACCS	Nippon Automated Cargo and Port Consolidation System
NAFTA	North American Free Trade Agreement
NES	National Export Strategy
NCA	National Ceasefire Agreement
NDS	National Development Strategy
NSW	National Single Window
NTM	Non-Tariff Measures

NTMC	Non-Tariff Measures Committee
OECD	Organisation for Economic Co-operation and Development
PTB	Physikalisch-Technische Bundesanstalt (German National Metrology Institute)
RCEP	Regional Comprehensive Economic Partnership
REER	Real Effective Exchange Rate
ROO	Rules of Origin
SDR	Special Drawing Rights Special Economic Zone
SMEs	Small and Medium-Sized Enterprises
SOE	State-Owned Enterprise
SPS	Sanitary and Phytosanitary Measures
TBT	Technical barriers to Trade
TEU	Twenty-Foot Equivalent
TFA	Trade Facilitation Agreement
TTSC	Textile Training and Support Centre
TVET	Technical and Vocational Training
UMFCCI	Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
UNSD	United Nations Statistics Division
USAID	United States Agency for International Development
WFP	World Food Programme
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

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The team is especially grateful to the Ministry of Commerce (MoC) for providing strategic guidance, providing data and coordinating meetings with the other ministries . The team also thank Myanmar's Customs, the Central Statistical Organization, the Central Bank of Myanmar, Myanmar Port Authority, Inland Water Transport, the Ministry of Hotel and Tourism, the Ministry of Labors, Immigration and Population, the Ministry of Construction, the Ministry of Transportation and Communications, Plant Quarantine, the state governments (in Shan and Kayin), and border posts in Muse, Myawaddy, and Tamu, for sharing data and information. Enhanced Integrated Framework (EIF) Secretariat also provided inputs and guidance to the team.

The team also thank various organizations that were consulted/interviewed: Republic of the Union of Myanmar Federation of Chambers of Commerce (UMFCCI), Mandalay Regional Chamber of Commerce, Myanmar Association of Freight Forwarding, Myanmar Garment Manufacturers Association, Global Witness. Also Development Partners members of Trade Sector Working Group: Asian Development Bank, Australia-Aid, European Union, ITC, JICA, UK-Aid, UNIDO, and USAID .

This DTIS report funded by Enhanced Integrated Framework (EIF) Trust Fund with additional support from Australia DFAT and UK-Aid





As part of the Enhanced Integrated Framework (EIF) program for Trade-Related Assistance to Least Developed Countries (LCDs), which Myanmar joined in April 2013, the Government of Myanmar has asked the World Bank Group (WBG) to be the implementing agency for a Diagnostic Trade Integration Study (DTIS).

The general objectives of a DTIS are: (i) to assist the government in mainstreaming trade and competitiveness in the country's overall development strategy; (ii) to provide a diagnostic and analytical tool to prioritize and sequence key reforms in the area of trade and competitiveness; and (iii) to provide a platform for development partners to coordinate action and align trade-related assistance with government priorities.

This DTIS has identified a number of domestic and external constraints facing Myanmar as it strives to leverage regional and global integration for inclusive, export-led growth. Based on this, the current report provides analytical input on the linkages between trade and poverty, and highlights key steps to remove bottlenecks in terms of trade policy and trade facilitation.





OVERVIEW

After waiting in isolation for almost four decades, its re-integration into the global economy has presented Myanmar with a unique opportunity to leverage growth in trade to reduce poverty, promote shared prosperity and sustain the nationwide peace process.

Following Myanmar's dramatic decision to change its trajectory in recent years, the boom in trade and investment has boosted average economic growth beyond 7 percent per year as the country starts to catch up with its neighbors. With significant natural and agricultural resources, and comparative advantages from its resources, pool of labor and location as a natural hub to 40 percent of the world's population, Myanmar has great potential. What is crucial now is that this potential is not squandered, but used to achieve transformational development gains that will improve the lives of its citizens by reducing poverty, spreading wealth, and helping to reduce social and ethnic tensions. All of this is within Myanmar's grasp if it can seize the moment to design and apply appropriate policies to encourage trade and economic openness, and ensure that all stakeholders in the country's future can share in the benefits, especially those in the most vulnerable and marginalized groups.

While growing fast, Myanmar's trade still has enormous potential for further growth. But it is crucial that the benefits from greater trade are also shared more equally and help to sustain the ongoing political transformation.

While the challenges are daunting, with strong political will to maintain the momentum of reform and support in applying the right policies, the government's goals can be achieved. The challenges may be daunting but the Government of Myanmar is nonetheless ambitious in its plans for the future. Myanmar's goal is for sustained GDP growth of 7.7 percent per year which, if achieved, would double the country's GDP in about 9 to 10 years. Such growth is almost unheard of outside of China. However, with the right policy options to drive growth, including a focus on sustainability, poverty reduction and equal opportunities for all, and with the political will to maintain the reform momentum, such levels of growth is not beyond reach. This report aims to provide such policy options based on a thorough diagnostics analysis of the current situation regarding trade in Myanmar, including the country's strengths and weaknesses. This toolkit of policy options will help Myanmar to achieve these goals, and provide the citizens of Myanmar with a new future—one they could only have dreamt of just a few years ago.

Myanmar's trade started from a relatively low base but is growing fast and moving towards the country's comparative advantages.

Myanmar has a comparative advantage in its pool of untapped labor, natural resources and location, wedged as it is between China, India and Thailand, and especially as China's cost advantages start to fade. Indeed, it shares borders with markets that account for 40 percent of the world's population. After Western countries removed economic sanctions imposed on Myanmar, garment exports grew threefold between 2005 and 2014, while cargo handled by the ports of Yangon increased fourfold in the nine years to 2014. Meanwhile, tourism, which has never been fully developed in Myanmar, posted average annual growth, as measured by annual tourist arrivals, of about 35 percent between 2009 and 2015.

Some of the key challenges that Myanmar faces.

The country is still constrained by weak institutions (underdeveloped regulatory framework, cumbersome procedures for investment), high costs of trade (the lowest ranking in ASEAN in the Logistics Performance Index for customs clearance, poor quality of logistics services, lack of logistics infrastructure), underdeveloped quality and standards infrastructure, and a lack of trade financing, among many others.

main drivers

can ensure that greater trade helps to both reduce poverty & share prosperity in Myanmar

Understanding these drivers and designing policies to promote them is the focus of this report.

PUSHING AHEAD WITH REFORMS

Maintaining the momentum of the reform agenda towards greater trade openness and ensuring that there is a fair distribution of gains from trade, especially for the poor and vulnerable, and those living in conflict-affected areas.

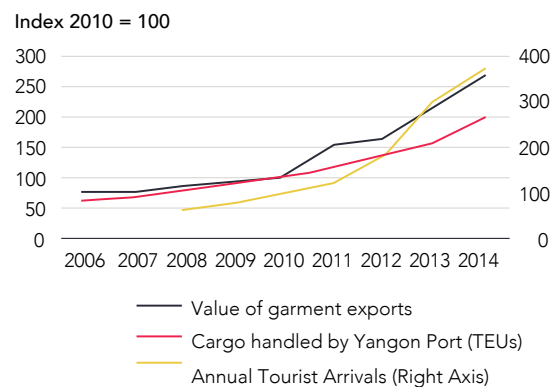
DIVERSIFICATION AWAY FROM OVER-RELIANCE ON NATURAL RESOURCES

Diversifying away from the current over-dependence on natural resources towards other sectors with high potential, such as light manufacturing, services and sustainable agri-business. Only through such a diversification can the economy provide the employment and sources of rural income to share the benefits of increased trade.

SOFT INFRASTRUCTURE WILL BE JUST AS IMPORTANT AS HARD INFRASTRUCTURE

Developing not only hard infrastructure but also the soft infrastructure that is crucial to make the economy work efficiently. This includes simplifying procedures and licensing for trade and investment, building institutional capacity in trade-related government agencies, and ensuring broader ownership of reforms across society, including disadvantaged groups.

Figure A: Trade-related activities in Myanmar are rapidly picking up



Source: UN Comtrade, Myanmar Port Authority, CSO

The policies suggested in this report have the potential not only to transform Myanmar's economy through greater trade, but also to transform the lives of all of Myanmar's citizens.

Trade can be honed by policymakers into a tool for wealth distribution and poverty reduction. Myanmar is at a historic juncture when it could transform its economy into one that addresses these issues through improved trade openness.

This report recommends the following policies

OVERHAUL OF TRADE POLICY REGULATIONS AND BUILD CAPACITY IN TRADE POLICY AND PROMOTION

The import tariff structure could be simplified, while non-tariff measures could be further rationalized to render them simplified and more transparent. Trade-related data could be harmonized for better informed trade policies and promotion strategies. This would allow trade policies to further facilitate and sustain the process of industrialization in Myanmar.

ENSURE INCLUSIVE EXPORT-LED GROWTH

Trade in Myanmar has huge potential but, without the necessary policies and safeguards, it risks creating tensions by benefitting elites and undermining vulnerable groups through expropriation, environmental degradation and poor working conditions. Myanmar could avoid this situation by addressing skills shortages, improving access to finance and providing support to drive local economic activities. Local communities could also be consulted in the design of trade-related projects. Another opportunity is in the potential sharing of Myanmar's huge wealth from jade mining exports, which would also benefit from more transparency in data, community consultations and a greater sense of ownership.

ESTABLISH A ROBUST QUALITY INFRASTRUCTURE FOR MYANMAR PRODUCTS

Meeting demand for quality products from local consumers and international buyers is important for Myanmar if it is to compete successfully. The focus could be on narrowing regulatory and institutional gaps by adopting international quality standards (e.g., for rice exports), establishing guidelines for SPS management according to international practices, and develop a national accreditation body, while avoiding conflicts of interest with the potential for rent-seeking opportunities when introducing technical regulations

and mandatory standards. hub and at the same time also transform poor local communities in border areas.

ENCOURAGE GROWTH OF TRADE IN SERVICES

Myanmar still has administrative and regulatory barriers that constrain further development of trade in services, such as discretion in approving foreign direct investment (FDI) and restrictions on FDI in the tourism sector. Cross-cutting and also sectoral reforms would help to unleash the full potential of trade in services. Awareness and greater capacity among government ministries to coordinate policies in trade in services could also be further developed.

DEVELOP EFFICIENT TRADE CORRIDORS

Improving efficiency in Yangon's port terminals and their connectivity with hinterland (via roads, railways and inland waterways) and facilitating investments in logistics infrastructure (private bonded warehouses, logistics parks and container depots) would help to leverage Myanmar's position as a trade hub. Connecting lagging regions to markets through better logistics infrastructure at the same time will also help to benefit poor local communities, particularly in border areas, but only if done with input from and support of conflict-affected communities and ethnic armed groups.

FACILITATE TRADE THROUGH BETTER LOGISTICS AND FINANCE

Improving cargo turnaround times is key for Myanmar's competitiveness. It will therefore be important to modernize trade logistics if supply chains are to be competitive. Myanmar could also consider phasing out restrictions on foreign companies in logistics, reforming Customs procedures (e.g. valuation, risk management and coordination across trade-related departments), and improving access to trade finance through the financial system.

EXECUTIVE SUMMARY

Myanmar's elections in 2015 marked another historic milestone in the country's political and economic transition that began in 2011.

In November 2015, the people of Myanmar voted overwhelmingly for change and reform. It is now up to Myanmar's policymakers to deliver on the people's hopes and aspirations for a more prosperous, equitable and peaceful Myanmar, with support from development partners, including the World Bank Group.

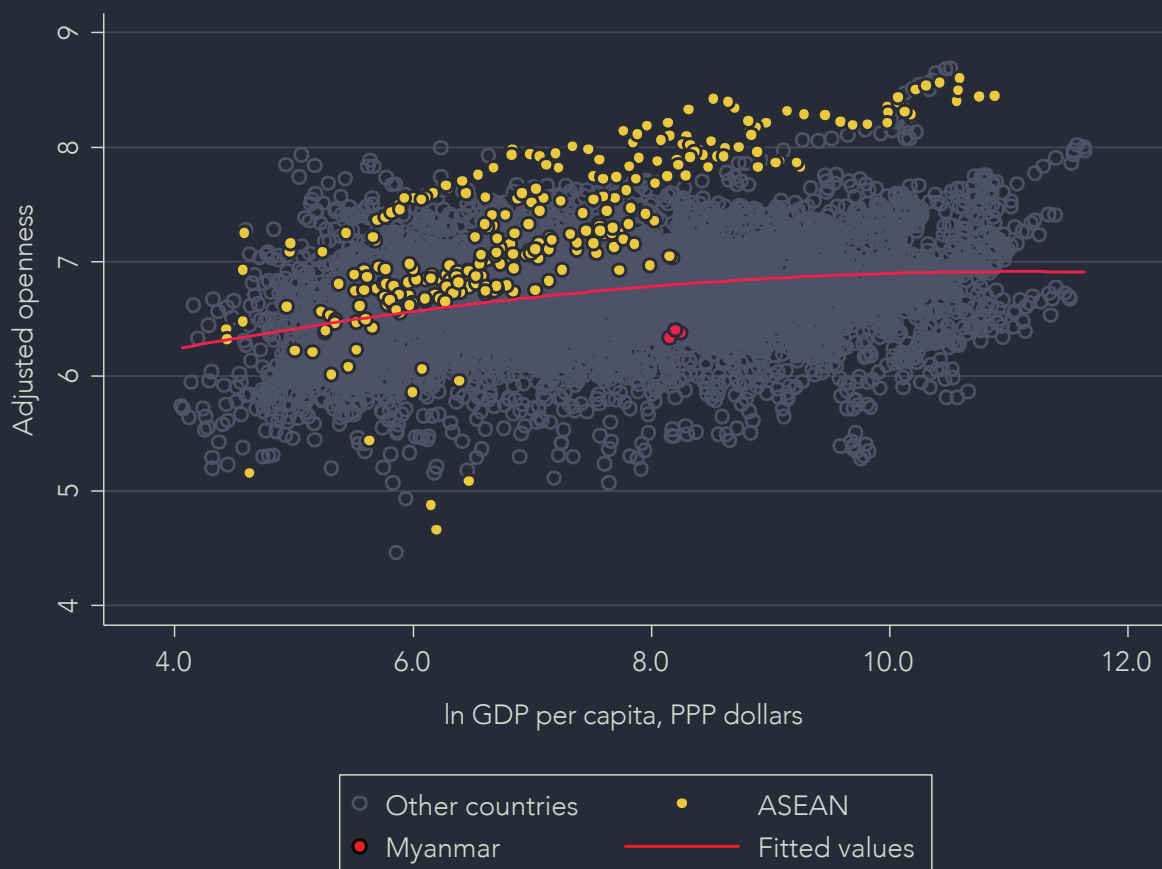
Leveraging trade to underpin inclusive growth and poverty reduction is within reach. While growing rapidly in recent years, Myanmar's trade is still modest as a proportion of its GDP compared with its neighbors. It still has huge potential to grow. Developing into a major trading partner with its ASEAN neighbors and beyond offers Myanmar a unique opportunity to empower the private sector to drive its economic opening, and spread the benefits of increasing trade more equitably throughout society and across regions. After all, Myanmar shares borders with countries that account for some 20 percent of global GDP and 40 percent of the world's population. Expanding trade can help Myanmar to rebalance its economy away from over-reliance on natural-resource industries that very often offer little in the way of employment to ordinary people, and have a history of provoking social tensions and unrest in Myanmar's more remote ethnic-minority regions.





A new paradigm for private-sector driven growth. Based on its diagnostic analysis of Myanmar's current trade environment, this report offers suggestions for fostering competitiveness and a dynamic environment for private sector growth to drive trade. Myanmar is poised to take off on a new and ambitious trajectory going forward. The challenges are daunting and success cannot be guaranteed, but our hope is that the findings in this report can provide important guidance and policy options that can help to ensure success.

Figure A: Myanmar's trade has room to grow more



Source: World Bank Group team calculations. Figures are adjusted according to size of population and share of natural resources in the economy.

key messages

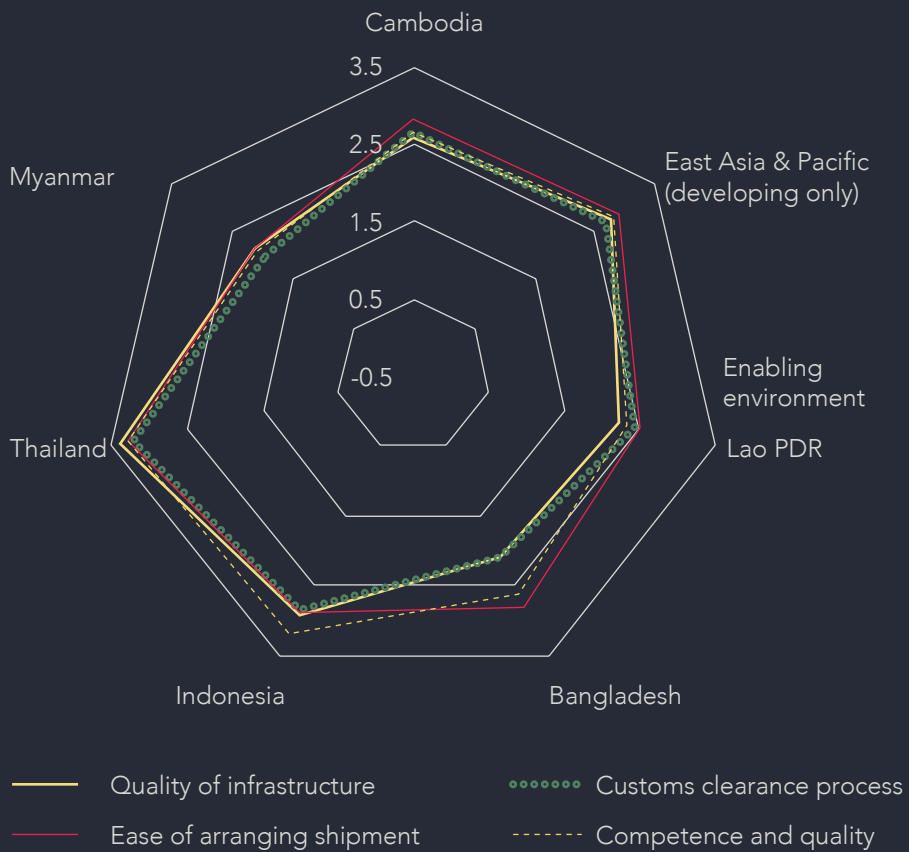
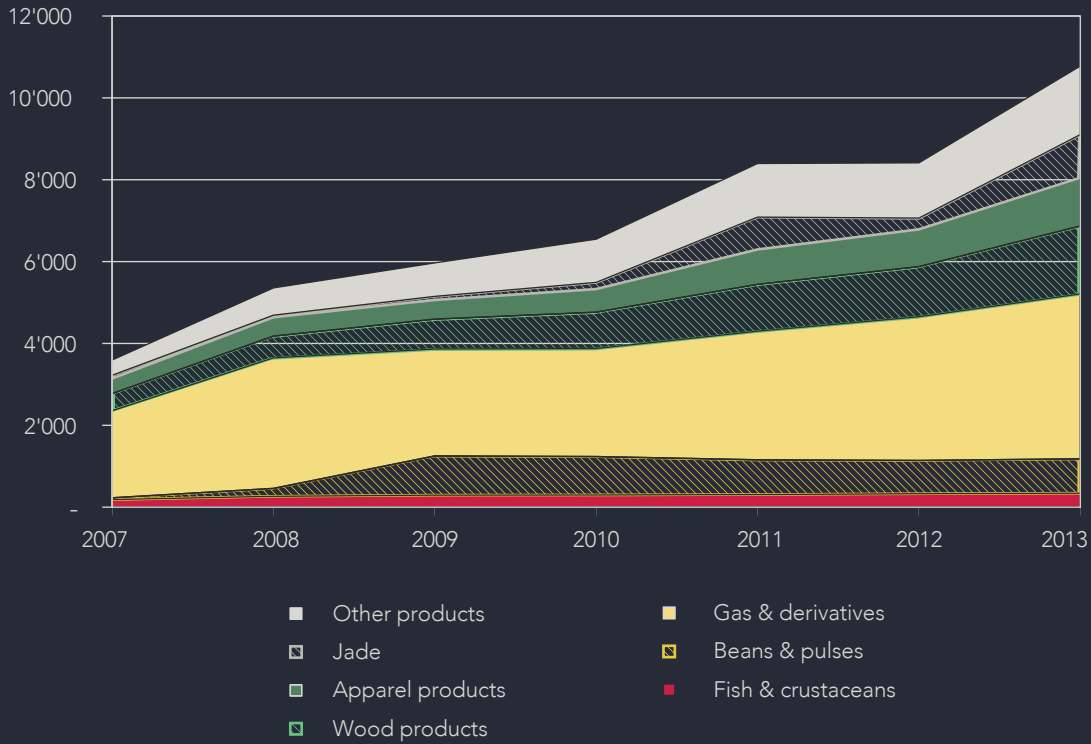
emerge from the analysis as follows

1. *Following through on reforms to encourage trade openness is critical for poverty reduction*

Unleashing Myanmar's trade potential has only just begun. Non-gas exports grew at 11 percent per year between 2011 and 2014, despite weak commodity prices and softening global demand. And yet Myanmar's trade (exports and imports) as a share of GDP is still below average for ASEAN countries (Figure A). These numbers partly reflect catching up after decades of isolation, with Myanmar starting its growth surge roughly at the same export/GDP ratio as Vietnam in 1989, and Indonesia and Thailand in the early 1980s.

But for trade to grow it will be important for Myanmar to continue to reform in order to stay competitive and share the gains equitably. Looking forward, continuing to reduce costs for the private sector to conduct trade will be key if Myanmar is to remain competitive, while just as important is the need to ensure a fairer distribution of the gains from trade. Decades of economic isolation and armed conflict have left Myanmar with widespread poverty, informality and lingering fragility. Thus, it will be important to sequence reforms carefully, while also implementing complementary policies for the poor and vulnerable, both men and women, particularly those who live in conflict-affected areas, so they can also benefit from greater trade.

Myanmar exports \$million



Diversification into light manufacturing, services and sustainable agri-business would be a powerful way of reducing poverty, while also rebalancing the economy away from its over-dependence on natural resources

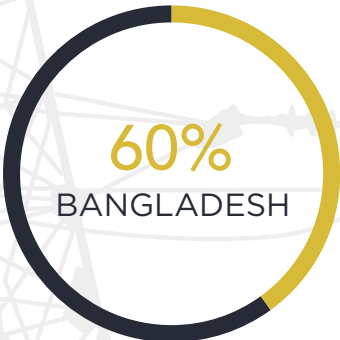
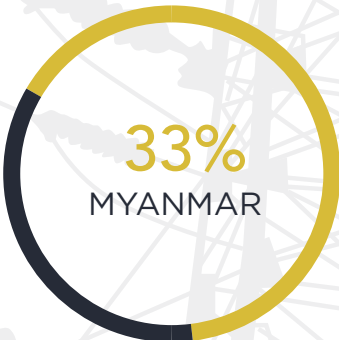
Tourism in Myanmar has never been fully explored and developed. Myanmar has huge potential in tourism, making the sector an obvious “quick-win” development priority. Developing the tourism sector would build on existing strengths (tourism receipts tripled between 2007 and 2012) and provide employment and sources of income in rural areas, provided that key infrastructure constraints are addressed. Meanwhile, leveraging the potential for export-oriented manufacturing could be a key poverty-reduction engine. International experience suggests that every US\$1.00 of value-added is two to six times more powerful in reducing poverty in manufacturing than in other sectors, while mining has very little impact on poverty (Cadot et al., 2015).

Over-dependence on natural resources could undermine manufacturing competitiveness. Continued over-reliance on non-manufacturing sectors exposes Myanmar to macroeconomic risks from volatile commodities prices, together with chronic currency overvaluation (Dutch disease) that would also undermine the manufacturing sector’s competitiveness. Export-led manufacturing would also help formalize employment (61 percent of Myanmar’s workforce is currently self-employed, or in casual or informal domestic labor) and raise productivity and wages, provided that Myanmar’s educational system can improve on its ability to deliver skills demanded by the market.

Crossing-cutting reforms can be introduced simultaneously to attract FDI. A successful industrial policy aimed at attracting FDI will benefit from upgrading infrastructure, improving the business environment, and implementing social regulations through coherent sectoral and cross-cutting plans designed in collaboration with all stakeholders. International experience also shows that international buyers are increasingly demanding environmental and labor regulations consistent with international standards.

Reforms can also help to bring a transformation in agriculture. In an agriculture-based transformation, Myanmar can also seize opportunities to raise the market value of farming products, providing a rapid and direct impact on poverty reduction. The government’s initiatives on conflict-affected land-tenure reform and systematic land registration are prerequisites for the success and sustainability of the agricultural-based poverty reduction strategy. Once again, it will be important for the government to provide integrated and coherent farm support to both men and women from farming households (agricultural research and extension services, rural roads, irrigation, and seed, as well as access to product and agri-processing knowledge), and complement this support by upgrading of the national quality infrastructure based on demand from exporters and regulators to safeguard consumer health and safety.

POPULATION **with access to** ELECTRICITY





Infrastructure development and regulatory reforms can occur in tandem

Only one-third of homes have electricity in Myanmar. Only 33 percent of Myanmar households have access to electricity, compared with 60 percent in Bangladesh and 99 percent in Vietnam. Myanmar's logistics infrastructure (ports and their hinterland connections) ranked 137th out of 160 countries in the 2014 Logistics Performance Indicator (LPI), the lowest among ASEAN countries. It is also less connected with global shipping-liner networks than Bangladesh or Vietnam. Both Yangon's seaport terminals and highways along the country's main economic corridors (i.e., Yangon-Mandalay-Muse) will soon reach their capacity limits, while the road along the Mandalay-Tamu corridor has been severely damaged by flooding.

The business environment remains challenging for the private sector. While securing electricity and starting a business in Myanmar have become much easier and boosted its ranking in the World Bank Group's 2016 Doing Business survey from 177 in 2015 to 167, the business environment in Myanmar remains challenging for the private sector. International experience has shown time and again that in order to reap the benefits of hard infrastructure investments, it is also vital for the government to work in parallel on "soft" infrastructure reforms, including, in Myanmar's case, (i) reforming procedures and regulations; (ii) strengthening institutional capacity; and (iii) ensuring broad ownership of the reforms.



Why these reforms matters for *Myanmar's* development agenda

Myanmar has embarked upon a high-stakes transition and major challenges remain. Myanmar is going through a critical triple transitions in its development path — from isolation and fragmentation to openness and integration; and from pervasive state control, exclusion, and individual disengagement, to inclusion, participation, and empowerment. These reforms have the power to bring back international investors and unleash the transformational power of local entrepreneurship. However, the challenges and risks are considerable.



Lifting sanctions *does not* guarantee accelerating growth

First, while the transition has set the stage for an end to sanctions and the re-engagement of crucial international trade partners, international experience and recent research show that, of itself, lifting sanctions does not guarantee acceleration of growth

(Freund and Jaud, 2013)

Accelerating growth *does not* guarantee peace

Second, even if an acceleration in growth does materialize, Myanmar's own experience shows that this is not enough to ensure the viability of peace agreements. Growth benefitting only large natural-resource investors could prove corrosive for the transition; only inclusive growth, bringing income, empowerment and employment gains to all stakeholders, in particular the most vulnerable, can be the basis for a lasting peace. While private sector export-led growth has a key role to play in achieving this, success cannot be entrusted to market forces alone. For instance, inclusive rural development cannot take place without well-defined land titles and the protection of vulnerable groups, who may be unable to assert their claims, including women, against expropriation. It will also be important that investment is forthcoming in sectors that open up employment opportunities for men, women and youth as enterprise owners and formal workers.

Wealth will not automatically trickle down. Third, trade integration could have an impact on income distribution: there will be winners and losers from trade. Export-led private sector development will generate a trickle-down of wages to the local economy only with social protection, rules to safeguard the mostly low-skilled workforce from exploitation, and improvements in workers' skills.

The economic and political transitions are taking place against a legacy of widespread poverty... Notwithstanding the difficulties involved in measuring and comparing it, poverty appears to be high in Myanmar, with a relatively high proportion of the population living below the national poverty line (World Bank, 2014a). Poverty rates are particularly high for certain ethnic groups, highlighting the need to promote conflict-sensitive economic opportunities among them which can also help to consolidate the peace process. Related to this, poverty rates are likely to be high in border and remote provinces. With the right trade policy and infrastructure investments, cross-border trade could play a key role in providing much needed opportunities. Poverty is also overwhelmingly rural, and within rural areas is often linked to landlessness or quasi-landlessness. Reducing rural poverty would

be greatly supported by the establishment of land rights for farmers (improving their access to credit), including recognition and promotion of women's joint title claims, as well as a rise in productivity through better farming practices, improved access to agricultural inputs, and better access to domestic and international markets. Poverty also arises where there is exclusion from economic opportunities, and so reforms could be used to offer economic entry points for men and women, in urban and rural areas, and youth and ethnic groups. Urban poverty rates are also high and often relate to informality and the lack of stable jobs. Export-led growth will be crucial to enable the generation of stable jobs in manufacturing and services. Finally, poverty is multidimensional, involving not just low incomes but also lack of access to basic services (e.g., water, sanitation, electricity and public transportation), lack of education, and poor health. Regardless of the rate of economic growth, it is only through deliberate, planned improvements in the state's delivery of these basic public goods that poverty will gradually recede. While such efforts are not directly part of a trade competitiveness strategy, they are highly complementary to it and necessary to ensure that the benefits of increased openness are felt across all segments of the population.

... and an ongoing *but vulnerable* peace process

Despite recent progress, the peace process remains fragile and fragmented. Some ethnic armed groups (EAGs) signed a Nationwide Ceasefire Agreement (NCA) in October 2015, which provides the space for cooperation with the government on economic development. Other groups have bilateral ceasefires that are holding, while still others are in active conflict.

International experience shows that the development of agricultural cash crops for export can provide individuals with better earning opportunities and raise the opportunity cost of conflicts. Regional trade and cooperation can also reduce the incentives for other countries to interfere with the peace process—a common cause of internal instability in fragile states. However, trade can also be a destabilizing force, especially when it comes to natural resources. As in many countries,

there are natural resources in many of the conflict areas, with flashpoints and grievances relating to exploitation (aggravated by the lack of established land rights) and/or large windfalls going to elites.¹ Expanded resource-based trade, when controlled by the parties in conflict, can even fuel future conflict by financing it. This may have happened, for instance, with logging in Kayah and Kachin states. More generally, opening up will be accompanied by large-scale upheaval in occupational and locational choices, as well as the distribution of income, with accompanying adjustment costs. In making these choices acceptable it will be important for the government and other actors to keep a constant and vigilant eye on dialogue and fairness, with consultation followed by effective follow-up, and working checks and balances.

1 An example is a clash over a copper mining site <http://www.wsj.com/articles/protesters-clash-with-police-in-central-myanmar-over-copper-mine-1419251063>

The government's transition objectives *are ambitious*

The National Development Strategy's (NDS) target is to sustain economic growth at 7.7% annually for at least the next five years.

Given the limited purchasing power of Myanmar's domestic market at current poverty levels, faster-than-GDP export growth is the only way to fuel growth at this level. Trade as a percentage of GDP is currently at a low 30 percent, about half the international benchmark for Myanmar's level of income. Combining the NDS's target growth rate with a doubling of the trade-to-GDP ratio up to its normal level (consistent with the government's openness strategy), exports will need to grow at 20 percent a year. This is very ambitious, especially in a period of weak external demand and a weakening link between global GDP growth and trade (Constantinescu et al., 2014). But doubling the trade-to-GDP ratio is not impossible if Myanmar can attract a substantial share of the coming massive relocation of garments manufacturing out of China's high-wage area. Success in such an export-led growth strategy will provide an intimate two-way relationship with the political transition. First, reputable investors will not commit large sunken costs in the country without assurances of political stability. Second, they are likely to demand international standards in key areas including governance, labor rights and environmental sustainability. Failing to meet these standards would lock Myanmar into a market segment dominated by fly-by-night investors contributing little to the country's development. Conversely, export-led growth holds the key to the country's diversification into manufacturing, market-oriented agriculture and trade in services, which have all been shown elsewhere to be powerful engines of inclusiveness and poverty reduction.

To succeed, it will be important for reform to overcome resistance through adequate complementary policies... Deep reform programs cannot avoid displacing established interests. The experience of successful reformers, such as in Chile in the 1980s, shows that designing efficient compensation policies is key to success (Edwards and Edwards, 2000). The costs of reforms that eliminate inefficient rents are often perceived most clearly by the losers, while the distribution of the benefits to the winners is more

diffuse, causing the formation of blocking coalitions. Even a seemingly harmless reform, such as improving the performance of a border post, can erode the rents of local groups controlling informal cross-border trade, inducing resistance. Attenuating such resistance involves careful on-the-ground assessments of the kind of compensation and inclusion needed (e.g., local reinvestment of some of the collected border taxes, or encouragement of local employment in border posts). On a larger scale, improving the import regime (e.g., through the abolition of licensing) may be perceived as a threat by politically-connected firms selling on the domestic market. Complementary policies could involve targeted pro-competitive infrastructure investments that are public inputs (e.g., energy or transport), which would spill over to other players. One of the challenges is that reform and compensation mechanisms typically do not fall under the authority of the same ministry. Coordination is therefore key and may benefit from a specific mechanism (see below).

...and remain manageable by a government with limited policy-formulation and implementation capabilities. While the transition's challenges are daunting enough, the government is also challenged in carrying out large, multi-dimensional reform programs, and is already flooded with outside advice. It is therefore crucial to remain focused and to identify simple, quick wins on which to build reform momentum. This DTIS report aims to contribute by identifying such quick wins in terms of trade policy and facilitation. Beyond the identification of priority reforms, implementing them, and keeping the momentum going year after year in the face of difficulties and resistance, is a formidable challenge against which many a reform program has stalled. In this regard, the experience of successful reformers and recent theories of "change management" suggest that the government might consider appointing a team of highly competent technocrats to be in charge of the reform process's overall drive and coherence, with top-level political support and a mandate to overrule resistance and enforce inter-ministerial cooperation.¹

¹ An example of such a team is the Task Force for Private Sector Reform spearheaded by the MoC.



Policy I

PRIORITIES

Against this background, the DTIS proposes a limited and focused program of sequenced reforms in the area of trade policy, facilitation and infrastructure, as summarized in a synthetic way in Table A below.

The reform sequence is based on three immediate priorities:

Establish “lighthouses” to showcase the positive impact of reforms in reducing trade costs and alleviating poverty.

This includes: (i) simplifying the processes for trade licensing and automating procedures whenever possible; (ii) removing practices that add costs for trade (e.g., advance income-tax payment for exports, restrictions on foreign companies importing by themselves); (iii) highlighting the employment or income dividends of certain reforms for both men and women; (iv) rolling out automation, proper valuation of customs procedures; (v) improving hard and soft infrastructure at border check-points and for cargo handling in Yangon river ports; harmonizing the tariff structure to reduce “nuisance”; and (vi) harmonizing trade data collection by Customs and the Ministry of Commerce (MoC), including in Special Economic Zones (SEZ).

II

Build institutional capabilities.

It is important for institutional capabilities to be rolled out immediately in order for the MoC and other relevant ministries to coordinate and take full ownership of the trade policy reform agenda. The priorities here are to build momentum from reform in customs procedures by: (i) implementing risk management in cargo inspection; (ii) establishing a “data dashboard” for trade-related data enabling the government to implement or advocate evidence-based policy decisions; (iii) building up capabilities in policy analysis and understanding of trade in services and trade remedies; and (iv) setting up a committee to design and implement trade facilitation reform with a regulatory-overview mandate and capabilities to review NTMs. The capacity of the financial sector could also be strengthened to meet increasing demand for trade finance (e.g., pre-shipment and post-shipment credits, export insurance). To ensure trade development projects are inclusive for local communities, it will be important to establish a proper protocol for consultations with local ethnic communities in the design of trade-related projects and complementary policies.

III

Engage relevant stakeholders with a view to developing a common strategic vision and inter-ministerial cooperation.

While conditions for such a vision may take time to create, they can be used to set the longer-term goals. These might include: (i) the development of a realistic and demand-driven quality infrastructure; (ii) implementation of a trade sector strategy to promote firms’ participation in global value chains (GVCs); (iii) identify and roll out an economic-corridor program to link the development of transport infrastructure and logistics services with trade development projects; (iv) address concerns over negative externalities from trade in extractive products (e.g., precious stones); and (v) engage with women- and youth-led enterprises to address their niche barriers to trade and growth. Given the interest in using SEZs to concentrate efforts in the provision of hard and soft infrastructure to facilitate trade and investment, Myanmar could also consider reviewing the recent experiences from developing SEZs in Thilawa and identifying areas of potential improvement, such as the governance of SEZs, provision of services and facilities for investors, and linkages with local economic activities.



ESTABLISH “LIGHTHOUSES”

Streamlining procedures for trade licensing and automate them whenever possible

Eliminate costly practices with little value (e.g., advance income tax payments for export, trade licensing, roadblocks and payments)

Roll out Customs automated system and rationalize import tariff structure

Review and amend legislations in logistics and trade facilitation to further facilitate development of logistics infrastructures by private sector (e.g. warehouse, inland container depot, river barges)

Improving night navigation along Yangon river and align practices to increase capacity of cargo handling and logistics efficiency.

Pass new Investment Law to promote certainty and level playing field for investment in Myanmar

START BUILDING INSTITUTIONAL CAPABILITIES

Harmonize data collection, improve capacity in policy analysis, trade negotiation, services trade, trade remedies and trade promotion

Consult new trade regulations with private sector and publish all trade regulations in Trade Portal

Implement ASEAN Trade in Goods Agreement and WTO TFA, implement risk management for cargo inspection

Build acceptable quality infrastructure for Myanmar products

Develop capacity of financial sector to meet demand for trade finance instruments

Establish a precedent for consultations with ethnic minorities in the design of trade development projects especially in conflict-sensitive areas

DEAL WITH COMPLEX REFORMS

Map out and implement reforms and capacity-building for Myanmar firms to participate in GVCs (e.g., garments, agribusiness, tourism, light manufacturing)

Review practice in trade of extractive products to reduce negative externalities, promote transparency and inclusivity

Map out and implement pilot for economic corridor development which integrates development in logistics infrastructure and logistics services with trade development projects

Engage with women and youth-led enterprises to address their niche barriers to trade and growth

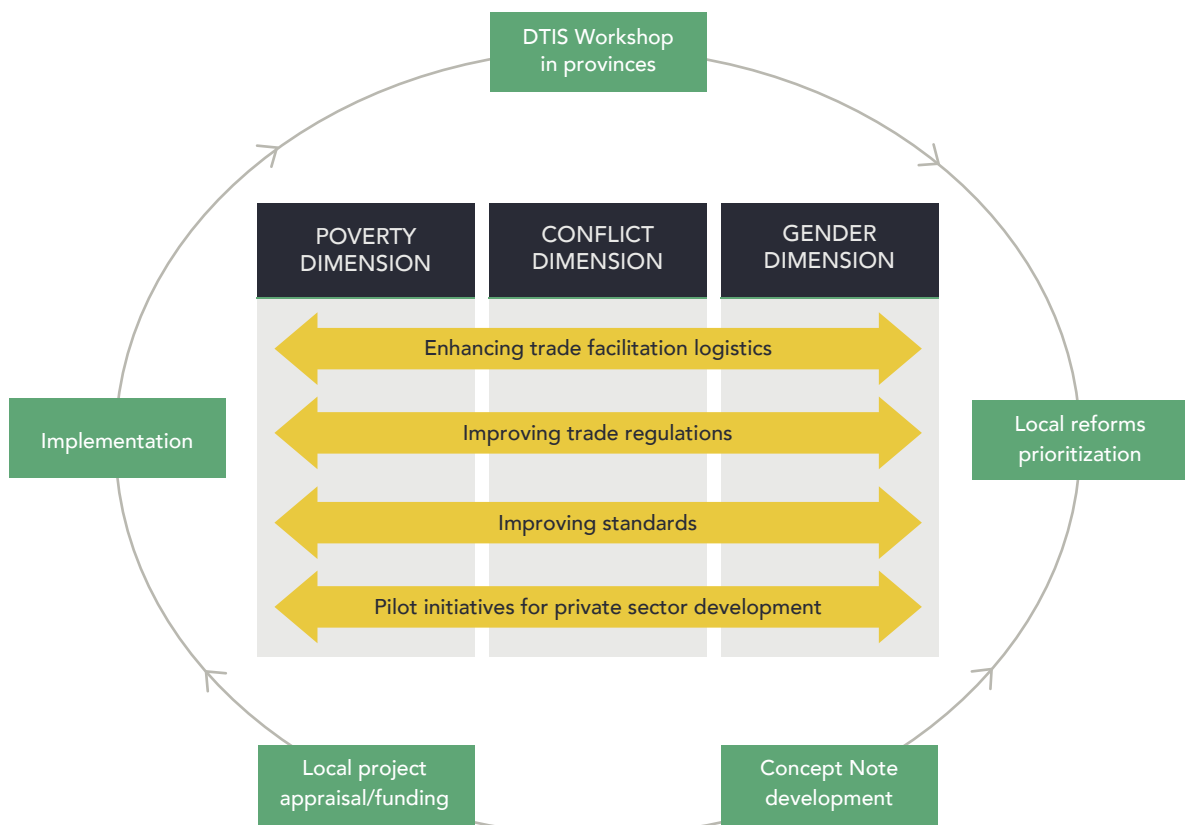
Review experiences from Thilawa SEZ

Given Myanmar's political transition, the overall development objectives of trade reform can only be sustained by a properly designed local trade development program

A set of cross-cutting reforms are outlined in the Action Matrix at the end of this Executive Summary. However, further analytical work could be undertaken at the subnational level in order to craft accompanying policy measures and make sure the benefits of national trade development can trickle down to local populations nationwide. The definition of local policy targets and the description of local specific constraints could focus on three dimensions, namely: (i) the state/regional poverty profile; (ii) the local conflict situation; and (iii) gender. The government could consider using the opportunity offered by the DTIS dissemination at the subnational level to start a structured diagnostic of local needs and opportunities by carrying out a

thorough consultation of local communities on how to implement the Action Matrix locally. The output of the local workshops could become the basis for a concept note to be used to mobilize resources and to start project appraisals. The diagram below shows one option for local consultation. The analysis of the local dimension of poverty, conflict and gender across the DTIS thematic areas (trade facilitation and logistics; trade regulations; standards; and private sector development) could include a mix of qualitative and quantitative assessments, leading to the formulation of specific project proposals for the benefit of the local population.

Figure B: The thematic areas of the DTIS and cross-cutting issues







TRADE POLICY REFORMS

Changes in procedures and incentives could be considered to reduce trade costs and stimulate the provision of services.

On top of the steps already taken to reduce import and export licenses, a number of other procedures could also be considered for removal, and whose objectives can be better addressed through other means.

Changes in procedures and incentives could be considered to reduce trade costs and stimulate the provision of services. On top of the steps already taken to reduce import and export licenses, a number of other procedures could also be considered for removal, and whose objectives can be better addressed through other means. Examples include: (i) the requirement for exporters to pay 2 percent income tax in advance; (ii) limits on how much banks can charge traders to process L/Cs; and (iii) requirements to demonstrate that foreign buyers have already paid for exports (or have used L/Cs). Another example is the flat and relatively low charges levied for storing containers in port (of just US\$2/day), creating port congestion. The Ministry of Commerce (MoC) could consider reviewing these practices and consulting stakeholders, including the Myanmar Business Forum, with a view to removing them.

- Availability of reliable trade-related data (action A2 in the Action Matrix). Myanmar's trade statistics are inadequate, while plenty of technical assistance from the World Bank Group, the WTO, the International Trade Center (ITC) and the UN Statistics Division (UNSD) is on hand to help build up the necessary know-how. In the interim, the MoC could start working with the Ministry of Finance, in particular with Customs, to put in place a reliable trade-statistics tool and forward the data to the UNSD for inclusion in the UN Comtrade database.
- **Capacity to analyse data and develop policy briefs** (action A3). The MoC could consider working with other ministries (e.g., Labor, Planning and Finance, and Central Statistical Organization) and think-tank organizations to build up the statistical capabilities needed to inform policy through data collection and sharing

protocols, together with the hiring of competent professionals. It could also consider creating and strengthening the capacity of specialist teams with capabilities in data analysis and report writing. Although training is important it does not necessarily address a lack of effective organizational structure—human resource capacity, incentive structure and organizational arrangements—to ensure that the demand for quality policy analysis can be met.

- **Organizational capabilities to effectively respond to the needs of reforms** (action A5). Building capacity through training is important but does not necessarily address the lack of effective organizational structure—human resource capacity, incentive structure, and organizational arrangements—to ensure that the demand for quality policy analysis can be met.

Myanmar's tariff structure could be streamlined and simplified, with the role of protection against market disruptions being devoted to safeguards. This implies tariff reform, as well as continued efforts to improve capabilities to use the WTO's Agreement on Safeguards through training of MoC officials, for which Myanmar has been receiving technical assistance from UNESCAP. Appropriate but non-excessive use of trade defense measures could both shield domestic employment from temporary market disruptions and facilitate the phasing-out of licenses by alleviating concerns about exposure (action A4).

Diversifying exports requires reducing distortions in the allocation of resources, particularly from the burdensome use of non-tariff measures (NTMs). Countries can legitimately make use of NTMs to safeguard consumers' health and safety, protect the environment, and meet other norms. But NTMs

with onerous administrative requirements can also be misused to impose costs on the private sector that are equivalent to import tariffs. For this, the MoC could work with other ministries to set up an NTM Committee (NTMC) with a mandate to review existing and new regulations (action A5), and recommend simplifying and automating the process whenever necessary. It will be important for the NTMC to be endowed with a technical secretariat to conduct reviews and benefit from technical assistance from development partners, for instance the World Bank Group, which is supporting similar bodies in Cambodia and Lao PDR. The NTMC and the Trade Facilitation Committee mandated by the WTO could be located in one single body.

Regulatory transparency is key during a transition period with rapid changes in the legal and regulatory environment and the entry of new investors. The MoC could consider undertaking a systematic inventory of all trade-relevant regulations and NTMs, creating a trade portal, and populating the portal with the inventory of regulations in both Burmese and English, with codes corresponding to UNCTAD's MAST classification (action A6). This is an action that all ASEAN members have committed to and will require support from trade-related agencies.

Continuing reforms on the investment climate will help Myanmar to increase and diversify its export base. The adoption and implementation of several fundamental pieces of legislation would help to establish the foundations of a strong business-enabling environment. The Investment Law is a key law, which unifies the Foreign Investment Law and the Myanmar Citizens Investment Law to provide a level playing field for all investors, ensure adequate investor protection, and provide mechanisms for the settlement of disputes between investors and the government, should they occur. The government could streamline procedures related to the investment approval process and minimize the discretionary role of the Myanmar Investment Commission (MIC) in approving investments (action A7).

While constraints on Myanmar's attractiveness in agri-business, light-manufacturing and tourism are largely cross-cutting, sectoral plans would help to encourage thinking about them in context.

Given current limitations on government and administrative resources to simultaneously address issues, an industry focus may help. For instance, the MoC and the Ministry of Industry could work with other agencies to build on the Myanmar Garment Manufacturers Association's (MGMA) 10-year strategic development plan, to work out a well-sequenced plan in all its relevant aspects, which may, from a societal perspective, be broader in scope than the MGMA's plan. Such a strategic development plan would include, among others:

- **Trade logistics and customs clearance:** This would cover addressing constraints in the value chain, from fabric supplier to factory, and from factory to buyer, including customs clearance, road and port infrastructure, maritime freight, and ship rotations. For agri-business, this would cover micro-financing for farmers, access to quality seed, certification, quality processing, and marketing channels.
- **Targeted capacity-building:** Working with industry associations, Myanmar can help firms to comply with labor/environmental regulations to meet buyers' requirements, increase workers' skills and improve the capacity of entrepreneurs, both men and women, in modern business practices (accounting, use of ICT, standards and quality, supply chain management, etc.).
- **Export promotion and market access:** This would involve supporting the promotion of Myanmar products abroad, or domestically through tourism. Promoting linkages between Myanmar suppliers with firms in the SEZs and regional value chains (e.g., access to intermediates from Thailand) and tariff preferences in final markets ("Everything-But-Arms" program in the EU and possibly preferential treatment in US and large Asian markets as well) could be supported by the Ministry of Foreign Affairs.

If well-designed, such a plan could then be replicated in other sectors, such as automotive parts, or light electronics/electrical equipment.





ENSURING EXCLUSIVE EXPORT-LED GROWTH

While trade opens new economic opportunities, it also carries the risk of increased tensions if its benefits are not perceived as being shared fairly, or if proper safeguards are not in place to protect vulnerable populations from expropriation, environmental degradation, or poor working conditions.

Ensuring that trade development works to reinforce rather than undermine the peace process will require a number of steps to be adopted (a positive list) and mistakes to be avoided (a negative list). Trade expansion and an influx of investment may also aggravate employment, skills development and wage disparities between men and women, and women may not be able to access economic opportunities if their interests as enterprise owners, traders and workers are not taken into account.

Myanmar has an opportunity to raise its share of the gains from mining, in particular in jade mining. Jade is currently exported raw and the current system fails to provide local communities with a sense of ownership or any of the gains from Myanmar's huge scale on the world jade market. In this regard, economic theory suggests that a small export tax would raise government revenue without any offsetting economic loss.¹ Such a tax would generate revenue that could then be used with the advice of local communities to fund local development programs, such as vocational training, poverty reduction and health programs, and other basic infrastructure in Kachin State (the source of most of the country's jade). (action B1). For the mining sector to support greater development objective in Myanmar, transparency in data could be improved. This issue has contributed to the generation of social discontent and frustration. The Secretariat for Extractive Industry Transparency Initiative (EITI) could work

1 With monopoly power over international jade market, export tax on jade can create a positive wedge between international price and domestic price. Theoretically this means Myanmar government revenue generated from tax will be greater than loss in revenue of miners which is "terms of trade gains" that can be distributed locally.

together with the Ministry of Natural Resources and Environmental Conservation to advocate improved transparency in terms of the identity of the key players, license allocation mechanisms and concession terms. In particular, it could consider ensuring that EITI principles are fully applied to the jade mining sector.

There is currently very little knowledge of the rate at which Myanmar is depleting its natural-resource wealth. Exhaustion of natural resources, including subsoil wealth and environmental resources, contributes to making economic growth non-inclusive by depriving future generations of the benefits of a country's natural capital. The government could consider commissioning a natural wealth study, based on a proven methodology, such as a study undertaken for Mauritania, which gives estimates of net national savings adjusted for the depletion of the natural capital stock (action B2).² Such a study would be a first step towards a broader assessment of the environmental and social impact of mining in affected areas.

2 <http://documents.worldbank.org/curated/en/2014/05/19553476/mauritania-counting-natural-wealth-sustainable-future>

It will be important to ensure that the roll-out of selected trade-related and infrastructure projects in ceasefire areas is carefully sequenced to align with the ongoing peace process (action B3). This would help to prevent the trade-development strategy in conflict areas from moving ahead of the peace process. Trade-related infrastructure could be deployed only after the parties had agreed on the protocol for military and ethnic armed group (EAG) activity in ceasefire areas, in accordance with the NCA or bilateral ceasefires. In contrast, development plans would have to avoid a number of traps that could re-ignite hostilities and undermine trust. The government could consider postponing trade-related activities and infrastructure development in areas close to existing conflicts, including the corridors from Lashio-Muse, Lashio-Chin Shwe Haw and throughout Kachin State. Risks associated with current conflicts in these and other areas could include increased grievances; project stoppages and trade patterns shifting quickly and dramatically. Work on other trade corridors in NCA areas would need good consultation with EAGs and communities to eliminate the conflict issues that have already affected, for example, the Kachin corridor.

Over the longer term, more labor-intensive economic activities could be promoted in conflict-affected areas. These might include, in particular, horticulture, tourism, manufacturing, and certain agro-industrial production. For this, development plans could be designed to improve the functioning of all markets, including the labor market, through investment in training and vocational education as part of a broader, longer-term plan to improve labor-force employability. The need for investment in basic education and improvements in the education sector's performance is universal in Myanmar and benefit from swift action (action B4). This need is even more acute in conflict and remote areas.

Similar concerns apply to the distribution of benefits from development partner-funded trade-related interventions. Ethnic representation and

knowledge of the local context are extremely important for the successful implementation of such projects. Anecdotal evidence suggests that development partners are sometimes limited from working in some areas by government or EAG restrictions. Such restrictions imply that projects may not reach the most remote and impoverished areas, which negatively impacts the distribution of benefits. How development partners implement projects in ceasefire areas, not just what they implement, can determine the success or failure of those projects and, even more importantly, the future trajectory of social and ethnic relations in the areas concerned.

Myanmar could avoid tying its industrialization strategy to social or environmental “dumping” (action B6). Wage compression to rock-bottom levels not only alienates the best buyers; it is also self-defeating economically, preventing the trickle-down of salary gains to the population at large. Industrial salaries set at fair levels (i.e., equal to the value of the marginal product of labor rather than the subsistence level) can have positive spillovers beyond the workers themselves, for example through remittances to farm households that are then better able to invest in productive assets and inputs. While minimum wages that are equal for men and women should not be set at levels that jeopardize competitiveness, they should ensure that the gains from trade trickle down and become “growth enablers”. In order to do this, Myanmar could share the experience of other countries and put in place an adequate social/labor regulation environment at the outset; experience from Cambodia's “Better Work” factories program could be useful in this regard. Similarly, market access for logging products will be enhanced by adherence to international standards (e.g., the Forest Stewardship Council (FSC) and the European Union Timber Regulation (EUTR)) in terms of legality and sustainability. The MoC could also include these issues in sectoral plans early on and adopt a broad, multidimensional approach to competitiveness rather than a narrow, price-based one that could end up serving special interests.





BUILDING CAPACITY IN QUALITY INFRASTRUCTURE

The need for a quality infrastructure in Myanmar is gradually rising.

In Myanmar today, most export-oriented production struggles to comply with important technical regulations and voluntary standards.

However, the quality requirements are largely informal and few producers demand the full array of services offered by a modern quality infrastructure.

Global reintegration will only reinforce this trend, but change will be slow. Therefore, commercial demand for quality infrastructure services will be specific. Likewise, the demand for quality services that is derived from the regulators needing to enforce regulations to protect consumer safety and health will be specific to particular health threats. Even in the best of cases, the supply will be slow to come forward, in particular the public supply of quality infrastructure services, because the capacity of the government within quality infrastructure is very limited and a rapid expansion of services cannot be realistically expected.

In order to compete successfully in export markets, Myanmar might consider adapting its quality infrastructure to meet the demands of buyers with their various levels of demands in terms of quality and SPS certification. This could be achieved with both a legislative/regulatory modernization effort and a capacity-building effort in ministries involved in setting and enforcing standards. However, it will be important for the process to be driven by the demand of the market and from regulators seeking to protect consumer health and safety. Furthermore, it will also be important for Myanmar to avoid rushing to build a quality infrastructure disproportionate to the enforcement capabilities. The regulatory framework will benefit from being carefully designed to avoid conflicts of interest and rent-seeking by the ministries involved.

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The key issue is how to balance the present and future demand for quality infrastructure services with current design and enforcement capabilities based on consultations and value-chain analyses (action C1). Current capacity-building plans and projects aim at closing Myanmar's standards and conformity assessment gap with the international best practice model, while tailoring it to the Myanmar context. The initiatives proposed in the National Export Strategy (NES) and others could be strengthened by making them less supply-driven and more tuned into demand. The key challenge is to ensure the availability of reliable and recognized services that are used by the private sector and the regulators, and thus sustainable in the longer term. It is important that NES and recently-designed development partner-funded capacity-building projects avoid estimating capacity-building needs by comparing Myanmar's current system with the international best practice model. But, the experiences of other LDCs in rapidly establishing a local variant of the international best practice model are not very encouraging. Few if any LDCs have a strong quality infrastructure and even fewer have a strong quality infrastructure of the kind that the NES and recent projects support most, namely a government-run quality infrastructure.

The crucial element for a demand-driven modernization of Myanmar's SPS/TBT environment is to rely on private-sector requests for reviews channeled through the NTMC (action C2). Once the NTMC has been established with competent analytical capabilities, the private sector is likely to use it to request reviews and promote useful reforms of the most problematic regulations. With technical assistance from development partners, the NTMC could work in collaboration with similar bodies set up in the sub-region to ensure the convergence of SPS/TBT environments.

Focusing on exports can help drive capacity-building and generate positive spillovers for the management of domestic safety and quality issues.

In seafood exports, for example, the implementation of stringent food safety management to comply with EU import demands could be used to increase awareness of food safety issues at home, such as the use of antibiotics in shrimp farming. In this example, satisfying the commercial demand for a quality infrastructure would help to satisfy the demand from regulators to manage domestic food-safety problems.

The transition strategy could start with quick wins, for example in rice. A recent World Bank Group study of the rice sector identified the colonial-era Beale rice classification system as a major constraint on Myanmar's competitiveness. This classification system could be abandoned (action C3). This report also found that improving the quality of Myanmar's rice is about much more than improving the quality infrastructure. Basic supply chain interventions are

needed, such as promoting better rice varieties and improving cultivation practices. More studies of value chains, including men and women's productive roles, along the lines of the World Bank Group rice study would help to

Investment in upgrading testing laboratories could be calibrated to the demand of business and regulators (action C4). The extensive laboratory investment program suggested by the NES can be viewed as a long-term strategy. Short term, focus could be on investments selected based on demand from business and regulators. It will be important not to crowd out potential private sector investment in conformity assessment. Both the knowledge of demand and the capacity of the major government quality institutions are weak. Thus, legal reforms and laboratory capacity-building could be accompanied by research into how best to develop a demand-oriented quality infrastructure and build capacity at the main institutions to act strategically and plan.

Finally, the authorities could implement the roadmap to establish a Myanmar accreditation body agreed between the Accreditation Division, UNIDO and PTB (action C5). There is currently no accreditation body, but the government has agreed to select the Singapore Accreditation Council as a partner in setting up a future Myanmar accreditation body.



A photograph of a traditional wooden boat on a body of water, with a large, intricate fishing net draped over its side. The water is a deep blue-green color. The boat is made of dark wood and has a curved hull. The net is made of a fine mesh and is supported by a wooden frame. The background is a clear blue sky.

ENCOURAGING GROWTH IN TRADE IN SERVICES

As part of the country's broad-ranging economic and regulatory reform process, Myanmar's general policies for trade in services are increasingly open and non-discriminatory to foreign participation. Nevertheless, lingering restrictions remain in the governance and administrative framework, as well as in laws and regulations. These barriers introduce high costs in the operation of services firms in Myanmar, limiting the benefits of market opening.

Myanmar could raise awareness and strengthen the institutional set-up for trade in services regulation and policy. Trade in services remains a new area for policymaking for Myanmar's institutions and policy formulation would benefit from a skilled coordinator and efficient procedures to share information and determine policy directions. While Myanmar, as a WTO and ASEAN member, is involved in various trade negotiations, including trade and investment in the services sector, the government does not have a specific department taking the leading in formulating a comprehensive policy on trade in services. Consequently, strategy on trade in services policy and negotiations are carried out in an ad-hoc manner, often trying to keep pace with more advanced regional partners and without bringing a strategic view to the negotiations.

A number of cross-cutting reforms would also be beneficial in the area of services-trade regulations. Small-scale services providers face regulatory obstacles that could be easily removed (action D2). Transparency in licensing procedures could be improved and streamlined. More importantly, significant gaps are observed between rules and administrative practice, while many rules are conflicting or unclear. The MoC, through a Task Force for Private Sector Reform, could spearhead dialogue to streamline regulations relevant to trade in services for review and reform recommendations.

A sectoral approach could be used to identify priorities and quick wins that are expected to bring major economy-wide gains. The objective of this approach is not to have sectoral silos but instead to coordinate policies and open up potential for the various trade subsectors to have a major impact on economic development (action D3). This DTIS identifies three such subsectors:

- **The telecommunications sector: strengthening regulatory capacity to ensure competition and quality telecom services.** Myanmar could consider capacity-building efforts in the telecommunications regulatory regime, which currently suffers from analytical weakness. Telecommunications regulations, in particular license-allocation rules, could be streamlined and published in both English and Burmese on the trade portal.
- **The tourism sector: coordination to manage destinations and improve the capacity of services providers.** Developing tourism in Myanmar would help to reduce poverty, as potential tourist destinations are often in rural areas where poverty is high. Coordinated efforts could help various ministries to improve the management of heritage sites and the provision of public services, such as infrastructure, access to information, etc. in tourist destinations. Myanmar can also strengthen the links between tourism and local economies by engaging in public-private initiatives to increase the capacity of local workers, hotels and restaurants.
- **The distribution sector: phasing out restrictions on import licensing for foreign firms and allowing them to engage in distribution services.** Allowing FDI in the distribution subsector would facilitate knowledge transfers and help to modernize Myanmar's antiquated logistics network. With fragmentation of the manufacturing process in different locations, allowing foreign distribution companies to become established in Myanmar in order to trade intermediate products would help to strengthen Myanmar's attractiveness as a destination for manufacturing investment in the region.



DEVELOPING
EFFICIENT
TRADE
CORRIDORS





Located on the ancient Silk Road, Myanmar holds a strategic position to facilitate trade, which is key to unlocking its economic potential. Myanmar shares land borders with China, India, Lao PDR and Thailand, together accounting for about US\$15 trillion, or one-fifth, of global GDP.

As poverty tends to be higher in isolated and remote areas, while industrial agglomeration occurs in cities, a coherent approach would help to link infrastructure development with local economic potential, particularly in mountainous and western coastal areas, and link these areas to industrial agglomerations and nearby international markets. Such an approach would benefit from a coordinated effort to reduce hard and soft bottlenecks in logistics infrastructure, which could generate huge competitive gains for local economic development.

Planned upgrades of the country's infrastructure offer opportunities for transformational change. Both inclusive development and the needs of international investors point towards the need to build infrastructure to international standards. Myanmar's highway network is around 36,000 km, of which only two-thirds are paved. Moreover, the overall design is inadequate for the needs of an efficient market-based economy. Port capacity in Yangon, a river port 32 km inland currently handling 80 percent of the country's trade, is likely to reach saturation soon. Cargo throughput has grown fourfold over the past decade and is slated to grow even faster going forward, suggesting the need to consider a new deep-sea port.

The Yangon-Mandalay road corridor is the country's main logistics backbone and could be prioritized for upgrading. According to traffic projections by JICA (2014), by 2017 heavy traffic along the AH1 will surpass the highway's capacity. This could be temporarily alleviated by allowing container trucks to use the National Expressway between Yangon and Mandalay with certain tariff rates, before the combined capacity itself will become insufficient by around 2028. Therefore, opening the National Expressway to container trucks seems inevitable (action E1). In order to control road damage from heavy vehicles, axle weights could be limited as a first step. Simultaneously, the highway would benefit from major upgrading, as it will deteriorate rapidly once heavy traffic is allowed; such upgrading would be closer to a total reconstruction, including ballast and widening. It will be important for this work to commence soon, as today's low traffic will be easier to divert onto the AH14 than the increased traffic in a few years' time.

The road link with the Yunnan province in China could be made more logistics friendly. Eighty-six percent of Myanmar's border trade is with China, and most of that trade uses the road link from Mandalay to Muse via Lashio. Traffic on this corridor will

continue to grow over the next few years, fueled by economic growth in the two countries, as well as Chinese government efforts to develop its hinterland. Facilitating private investment in inland logistics park and container depots will help consolidate cargo and improve logistics efficiency (action E2)

Freight rail and inland waterway transport could be developed to relieve pressure on roads for bulk transport (action E3). The rail network has 5,992 km of track, of which only 705 km are double-track. The tracks are one-meter gauge and not electrified. Myanmar Railway, a state-owned enterprise, is the only operator providing transport services for passengers and freight. Railway reform and investment may be one way of addressing highway congestion as the country industrializes. Inland waterways also suffer from a lack of basic infrastructure for proper loading-unloading of freight.

Facilitating local communities to engage in cross-border trade could be a powerful means of raising income and reducing poverty. Greater trade can bring convergence in prices and job opportunities, both important for the livelihoods of poor households in border areas. International evidence also suggests that

trade can promote peace by increasing the opportunity cost of communities engaging in conflict. To this end, Myanmar can review and simplify procedures for local communities to engage in cross-border trade with neighboring communities (action E4). Improving connectivity to border checkpoints (e.g., in Tamu) can be done rapidly. Inspection and testing facilities can also be improved to facilitate trade of more types of products.

Myanmar could leverage its current transport plan into an economic-corridor development strategy.

Myanmar has developed a National Transport Development Plan (with JICA support) and a Road Development Plan (with KOICA support). It will be important to ensure that these transport infrastructure development plans are well linked with local economic potential and connect this potential to the nearest growth poles. In this regard, a coherent, multi-stakeholder effort could help to remove bottlenecks to private investment in transport infrastructure, freight logistics services and productive capacity at the local level (e.g., in agribusiness, manufacturing and tourism). Developing an economic corridor plan and identifying an institutional framework for implementation could be prioritized (action E5).





FACILITATING TRADE THROUGH BETTER FINANCE & LOGISTICS

Improving port efficiency and cargo turnaround times are key for logistics efficiency in Myanmar and improvements can be made in a relatively short timeframe.

Around 80 percent of Myanmar’s trade is handled by river ports in Yangon and Thilawa situated 32 km in-land. Cargo throughput (measured in TEU) grew from 155,000 TEU in 2004/05 to more than 617,000 in 2013/14, a fourfold increase.

While extending the berthing area for vessels is one option, this may not be an optimal strategy given that berth productivity of Myanmar’s main port in Yangon is still relatively low due to constraints on vessels navigating the channel at night. Port congestion due to the stacking of containers and local traffic in Yangon city is contributing to a lack of reliability of logistics services. Developing a deep-sea port with smooth links to industrial zones and a transport network to hinterland and border areas is desirable. However, such a major investment will take time and the following options may be considered in the interim:

- **Upgrade/revamp night navigation on the Yangon River.** In order to allow vessels to call at ports at night and help to increase utilization of the available capacity at Yangon’s ports, night navigation on the Yangon River needs to be upgraded. This action should also be accompanied by reviewing the tariff structure, including the low and flat fee for storing containers in port, to allow higher cargo turnaround (action F1).
- **Facilitate the transport of containers from port to Yangon’s industrial areas using river barges (action F2).** Increased traffic congestion around Yangon will increase time and reduce reliability for cargo arrivals. Myanmar’s authorities (MPA, Customs and the Ministry of Transport and Communications) could consider facilitating the transport of containers from ports to industrial areas around Yangon by using river barges as an alternative. Thilawa Port has this option already but in order to make it cost effective handling will have to be minimized and customs procedures accommodative.

- **Facilitate discussion between Customs and the private sector in the Myanmar Business Forum on investment in private bonded warehouses (action F3).** Customs has recently issued regulations on bonded warehouses. It is important for the private sector to become familiar with the procedures and discuss any remaining issues with Customs that might prevent investment in, and operation of, private bonded warehouses.

The quality of logistics services could be improved by capacity-building in the supply chain, phasing out restrictions on foreign companies in domestic distribution services and facilitating the development of cargo insurance. Myanmar’s “competence and logistics quality” in the 2014 World Bank Group’s Logistics Performance Index (LPI) was ranked 150th out of 160 countries. As Myanmar’s economy grows, demand for quality logistics services from manufacturers and retailers will also grow. Interviews suggest that the supply of quality logistics services in Myanmar is still constrained by skills capacity, access to finance and technology. Addressing these issues will require coherent effort and time. Those in the industry, such as the Myanmar Association of Freight Forwarders (MAFF), working together with the Ministry of Transport and Communications can start by facilitating training programs in logistics/supply chains for workers seeking jobs in logistics services providers and supply chain management/procurement (action F4).

Establishment of a Trade Facilitation Committee is a key step for Myanmar in implementing the WTO Trade Facilitation Agreement (TFA). (action F5).

Myanmar can build on the momentum of customs modernization to push for further reforms in trade facilitation. Myanmar has started to operate an SEZ in Thilawa with a one-stop customs clearance process. It is also moving ahead with customs modernization and the Myanmar Automated Customs Clearance System (MACCS) is expected to be operational by late 2016. However, while this is an important start, it is inadequate to meet growing demand from Myanmar's private sector for efficient and reliable supply chains. Trade facilitation can be made more efficient by improving procedures.

No single agency can resolve the cross-cutting and inter-agency nature of problems in logistics and trade facilitation. Important stepping-stones would include the establishment of a coordinating mechanism, a Trade Facilitation Committee and the development of a clear action plan to improve current practices.

It will be important for Customs reform to proceed with a broad agenda to align cargo clearance procedures with international best practice. While the ongoing customs modernization is important, it will not be exhaustive in covering the wide-ranging needs and problems in logistics and trade facilitation in Myanmar. Logistics and trade facilitation are key to the efficiency and reliability of the supply chain. Therefore, a comprehensive reform agenda—going beyond customs automation—could be considered and implemented (action F6):

- **Embracing the use of IT more thoroughly.** Myanmar could leverage its engagement in regional and multilateral fora of economic integration to sustain reform momentum on trade facilitation. It can use ASEAN's commitment to implement a National Single Window (NSW) as impetus for further simplification of procedures for trade facilitation, including aligning business processes of separate border agencies, to allow traders to submit electronic forms to relevant border agencies and obtain rapid responses. Such changes in border agencies would allow them to provide one-day turnaround in approvals compared with the current 8 days.
- **Phasing in risk management to replace physical inspections.** At present, there is no effective risk management system that Customs can use to decide which containers or shipments to fully inspect. The decision process for Customs to decide whether containers of non-green channel importers should go to the red channel (for full inspection) or the yellow channel (for inspection by X-Ray machine), or the green channel (documents inspection only), is based on a "lucky draw".
- **Implementing a vigorous administration training effort.** The problems created by cumbersome procedures are compounded by a frequent lack of knowledge in the administration of which rules apply. In a transition period when many of those rules are evolving and new economic actors appear, vigorous training would help to ensure that the new rules are effectively understood and applied on the ground, while the old rules are phased out.

Having an enabling regulatory environment would help Customs and other trade-related departments to align their procedures with international standard. To date Myanmar has been amending the 1878 Sea Customs Act to accommodate modernization of customs and trade facilitation practices. Myanmar may want to consider reviewing existing Customs and other trade-related legislations and assist with writing a new National Customs Code (action F7).

Making it easier to issue certificates of origin. One of the key aspects for Myanmar's exporters in utilizing preferential tariffs in ASEAN is to use Form-D to establish "origins of the product" according the rules of origin (ROO). Currently, Myanmar is the ASEAN member that least utilizes Form-D, so it may be important to review current practices and encourage automation in the issuance of certificates of origin (action F8).

Finally, although sanctions have been largely lifted, access to trade finance remains a key issue for Myanmar's traders. Many players in Myanmar have little awareness of the potential benefits of trade-finance instruments, and a communication and training effort would help to raise awareness among business players and in the banking sector (action F9). Domestic banks have little capacity to process or provide trade finance instruments, such as receivable financing or letters of credit. They could be encouraged to make trade finance available through the adoption of an appropriate legal framework, technical assistance, and guarantee for risk and liquidity. Finally, capacity-building could be facilitated for more banks to open access to receivable financing for Myanmar's exporters.





ACTION MATRIX ON TRADE POLICY

REFORM AREA	ACTION CODE	CONSTRAINT TO BE ADDRESSED	INTERVENTION	TIME LINE	
Procedures	A1	Cumbersome procedures that add trade costs (e.g. advance income tax for export, restrictions for foreign companies to import)	Remove unnecessary practices through consultations with stakeholders	2016 – 2018	
Data	A2	Lack of foreign-trade statistics and other relevant data for policy making	Capacity-building on recording and classifying trade data on HS-system and consolidation of data for normal and border trade and in SEZs Conduct firm-level and labor surveys	On going	
Capacity-building	A3	Limited capacity in analyzing impact of trade policy changes on growth, prices, trade in services, trade agreements, and trade negotiations	Capacity building for government departments and think tank organizations on data and policy analysis, safeguard measures Review incentives, mandate and organizational structure of trade-relevant departments	2017– 2021	
Tariffs & safe-guard	A4	MFN tariff structure is too complex	Conduct tariff rationalization	2017– 2019	
NTMs	A5	Reform in trade licenses and certificates is underway but not completed	Assign NTM/Trade-facilitation committee (NTMC) to review selected NTMs have clear objectives around protecting safety, social norm, environment, and public health and procedures Streamline and simplify procedures in trade licenses and encouraging automation whenever possible	2016 – 2019	
	A6	Lack of updated information on NTMs including permits & Customs procedures in a single platform	Set up Trade Portal and amend legislation to require trade-related departments report NTMs + procedural information	2016 – 2019	

√ : High priority and high impact actions; HM: high impact actions that require longer time frame for implementation

	EXPECTED IMPACT	SOURCE OF INFORMATION FOR VERIFICATION	RESPONSIBLE AGENCIES	ONGOING/ PLANNED SUPPORT BY DEV' PARTNERS	PRIORITY AND HIGH IMPACT ACTIONS
	Cutting red tapes	Legislation	MoC	WBG	✓
	Reliable trade data regularly published in UN Comtrade for informed trade-policy making	UN Comtrade, MOC, Central Statistical Organization (CSO)	CSO, MoC, Customs, Min. of Transport & Comm (MoTC)	TDP	✓
	Better analytical input for decision-making, better coordination, better ability to use safeguards as temporary protection	Workshops, trade data analysis in policy documents	MoC, CSO, Ministry of Planning & Finance (MoPF)	TDP, WBG, ESCAP	HM
	Streamlined tariff structure	Tariff schedule, WTO notifications	Customs, MoC, MoPF	TDP, WBG	✓
	Improved trade facilitation while meeting objectives of NTMs	MOC, % of tariff subject to licenses	MoC, FDA MoC, MoPF	WBG	
	Improved predictability and transparency in procedure for Customs clearance	Trade portal accessible online, exhaustive NTM inventory	MoC, NTMC	USAID	✓

ACTION MATRIX ON TRADE POLICY (CONTINUED)

REFORM AREA	ACTION CODE	CONSTRAINT TO BE ADDRESSED	INTERVENTION	TIME LINE	
Private- sector develop.	A7	Improve certainty in rules for private investments	Pass a new investment law, company registration, consider having negative list to limit discretion of line departments to restrict investment via ad-hoc decision	Ongoing	
	A8	Limited capacity in modern business practices among SMEs with export potential	Introduce capacity building program with rigorous impact-evaluation structure in place Build on NES plan to elaborate a broad-based industrial policy in light-manufacturing, starting with garment, agribusiness and tourism	2018 – 2021	

	EXPECTED IMPACT	SOURCE OF INFORMATION FOR VERIFICATION	RESPONSIBLE AGENCIES	ONGOING/ PLANNED SUPPORT BY DEV' PARTNERS	PRIORITY AND HIGH IMPACT ACTIONS
	Certainty and clarity for private sector investment	Legislation	DICA	WBG, ADB	√
	Best-practices are identified and made available to firms willing to engage in international trade Proper sequencing of key competitiveness-enhancing measures	Program evaluation report MOC, Ministry of Industry (MOI)	Private operators, business associations, MoC and Ministry of Industry (MOI) MOC, MOI	WBG UNIDO, WBG, ITC	HM

INCLUSIVENESS

REFORM AREA	ACTION CODE	CONSTRAINT TO BE ADDRESSED	INTERVENTION	TIME LINE	
Strengthening of the peace process through trade-led development	B1	Limited benefits from mining-based trade for local communities, limited transparency in trade-related mining activities	Review/streamline jade taxation regime to benefit local communities and encourage local processing, e.g. through a small export tax on raw gems	2017 – 2020	
			Through EITI improve transparency on mining operators' identity and terms of their licenses		
	B2	Limited information on rate of natural-resource depletion & environmental degradation	Commission a report on Myanmar's natural wealth: carry out environmental audit of jade mining	2017 – 2020	
Inclusive development	B3	Risk of heightened tensions if trade-related projects (infrastructure, extractive) deployed too quickly	Coordinate overall sequencing of trade-related investments in conflict areas with progress of peace process	2016 – 2021	
	B4	Underdeveloped labor-force skills & employability	Vocational training and basic education programs, in particular for women & vulnerable groups	On going	

√ : High priority and high impact actions; HM: high impact actions that require longer time frame for implementation

	EXPECTED IMPACT	SOURCE OF INFORMATION FOR VERIFICATION	RESPONSIBLE AGENCIES	ONGOING/ PLANNED SUPPORT BY DEV' PARTNERS	PRIORITY AND HIGH IMPACT ACTIONS
	Development of local jade processing, leading to the development of jewelry manufacturing	NGOs EITI	MoC, MoPF, Ministry of Natural Resources and Environmental Conservation (MNREC)		√
	Improved transparency		EITI Secretariat, MNREC		
	Improved sustainability of extractive activities	MNREC	MNREC		HM
	Better buy-in of development projects by LEGs	NGOs	Regional Governments, MoHA		HM
	Employment gains in particular for vulnerable groups	Labor-force survey	Ministry of Labor, Immigration and Population	ILO, GIZ	HM

QUALITY INFRASTRUCTURE

REFORM AREA	ACTION CODE	CONSTRAINT TO BE ADDRESSED	INTERVENTION	TIME LINE	
Private-public dialogue	C1	Capacity and awareness of demand for quality infrastructures is low	Assess demand for standards and quality infrastructure through value chain studies and targeted capacity building program for government quality infrastructure and other methodologies. Initiatives can be built by refining existing studies to ensure that they are tuned into demand. Increase awareness of and capacity of applying good practice on technical regulation and quality infrastructure	2017 – 2021	
Regulatory framework	C2	Underdeveloped SPS/TBT regulations for technical regulation and quality infrastructure	Review and issue legislations	On going	
	C3	Export quality for rice is based on a system that is not internationally recognized	TA to abandon the Beale rice classification system and replace it with a system allowing rice to be sold for export by variety	2017 – 2018	
Institution building	C4	Limited capacity in laboratory testing (conformity assessment)	Support to selected public and accredited private laboratories	On going	
	C5	Underdeveloped accreditation Body	Implement the roadmap to establish the Myanmar accreditation body agreed between the Accreditation Division, UNIDO and PTBA	On going	

√ : High priority and high impact actions; HM: high impact actions that require longer time frame for implementation

	EXPECTED IMPACT	SOURCE OF INFORMATION FOR VERIFICATION	RESPONSIBLE AGENCIES	ONGOING/ PLANNED SUPPORT BY DEV' PARTNERS	PRIORITY AND HIGH IMPACT ACTIONS
	Increased strategic capacity in public quality and infrastructure.	Policy note, workshops	DNSQ	TDP, ADB	HM
	More knowledge on modern legal framework for quality infrastructure	Proposed laws and regulations including framework for technical regulation	Department of National Standard and Quality (DNSQ)	USAID, WBG, TDP	√
	Improvement in buyers' confidence of quality system of Myanmar rice	Policy change, workshop	Ministry of Agriculture ,Livestock and Irrigation (MALI)		√
	Better access to authorized laboratory testing facilities	# of upgraded laboratories	MALI, MoC, DNSQ, FDA,	TDP	HM
	Increased capacity to undertake accreditation	Roadmap completed	DNSQ	UNIDO	HM

TRADE IN SERVICES

REFORM AREA	ACTION CODE	CONSTRAINT TO BE ADDRESSED	INTERVENTION	TIME LINE	
Institutional & policy-formulation capabilities	D1	Lack of coordination across departments handling services trade	Re-design instit. framework for coordination and oversight in service trade to one department and align mandates of other sectoral departments	2017 – 2019	
Cross-cutting regulatory reforms	D2	Limited information in gaps in regulation and practices, regulatory obstacles faced by small service providers licensed at MIC and DICA	Request regulatory reviews and reform regulations based on recommendations	2017 – 2019	
			Establish services portal	2018 – 2021	
Sectoral interventions	D3	Underdeveloped institutional capabilities of regulatory agency in telecom	Training & capacity-building	2017 – 2020	
		Lack of coordination across multiple departments and cumbersome licensing process for hotel investments	Review license process for hotels and establish coordination on policies and infrastructures in certain destinations	2017 – 2018	
		Limitation for foreign firms to directly import and distribute products	Gradually phase out restrictions	2017 – 2020	

√ : High priority and high impact actions; HM: high impact actions that require longer time frame for implementation

	EXPECTED IMPACT	SOURCE OF INFORMATION FOR VERIFICATION	RESPONSIBLE AGENCIES	ONGOING/ PLANNED SUPPORT BY DEV' PARTNERS	PRIORITY AND HIGH IMPACT ACTIONS
	Enhanced services policy formulation	MoC and departments conducting trade in services negotiations.	MoC, MoPF, CBM, MoTC, Ministry of Hotels and Tourism, Ministry of Labor, Immigration and Population (MLIP)	WBG	√
	Expansion of small-service provider activity	Publication of new texts on services portal	DICA		HM
	Better transparency and certainty of rules	Services portal	DICA, MoC		HM
	Better oversight	Workshops	MoTC		√
	Sustainable tourism	Legislations	Ministry of Hotel and Tourism	WBG, JICA	
	Improved access to imported intermediates, enhanced competitiveness	Legislations	MoC		

CORRIDORS

REFORM AREA	ACTION CODE	CONSTRAINT TO BE ADDRESSED	INTERVENTION	TIME LINE	
Hard infra-structure	E1	Trucks carrying containers are not permitted to use the National Expressway	Improve Yangon-Mandalay Expressway to allow containerized trucks to pass with certain tariff	2017 – 2021	
	E2	Limited access to inland logistics infrastructure	Conduct feasibility study with PPP options for investment in logistics park and inland container depot	2018 – 2020	
	E3	Railway and inland waterways can be alternatives to road transport which is increasingly congested	Conduct feasibility studies and implement infrastructure development	2018 – 2020	
	E4	Underdeveloped infrastructure in border check points, constraints for border trade	Review practices in in-land border trade, and invest in infrastructures at border check points	2017 – 2018	
Soft infra-structure	E5	Lagging regions can be better linked with markets	Develop and implement corridors development strategy	2017 – 2021	

√ : High priority and high impact actions; HM: high impact actions that require longer time frame for implementation

	EXPECTED IMPACT	SOURCE OF INFORMATION FOR VERIFICATION	RESPONSIBLE AGENCIES	ONGOING/ PLANNED SUPPORT BY DEV' PARTNERS	PRIORITY AND HIGH IMPACT ACTIONS
	Faster shipments of containerized trucks	Corridor Assessment Study	MoC, MoTC	JICA	√
	Greater cargo/container movement	Traffic data	MoTC, Customs, Regional Governments		HM
	Reduced congestion on highways, reduced inland transport costs	Strategic investment plan developed and discussed	MoTC, Customs	JICA	HM
	Decreased clearance time, greater volume for inland border trade	Trade data	MoC, MoTC	ADB	√
	Wage and employment growth, generation of local purchasing power	Household survey	MoC, MoTC, MoPF, Regional Governments	WBG	HM

TRADE FACILITATION AND LOGISTICS

REFORM AREA	ACTION CODE	CONSTRAINT TO BE ADDRESSED	INTERVENTION	TIME LINE	
Logistics	F1	Low berth utilization at port and congestion between port and inland	Upgrade night navigation in Yangon river to allow ship to call ports past midnight and review tariff structure to increase container turn-around	2017 – 2019	
	F2	Road congestions in transporting goods inland	Facilitate transport of containers from port to Yangon industrial areas through river barges	2017 – 2019	
	F3	High demand for private logistics park and bonded warehouses outside port	Adapt enabling regulation to facilitate private investment and improve capacity to supervise	2017 – 2018	
	F4	Underdeveloped capacity in delivering quality logistics services	Capacity building TA and review constraints for development of quality logistics services	2017 – 2021	
Border procedures/ NTM	F5	Irregular coordination across trade related departments form reforms in cargo clearance and trade logistics	Establish National Trade Facilitation Committee with a Secretariat and mandate to coordinate reforms in WTO-TFA and cargo clearance procedures	2016 – 2018	
	F6	Cumbersome processes for customs clearance and inspections	Streamlining/harmonization, use of IT, implementation of WTO Customs Valuation Agreement, risk management	2016 – 2018	
Border procedures/ NTM	F7	Existing Customs and other trade department legislations are old and requires constant amendments to address new technologies and processes.	Reviewing existing Customs and other trade department legislation and assisting in writing a new National Customs Code.	2017 – 2019	
	F8	Low utilization of ASEAN's Form D and manual processing for Certificates of Origins	Capacity building on ASEAN ROO and review process and propose automation and on-line application of such process	2017 – 2019	
Trade finance	F9	Limited capacity of financial sector to deliver trade finance instruments	Training for traders and bank staff	2017 – 2019	
			Review of legislations and practices for banks to provide trade finance instruments at market prices		

	EXPECTED IMPACT	SOURCE OF INFORMATION FOR VERIFICATION	RESPONSIBLE AGENCIES	ONGOING/ PLANNED SUPPORT BY DEV' PARTNERS	PRIORITY AND HIGH IMPACT ACTIONS
	Greater capacity to handle increase in freight and more efficiency in logistics	# container throughputs	MPA	WBG	√
	More efficiency in logistics	# of containers transported	MPA, MoTC, Customs		√
	Cargo consolidation outside ports, Improved competitiveness for export-processing activities	# of private bonded warehouses with on-site inspections	Customs, MBF	WBG, ADB, ESCAP	√
	Improved services & competition	LPI	MoTC, Associations	WBG, ADB	HM
	Smoother process in implementing regulations	Guidelines and legislation	MoC, MoPF, Customs	WBG, TDP	√
	Lower congestion at port, lower transaction costs, improved lead time	LPI, Doing Business	Customs and other border departments	JICA, TDP,WBG, ADB	√
	Improved efficiency in border management	Existing Legislation Review	Customs, MoPF	WBG	HM
	Increased use of forms such as Certificate of Origin	Trade data	MoC, Quarantine, FDA	WBG	HM
	Expanding use of TF instruments	Number of workshops and trainings	Central Bank of Myanmar (CBM)		
	Commercial banks make trade finance services available to their clients	Number of L/C processed, receivable financing offered by domestic banks	CBM		HM

OPENNESSES MYANMAR'S STRUCTURAL TRANSFORMATION

Myanmar's decision to reintegrate with the global economy is a major policy choice that transforms its development trajectory. In particular, openness to trade and investment is expected to accelerate industrialization and diversify the economy through private sector-led investment and productivity improvements. But the process also carries risks, such as losing out to regional competitors, stoking resistance to reform and increasing social tensions. Therefore, key infrastructure and structural reforms will be required to address the high transaction costs of trade, increase competitiveness and inclusiveness in the private sector, and strengthen institutional capacity to implement better trade-related regulations.





1.1 Can Myanmar achieve its targeted growth?

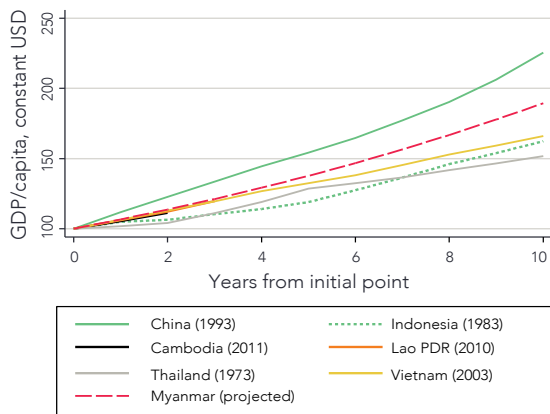
International experience

Myanmar has set itself an ambitious growth target that is as high as any achieved by any other developing countries to date, with the sole exception of China. In order to achieve it, the economy will have to undergo an extremely rapid structural transformation. New opportunities do exist that were not available to other countries at a similar stage of growth, but it will be important to shed Myanmar's unfavorable political legacy very rapidly.

1.1.1 What are the precedents?

Myanmar's objective of sustained 7.7 percent annual growth (implying a doubling of GDP by 2023) is very ambitious and will require particular conditions in order to succeed and, most importantly, to be sustainable.

Figure 1.1 How Myanmar's target growth compares with historical precedents



At 7.7 percent per year (6.9 percent on a population-adjusted basis), the growth rate envisaged in the Government of Myanmar's growth strategy for the next five years is a very ambitious target; making it sustainable will be an even greater challenge. Although growth accelerations are relatively common among developing countries, historically only 19 of these spurts were characterized

by growth above 7 percent.¹ Thus, sustaining GDP growth at 7.7 percent per year (6.9 percent on a population-adjusted basis), Myanmar is aiming for an exceptional performance by historical standards.

Myanmar's projection is not out of line with the historical experience of its regional peers, but is nevertheless above all of them except China, which underwent massive reforms during its own take-off period. In order to put Myanmar's challenge into perspective, its current level of income, in constant US dollars, is comparable to that of Thailand in 1973, Indonesia in 1983, China in 1993, Vietnam in 2001, and Cambodia in 2011. Each of these countries subsequently underwent rapid growth, as illustrated in comparison with the current projection for Myanmar in Figure 1.1.

Putting aside the particular case of China, recent growth accelerations have tended to be, on average, faster than older ones. On average, in the group of Myanmar's comparators in Figure 1.2, every passing decade is associated with a 0.36 percent growth "bonus" during the take-off phase. Adjusting for this trend, 6.9 percent per capita growth during take-off (7.7 percent growth without population adjustment) today is roughly in line with Thailand's 4.4 percent per capita growth in the 10 years starting its 1973 take-off (Figure 1.2).

Growth accelerations can help to put countries on a permanently higher growth trajectory only if they are accompanied by sound policies. Growth

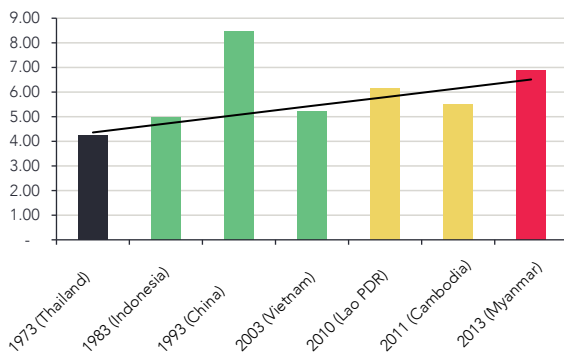
¹ Hausmann, Pritchett and Rodrik (2005) identified 83 of them, albeit with a much less demanding criterion (3.5 percent per year on average over eight years), between 1957 and 1992.

accelerations do not necessarily put countries on a permanently higher growth trajectory. Hausmann et al. (2005) found that, globally, only half of the growth accelerations studied were followed by higher-than-average growth; and only six were characterized by a permanent shift to a high-growth trajectory. Among the key determinants of the persistence of high growth, their analysis highlighted a competitive exchange rate (a substantial depreciation of the home currency relative to a basket of trade partners), and a major and sustained reform drive. These two policy ingredients have certainly been key factors in the performance of most high-growth Asian economies and could be key elements of Myanmar's development strategy.

1.1.2 Structural transformation: What are the drivers?

Experience suggests that the primary growth driver across the world has always been, and still is, manufacturing, but will be important for other growth engines to be ignited in services and agricultural modernization too.

Figure 1.2: Average growth as a function of initial year

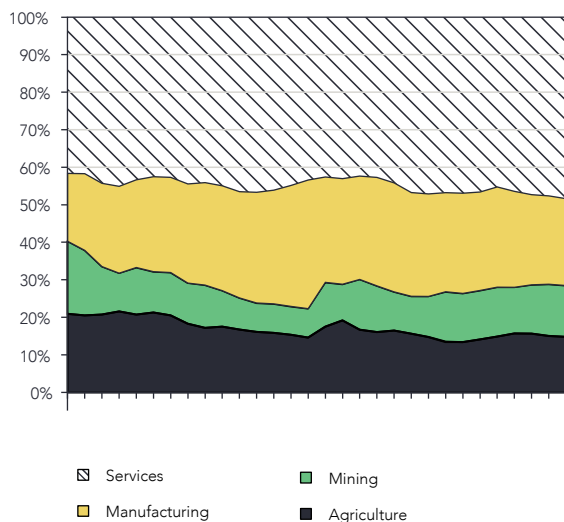


Source: World Bank Group team calculations based on WDI.

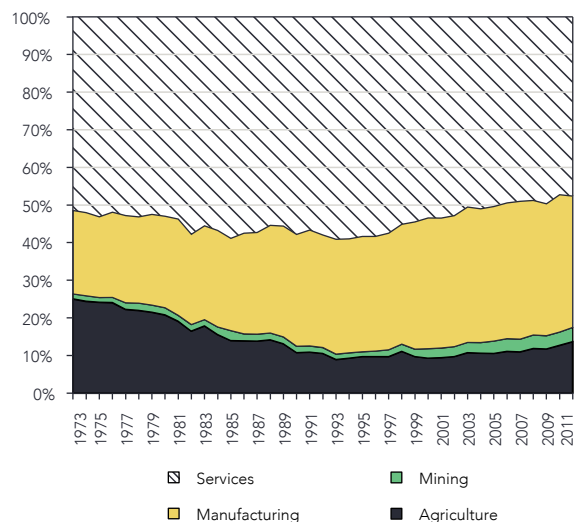
Growth results from three factors. These three factors are: (i) investment within each sector of activity (accumulation); (ii) improved efficiency leading to total factor productivity growth (TFPG), also within each sector; and (iii) the shift of resources from low-productivity agriculture to industry, then services (structural transformation). All three factors are directly affected by openness to capital movements, goods and services. Openness to foreign capital is key to accumulation, especially in a context of limited savings capabilities; openness to imported inputs is key to improved efficiency; and openness to trade in general is a major driver of structural transformation.

Figure 1.3: Structural transformation in Indonesia and Thailand

(a) Indonesia post-1983



(b) Thailand post-1973



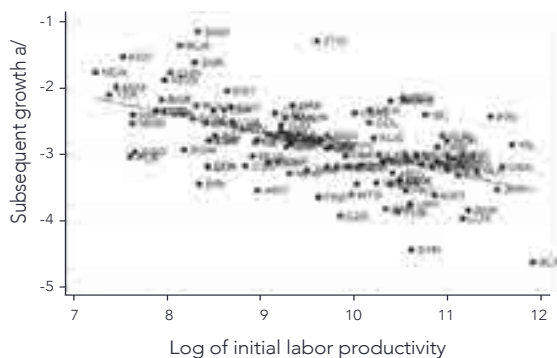
Source: World Bank Group team calculations using GGDC data.



*Manufacturing
activities
have a greater
impact on
poverty.*

There are two reasons why manufacturing has a key role to play in Myanmar's take-off. Growth of manufacturing's share of GDP is a key measure of structural transformation. This is illustrated for Indonesia and Thailand during their respective take-off periods in Figure 1.3. Evidence also suggests that manufacturing productivity growth is the engine of "convergence", i.e., the catching-up of high-income countries by low-income ones (Figure 1.4).

Figure 1.4: Manufacturing is an engine of convergence



Source: Rodrik (2013)

Manufacturing activities have a greater impact on poverty. Recent research shows that the poverty-reduction effect of growth is higher for manufacturing activities than for any other activities, in particular extractive ones. This is because manufacturing activities in low-income countries tend to be labor-intensive, generating substantial employment and wage income. For instance, in Cambodia, manufacturing wage-earners, often female, send remittances to rural households (their families), raising consumption and potentially enabling them to invest in productive assets (animals, ploughs, fertilizers, etc.), thereby indirectly affecting agricultural productivity growth. The trickle-down effect of manufacturing employment in Cambodia has been magnified by agreements with companies to provide quality jobs and remuneration under the ILO's "better-factories" program.

1.2 How strong is Myanmar's starting point?

1.2.1 Macroeconomic policy has shifted after reopening up to global trade...

Macroeconomic policies prior to 2011 were highly distortionary and impacted very negatively on external competitiveness. Key among these was the prevailing foreign exchange regime. The official exchange rate was pegged at K 8.5 to Special Drawing Rights (SDR) through to March 2012. At this rate, the kyat traded at a highly over-valued rate of K 6 per US\$1. This fueled a dual exchange rate system, whereby in the parallel market the kyat traded at anywhere between K 800 and K 1,100 per US\$1. These policies not only hampered external competitiveness but also led to the misallocation of resources. State economic enterprises (SEE) used the official rate to import inputs at a steep discount, assemble them, and market the resulting goods at controlled prices that the private sector could not compete with.

External competitiveness was further hampered by monetary financing of the government's budget deficit, which led to very high rates of inflation. These inflationary pressures were compounded by a 500 percent fuel price increase in August 2007, the Saffron Revolution in September/October 2007, and Cyclone Nargis in May 2008. During these periods, Myanmar experienced far higher inflation rates than its main trading partners, including Japan, Singapore and Thailand (Figure 1.5). This, together with the maintenance of a highly over-valued exchange rate, led to a very sharp appreciation in Myanmar's real effective exchange rate (REER) (Figure 1.6). While Myanmar's resources boom did contribute to this appreciation, foreign exchange rate controls and import controls further aggravated it (Kubo, 2013).

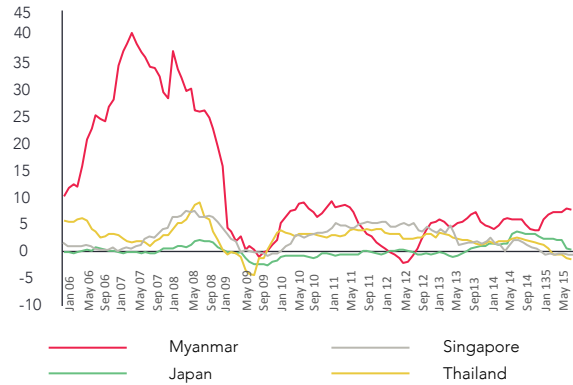
Global integration through foreign trade and investment has prompted important reforms to macroeconomic management in Myanmar since 2011. Key among these was unification of the over-valued official exchange rate under a managed float

RECENT POLICY CHANGES IN FOREIGN EXCHANGE MANAGEMENT

- April 2012: The CBM changed the foreign exchange regime to a managed floating regime, in which the official rate (the CBM reference rate) was determined by authorized deals in daily, two-way, foreign exchange auctions at the CBM.
- May 2012: Some exchange restrictions were lifted, such as the “export first” requirement to use export earnings to fund imports. This was done in conjunction with the removal of restrictions on forex account transfers between individuals, which had the effect of unifying the non-cash account transfer market with the market-determined Thein Phyu cash market. Private commercial banks were issued licenses to engage in international transactions and open foreign currency accounts. As a result of these measures, the reference and informal markets rates have converged and now move broadly together.
- August 2012: A new Foreign Exchange Management Law removed almost all current account exchange rate restrictions. Among other things, the law lifted all restrictions on current payments and transfers abroad. This included all services transactions being permitted through the SWIFT system, and general restrictions on the holding and use of foreign exchange.
- July 2013: The newly enacted Central Bank of Myanmar Law provides for CBM autonomy and empowers it to set and implement monetary policy, and makes it the supervisory body responsible for the monetary market and foreign exchange market. This makes it possible for the first time to use a coordinated approach to foreign exchange management, including through the use of official foreign exchange reserves.
- August 2013: The Yangon Interbank Foreign Exchange Market was established to help deepen the formal exchange rate market.
- October 2014: The CBM issued nine foreign banks licenses to operate in Myanmar. Retail banking for foreign banks is still not yet permitted but these foreign banks can nonetheless provide banking services for foreign corporates and local banks.

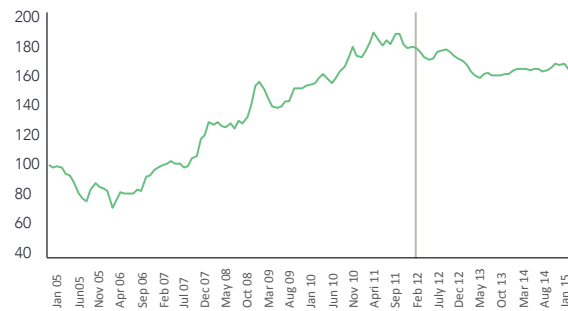
Sources: Central Bank of Myanmar, IMF, and World Bank Group.

Figure 1.5: Inflation rates (% YoY)



Source: IFS, World Bank Group estimates.

Figure 1.6: Real effective exchange rate



Source: World Bank Group estimates.

(Box 1.1). On April 1, 2012, the government devalued the official exchange rate and implemented a system of daily sealed bids from domestic banks to the Central Bank of Myanmar (CBM) for specific quantities of foreign currency. This reference rate is used to set the Thein Phyu (TP) midrate in the retail market, in the wholesale/interbank market for authorized dealers and for foreign exchange transactions with the government. The TP midrate generally remains within 0.8% of the reference rate but occasionally may differ by more than 2% from the other rates (Annual Report on Exchange Arrangements and Exchange Restrictions, 2015). For all practical purposes, this eliminated the gap between the official and market exchange rates. In August 2012, a new Foreign Exchange Management Law removed most exchange rate restrictions and multi-currency practices.²

² Under the IMF Article VIII, Myanmar is formally designated as maintaining a multiple currency practice because the multiple price foreign currency auction allows exchange rates of accepted bids that deviate by more than 2 percent.

This largely completed the merger of the two exchange rate systems into one single, market-determined, managed float. The exchange rate reforms had a positive impact on government receipts, which have helped to reduce monetary financing of the fiscal deficit. In particular, the devaluation of the currency led to a big step increase in the kyat-denominated receipts from gas exports. There were other factors also. For example, the liberalization of the telecommunications market and the entry of two new operators led to one-off license fee payments, and tax administration reforms have led to an increase in the tax base.

The government is also working on diversifying its sources of deficit financing. This includes, first, rebalancing the financing mix away from short-term Treasury bill subscriptions by the CBM towards medium-term Treasury bond sales to institutional investors. Second, starting in January 2015, the government conducted its first Treasury bill auction, and is expected to conduct Treasury bond auctions in 2016/17 Fiscal Year. Third, the government is gradually accessing more external debt on concessional terms. CBM financing is estimated to have declined from 3.5 percent of GDP in 2010/11 to 1.8 percent of GDP in 2011/12 because of some of these measures. Although this is expected to gradually reduce monetization, eliminating it completely is likely to take some time.

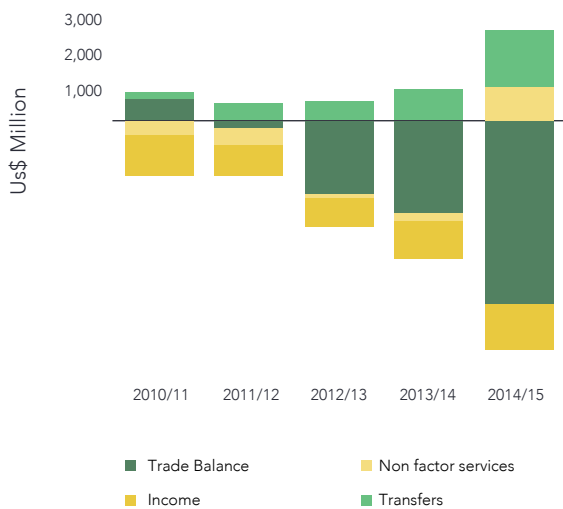
1.2.2 ...but with remaining challenges and renewed external risks

Recent external developments have put pressure on Myanmar's exchange rate reforms. Myanmar's current account deficit in 2014/15 widened on the back of rapidly growing FDI-related capital imports. The current account deficit is estimated to have increased from 5.6 percent of GDP in 2013/14 to 6.1 percent of GDP in 2014/15, driven by a growing trade deficit, which is estimated to have increased from 4.6 percent of GDP in 2013/14 to 8.2 percent in 2014/15 (Figure 1.7). The services account is estimated to have posted a small surplus in 2014/15 thanks to fees and royalties from the telecommunications and gas sectors, respectively; a 35 percent increase in foreign visitor arrivals linked to both tourism and business; and an associated jump in domestic air travel by non-residents.

The general strengthening of the US dollar since mid-2014 has put downward pressure on the kyat-US dollar exchange rate (Figure 1.9). The US dollar has appreciated significantly against most currencies (Figure 1.10). The general rise in the US dollar is attributable to the approaching normalization of US monetary policy, including an increase in interest rates (the first such increase came in December 2015), which are weighing on capital inflows to emerging markets in Asia. This is in contrast to continued easing in major economies such as the Euro area and Japan, as well as structural trends, including reduced US oil imports.

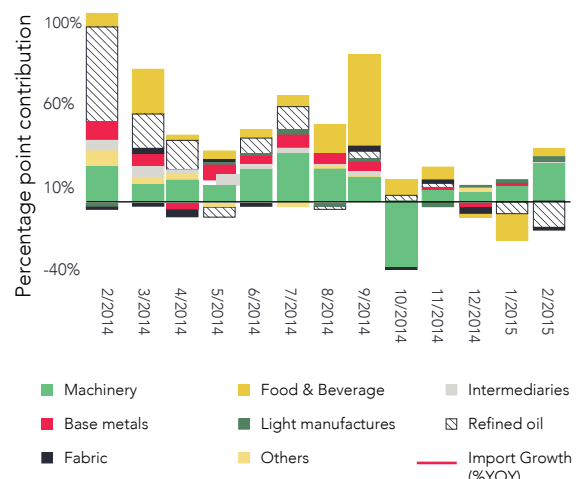
In Myanmar, the situation has been compounded by a growing current account deficit and slowing foreign investment inflows in recent months. The excess demand for foreign exchange in the auctions in November 2014 and CBM's attempts in slowing the depreciation led to a widening of the gap between the

Figure 1.7: Balance of payments (US\$ million)



Source: IMF.

Figure 1.8: Contribution to import growth (% YoY)



Source: GoM, World Bank Group estimates

reference and parallel exchange rates. Importers were willing to pay 1 to 1.5 percent above the reference rate, which was adjusting only gradually to growing demand. Although the gap narrowed in January and February 2015, it picked up again, reaching 4 percent in March 2015. This led the CBM to make an important adjustment to the reference rate from K 1,030/US\$ in February to K 1,080/US\$ by the end of April, K 1,090/US\$ by the end of May and closer to K 1,120/US\$ by the end of June. The kyat therefore depreciated by nearly 12 percent in nominal terms against the US dollar between June 2014 and June 2015.

Despite the depreciation of the kyat and other Asian currencies against the US dollar, external competitiveness was hampered by appreciating real effective exchange rates (REER) (Figure 1.11). The REER is an index of the domestic currency with currencies of all trading partners, adjusted for trade weights and relative inflation. When considering the REER, Malaysia's ringgit depreciated by only 1.4 percent in the year to May (compared with 16 percent nominal depreciation against the US dollar in the year to June), while Indonesia's rupiah actually appreciated in real terms against its trading partners over this period by 2.3 percent (compared with a 12 percent nominal depreciation against the US dollar in the year to June). In such cases, maintaining a fixed exchange rate against the US dollar would have impeded international competitiveness even further.

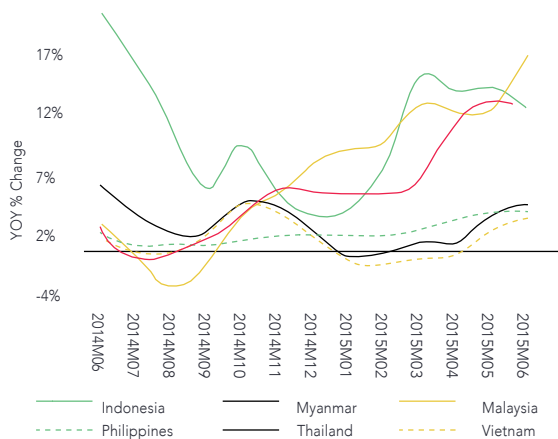
Myanmar also experienced some REER appreciation between November 2014 and March 2015 (Figure 1.11). Over this period, the kyat appreciated in nominal

terms against the currencies of its major trading partners, including Japan, Malaysia, the Rep. of Korea, Indonesia and Singapore. It was also around this time that relative prices between Myanmar and its trading partners began to diverge (Figure 1.12). Between March and May 2015, the REER for Myanmar depreciated slightly, which as noted above is around the time when the CBM adjusted the kyat-US dollar reference rate. Similar to the examples of Indonesia and Malaysia above, this adjustment was important in maintaining Myanmar's external competitiveness.

1.2.3 Allowing flexibility of the exchange rate is important

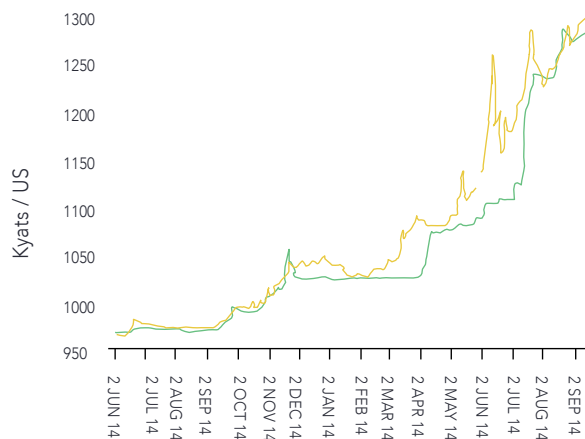
Monetary authorities in the region have generally maintained exchange rate flexibility against the US dollar's appreciating trend since 2014. Official gross reserves of the ASEAN-5 were 4.9 percent lower in May 2015 than at the start of the US dollar's appreciation trend in June 2014. This decline is comparatively modest, demonstrating that Asian central banks have tended to avoid selling reserves to prop up their currencies against the US dollar, preferring instead to preserve (and where possible reinforce) reserve buffers (Figure 1.12). Only Thailand and Malaysia seem to have significantly drawn down on their reserves. Maintaining this flexible stance has allowed the currencies of other commodity exporters in the region (such as Malaysia and Indonesia) to absorb some of the shock from lower global commodity prices and demand, notably including hydrocarbons, without which the drag on domestic

Figure 1.9: Nominal exchange rate (US\$ vs. local currency) (% change, YoY)



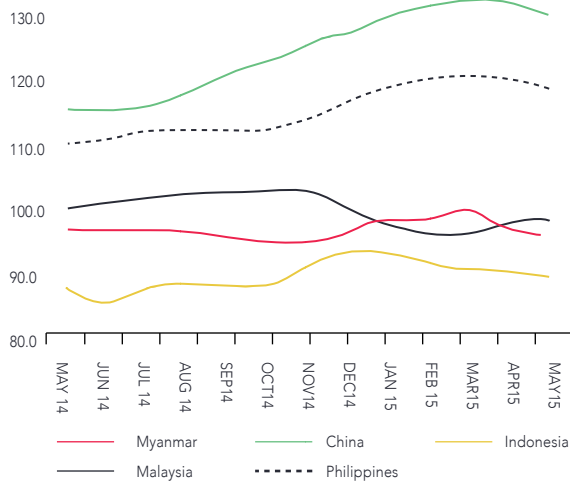
Source: CEIC, World Bank Group staff estimates.

Figure 1.10: Official and parallel exchange rates



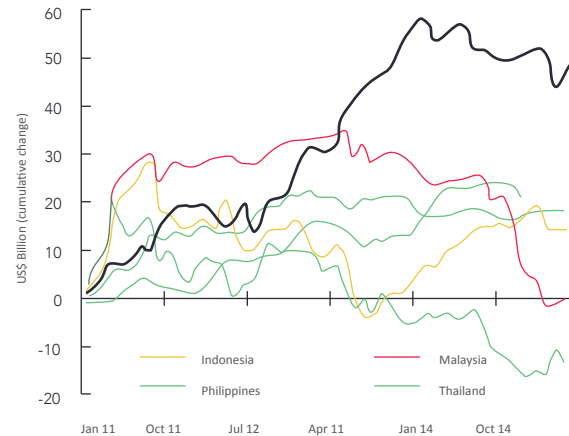
Source: CEIC, www.naungmoon.com, World Bank Group staff estimates.

Figure 1.11: Real effective exchange rates



Source: BIS, World Bank Group estimates.

Figure 1.12: Gross reserves (US\$ billion, cumulative change)



Source: BIS, World Bank Group estimates.

profits, household incomes, public revenues and, ultimately, economic growth would have been greater.

The CBM's recent stance to maintain greater flexibility in the kyat-US dollar exchange rate is a positive move. This helped to close the gap between the official reference rate and the parallel market in August and early September 2015 (Figure 1.11). The CBM's instruction in May to ensure that government transactions were carried out in kyat was a step in the right direction. However, administrative measures introduced in May to impose limits on US dollar withdrawals have sent worrying signals to the market. The parallel market responded by selling US dollars at a higher price (i.e., beyond the 0.8 percent limit) due to excess demand at the official rate. Speculation started as traders purchased US dollars at the official rate and sold at a higher price on the parallel market. Media reports indicated that households held on to US dollars as a store of wealth. There were also indications that banks and currency traders were not willing to release US dollars, presumably in the expectation that the kyat would depreciate further, which became a self-fulfilling prophecy.

20. Administrative measures to control foreign exchange transactions can be counterproductive as illustrated by examples from elsewhere. Experience from other countries suggests that administrative controls on foreign exchange can lead to the emergence and/or growth in the parallel market; increased speculative trading; overvalued exchange rates (Myanmar Economic Monitor, 2015)

as people begin to hoard foreign exchange as a store of wealth; and a harmful impact on investment and growth due to a lack of foreign exchange for imported capital and intermediate goods.

The CBM would therefore do well in continuing to maintain flexibility in the kyat In the short term, efforts at defending the currency by drawing on foreign exchange reserves will not be sustainable. This would increase external vulnerability and Myanmar's ability to sustainably finance its current account deficit. Allowing the reference rate to be determined by the market would be important in this regard. Any effort at managing exchange rate volatility needs to be supported by fiscal and monetary discipline to ensure stability and competitiveness.

The CBM is gradually strengthening its monetary policy capacity to deal with such challenges. Liberalization of external accounts has prompted foreign exchange interventions, which impact money supply. The sale of foreign exchange reserves to prop up the exchange rate in 2013/14 contracted money supply. Similarly, downward pressure on the kyat in 2015/16 and concurrent efforts to shore up foreign exchange reserves would have required sterilization to avoid inflationary pressure. To manage these emerging challenges, the government could continue to develop and implement the reserve money target regime and scale back monetary financing of the fiscal deficit, while allowing treasury bill interest rates to rise to market-clearing levels

MYANMAR'S AGE OF OPPORTUNITY

Achieving and sustaining Myanmar's growth target requires it to tap opportunities from greater economic integration. Exports and FDI are closely inter-linked and expected to bring a boost to growth, job creation and product diversification. Achieving this requires supporting policies to unlock the potential in manufacturing exports to drive the structural transformation and enable Myanmar's income per-capita to catch up with neighboring countries, with a consequent significant impact on poverty reduction.





2.1 A potential waiting to be tapped

Myanmar's trade-growth potential is very large, which should help the country to narrow the wide gap with its peers following the elimination of sanctions and the major shift in the country's national development strategy. Moreover, opportunities are just around the corner as larger countries in the region start to offshore labor-intensive manufacturing due to rising costs at home.

Myanmar's integration with the world economy was stifled for decades by two major policy factors. Between 1962 and 1988, the country followed a self-centered development strategy dubbed the "Burmese way to socialism" based on central planning and self-reliance, with industry, services and international trade under state control. In 1987, in response to its growing economic difficulties, the country embarked upon a limited reform program, but in 1997 it was hit by US sanctions prohibiting investment, subsequently extended to trade in 2003 and followed by similar sanctions from other Western countries. The combination of sanctions and national policy choices severely hampered the country's ability to import and export.

The recent lifting of sanctions and the shift to a resolutely outward-oriented development strategy, as reflected in the National Comprehensive Development Plan (NCDP) and Framework for Economic and Social Reforms (FESR), create an opportunity for rapid catching up. This chapter reviews the evidence of under-trading in order to identify future growth opportunities in terms of promising sectors and markets, and charts a course to maximize the speed and benefits of the forthcoming transformation.

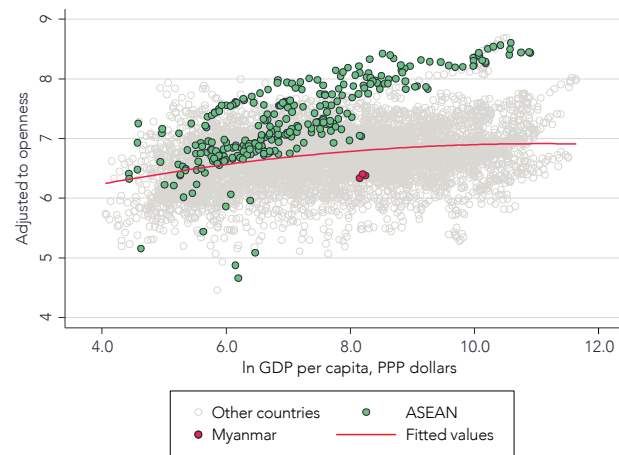
2.1.1 Myanmar trades less than its potential but is opening up rapidly

While Myanmar's trade grew in value from almost nothing (US\$1 billion) in 1990 to over US\$25

billion in 2013,¹ trade as a fraction of GDP remains abnormally low relative to a model-based "benchmark level".

This benchmark level is defined as a function of the country's level of income, population size, and resource endowment (13) in order to take into account the fact that countries tend to trade more relative to their GDP, *ceteris paribus*, when they are richer, smaller, or resource-rich.

Figure 2.1: Myanmar's trade openness is still below benchmark...



Notes: Trade openness is defined by the ratio of imports plus exports of goods and services relative to GDP. The relationship shown uses regression to control for population and the share of resource rents in GDP (not shown). "Adjusted openness" shown on the vertical axis is trade openness adjusted for the effect of size and resource endowment. Note that WDI data seem to understate Myanmar's imports; using the higher estimates from UN Comtrade or the IMF would reduce the degree of under-trading.

Source: Team calculations from WDI and IMF data.

Compared with its peers, Myanmar's under-trading is striking. Countries below the red curve in Figure 2.1 under-trade, while countries above it over-trade.

1 Most trade values used in this chapter are estimates constructed using various partial and fragmentary sources including the IMF Direction of Trade Statistics (DOTS), UN Comtrade data mirrored (i.e., using data from Myanmar's partner countries), and the World Development Indicators (WDI). None of these sources gives consistent series for all types of statistics needed for a complete trade analysis, and the error margins are sometimes very large. For instance, for 2012, the WDI report US\$9.08 billion in imports of goods and services, UN Comtrade (mirrored) US\$15.27 billion in goods only, and the DOTS US\$17.03 billion. Remedying the lack of reliable statistical information is a first-order priority for the Government of Myanmar, as no development plan can be realistic in the absence of a trustworthy statistical tool. This should be taken also as a note of caution for the figures shown and analyzed in this chapter, which comprise substantial error margins.

Myanmar's under-trading is striking, in particular when compared with its ASEAN partners (shown in blue). Most of them are above the curve, having pursued outward-oriented development policies in recent years, and have largely integrated into regional and global value chains in manufactured products.

Myanmar's trade is often conducted informally and is not reflected in official data. In the case of Myanmar, anecdotal evidence suggests that important trade flows take place on an informal basis and are thus not recorded, biasing downwards the country's openness index. Measures to formalize trade and better official recording of trade flows will deliver a more accurate picture.

Statistical analysis suggests that Myanmar has been trading below its potential, but the gap is narrowing. Figure 2.2 shows a measure of "under-trading" obtained from a rigorous, model-based approach consisting of fitting a so-called "gravity equation" (a widely used model in trade economics) and retrieving coefficients known as "fixed effects" indicating how much Myanmar deviates, up or down, from a model-predicted benchmark. Fixed-effect coefficients are negative for all years in Myanmar's case, indicating under-trading, but the curves are rising (uninterruptedly for exports, and since 2006 for imports). The sharp drop in Myanmar's coefficient

Figure 2.2: ...but already catching up



Note: The curves show the point estimates of coefficients on country-year fixed effects for Myanmar in a gravity equation. The lower the curve, the more Myanmar under-trades relative to a global benchmark adjusted for characteristics of countries and their partners.

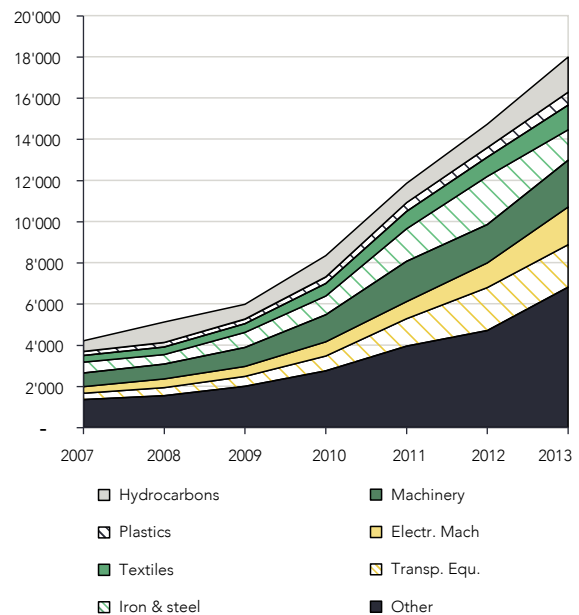
Source: Team calculations using UN Comtrade mirrored data.

on the import side between 2004 and 2006 is likely related to the effect of Western sanctions, in particular US trade sanctions put in place in 2003. In the case of exports, a large chunk of the catching-up is due to the expansion of the gas trade. While the gas trade has positive spillovers on the economy in terms of revenue, it generates few jobs and contributes only indirectly to inclusive growth. Imports are critical for investment and growth

2.1.2 Imports are critical for investment and growth

International experience shows that no export-led strategy can be successful without unrestricted access to high-quality intermediates and capital equipment. In this regard, the structure of Myanmar's imports reflects the needs of a growing economy, with a substantial share of machinery, electrical machinery

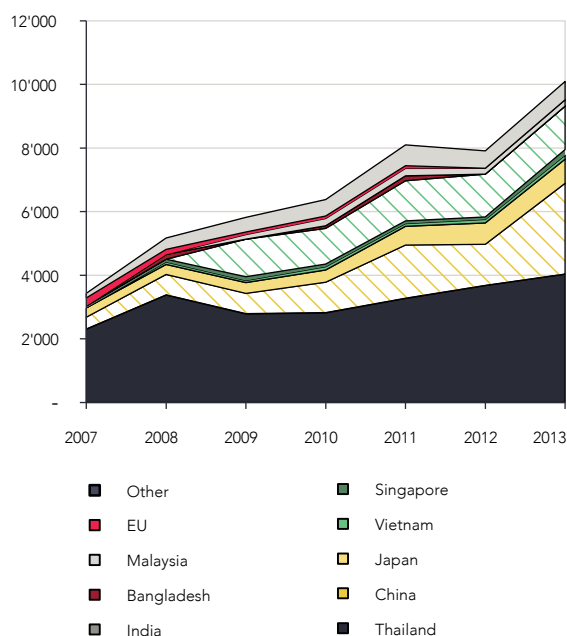
Figure 2.3: Myanmar's imports are dominated by capital equipment and intermediates (US\$ million)



and transport equipment (Figure 2.3). Together, these three categories of capital equipment account for close to 35 percent of total imports, highlighting the critical importance of smooth import procedures at the border for investment and growth. While the share of capital equipment in overall imports has been roughly stable up to now, the FDI and investment boom required to boost GDP growth to the target level of 7.7 percent would likely raise it, implying possible pressures on the trade balance (see Chapter 1).

2.1.3 Myanmar's export destinations: Redeployment and diversification

Figure 2.4: Thailand weighs heavily in Myanmar's export portfolio, but China is rising rapidly (US\$ million)



Note: Total export value in US\$ million. Source: Team calculations using UN Comtrade (mirrored).

The linkages between imports of intermediates and exports of final products highlight the need for Myanmar to ensure smooth border procedures. Firms in time-sensitive industries, such as garments, need highly predictable and programmable environments, and seamless border crossings. Complicated procedures or congestion at the border resulting in variable container dwell times act as deterrents in those industries. This issue will be further discussed later in this chapter in the context of the textiles/garments cluster.

Myanmar's portfolio of export destinations has changed radically over time, first under the effect of sanctions and then, more recently, with the rise of India and China. Sanctions had the effect of reducing Myanmar's trade overall, but particularly so with the US, the EU and Japan, whose share in Myanmar's trade fell from 29 percent in 1990 to 10 percent in 2012. Meanwhile, the share of trade with non-sanction countries rose, with China and ASEAN countries rising from 43 percent of Myanmar's trade in 1990 to 71 percent in 2013. Most striking was the rise of India and China over the period 2008-2013 (Figure 2.4), a period during which Myanmar's heavy dependence on the Thai market also shrank substantially (from 67 percent in 2007 to 40 percent in 2013). China's share rose in the same period from 11 to 28 percent of Myanmar's exports, most rapidly in recent years.

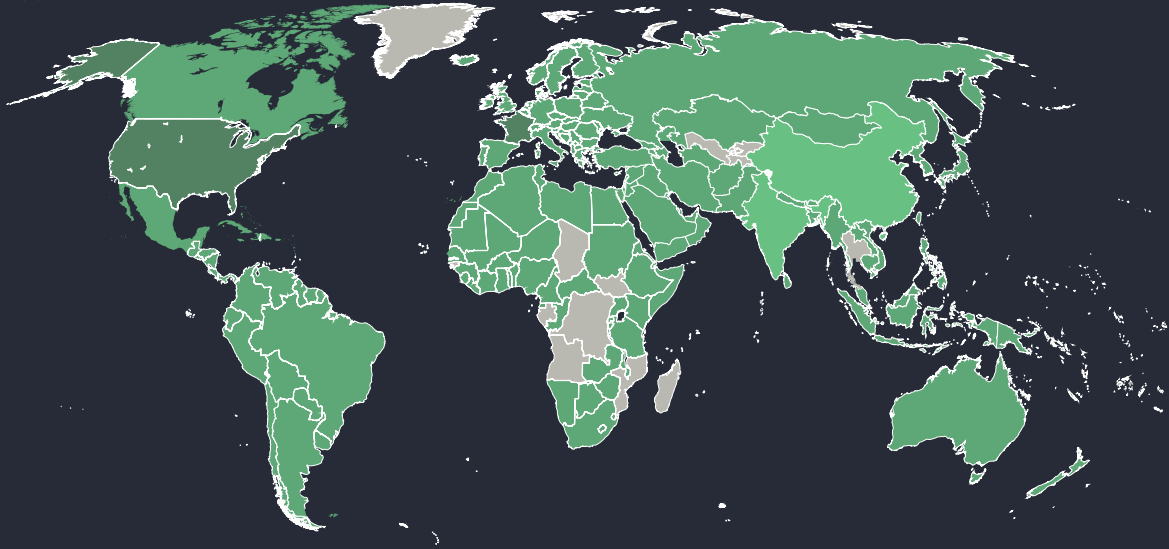
TABLE 2.1

MYANMAR'S TRADE WITH CHINA EXPANDED RAPIDLY, WHILE STAGNATING WITH OTHER PARTNERS

	Share of imports		Share of exports		Share of trade	
	1991-93	2011-13	1991-93	2011-13	1991-93	2011-13
ASEAN	46.4	35.7	36.3	12.9	42.3	28.8
Singapore	27.5	7.6	12.5	1.6	21.2	5.9
Thailand	9.6	20.0	20.1	4.4	14.5	15.4
Malaysia	7.4	3.8	2.4	3.6	5.1	3.7
Indonesia	2.2	3.1	1.2	1.2	1.7	2.5
China	26.0	40.5	22.9	32.4	24.3	39.0
Japan	9.8	6.7	6.7	11.8	8.4	8.1
Rep. of Korea	3.6	6.4	1.1	6.5	2.4	6.4
Australia & NZ	0.2	0.8	0.7	0.3	0.4	0.6
India	1.2	4.0	12.6	23.5	6.4	9.7
EU15	8.7	1.9	5.7	4.5	7.3	2.7
United States	1.3	0.5	5.0	0.2	3.0	0.4

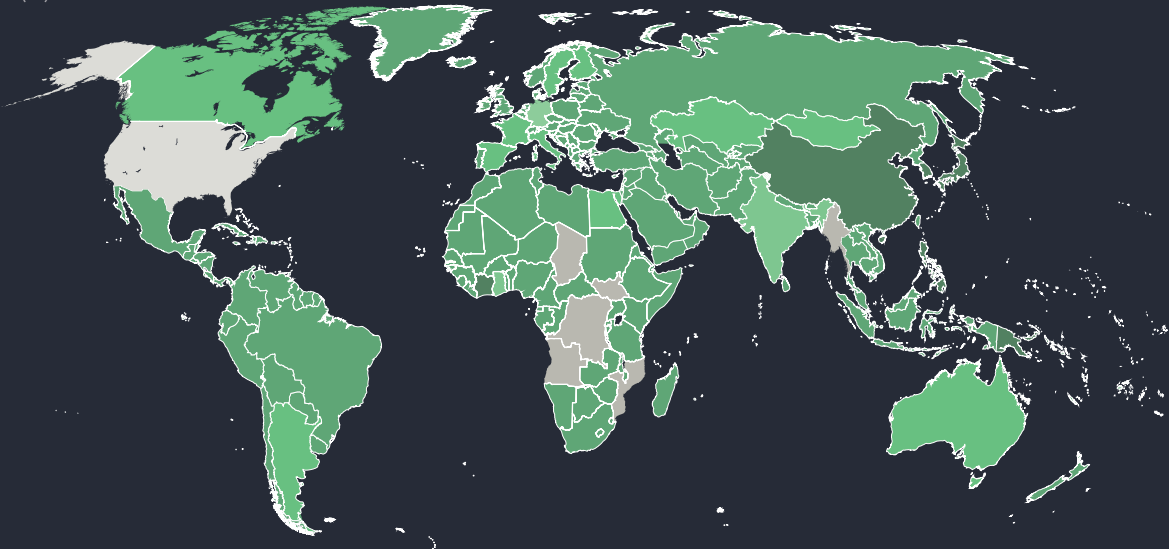
MYANMAR'S TRADE WAS MASSIVELY REBALANCED BY SANCTIONS

(a) 2000



Note: The color code corresponds to the value of the residuals from a gravity equation fitted by PPML with country-time fixed effects, with pale coloring for negative residuals and dark coloring for positive ones. Note that the gravity equation was fitted on aggregate trade data, which includes gas exports.

(b) 2013



Source: Team calculations using IMF DOTS.

Sanctions had the effect of massively rebalancing Myanmar's trade towards Asia, creating a "legacy structure" that may change again over time. Figure 2.5 uses a model-based approach to measuring Myanmar's trade intensity by partner in order to highlight both the effect of the sanctions and the potential for further rebalancing. In order to take into account the effect of distance, partner size and other natural determinants of trade, we once again fitted a gravity equation on world trade and retrieved "residuals" (unexplained deviations from predicted patterns) between Myanmar and its trading partners. Figure 2.5 shows these residuals in various shades of blue, from white/pale blue for partners with which Myanmar under-trades (negative residuals) to dark blue for partners with which Myanmar over-trades (positive residuals). In 2000, before trade sanctions hit (the 1997 wave of sanctions concerned only investment; trade sanctions were imposed in 2003), the US and some EU countries were disproportionately large trading partners for Myanmar, as shown by their dark blue coloration; 13 years later, they were replaced by China and, to some extent, Japan.

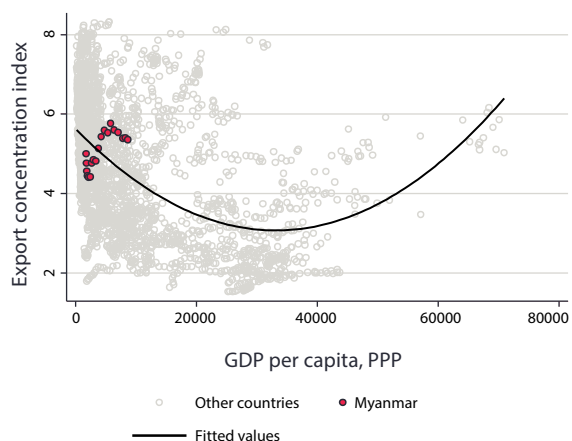
Myanmar's non-oil and gas trade with East Asia has been increasingly concentrated on China, with signs of eroding market share in ASEAN countries. While the share of East Asia in Myanmar's trade rose from 77 percent in 1991-93 to 82 percent in 2011-13, most of those gains have been in trade with China. Myanmar's non-oil and gas trade with China rose by 33 percent per year over the same period, while Myanmar's trade with ASEAN countries stagnated (Table 2.1).

The gravity analysis suggests that Myanmar's trade with Thailand, while still large (40 percent of Myanmar's exports, as noted, but largely accounted for by gas) still has potential for growth, in particular in non-resource sectors. Given the size of the Thai economy and the two countries' common border, the gravity equation predicts even more dependence of Myanmar's trade on Thailand (similar to Canada's dependence on the US). This is shown by Thailand's white coloring in Figure 2.5. Thus, Myanmar's policy could be to take advantage of the opportunities offered by trade with Thailand rather than trying to diversify away from it. This is particularly important in the textiles/garments sector, where important opportunities for intra-industry trade with Thailand exist, as discussed later in this chapter. It also shows that Myanmar under-trades with its northwestern partners, India and Bangladesh, which appear in pale blue in Figure 2.5, reflecting the under-development of the northwestern corridor.

2.1.4 A sectoral structure with strong diversification potential

Based on an analysis of the strengths and weaknesses of Myanmar's productive sector, as well as the market opportunities at the regional and global level, the NES, validated by the national authorities in 2015, has identified seven sectoral priorities, namely: rice; pulses, beans and oilseeds; fish and crustaceans; textiles and garments; rubber; tourism; and forestry products. The DTIS builds on this analytical work to help the government identify priority cross-cutting constraints in terms of policies, institutions and facilitation that need to be addressed in order to implement the NES and achieve the target growth rate of 7.7 percent. This section starts with a brief review of where Myanmar stands today in terms of its sectoral export structure.

Figure 2.6: Myanmar's exports are still concentrated like those of other LDCs



Note: The measure of export concentration shown on the vertical axis is Theil's index, calculated by country-year.

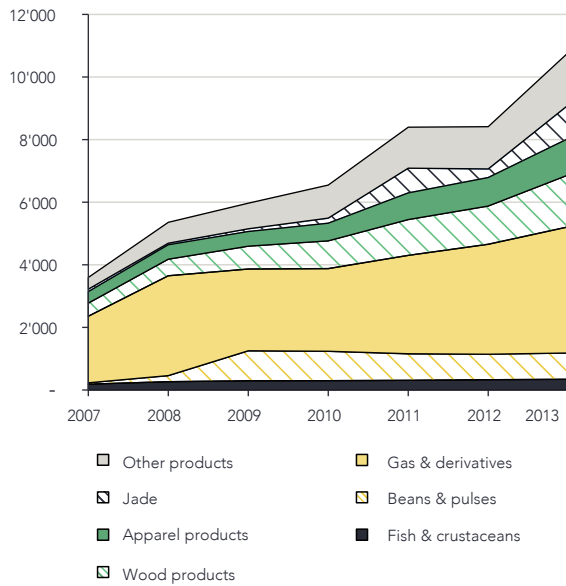
Source: Team calculations using UN Comtrade.

Developing countries, and particularly least-developed countries (LDCs) such as Myanmar, are often characterized by a heavy concentration of exports on a few primary products. Figure 2.6 shows Theil's index, a conventional measure of export concentration, plotted against income (as measured by GDP per capita at purchasing-power parity) for all countries. As a general rule, countries at a certain range of income—between US\$15,000 and US\$45,000 per capita—diversify massively, while countries at high levels of income tend to re-concentrate. Myanmar, shown by the red dots, has followed a pattern that

is typical of countries at its level of development. As gas exports expanded, it first concentrated (red dots going up), after which it started to diversify (red dots going down). The pace of its diversification in recent years appears parallel to the curve showing the global trend—suggesting that Myanmar is progressively becoming a more “normal” country in terms of export diversification.

To continue the path of export diversification, there is a strong case for the government to have

Figure 2.7: Myanmar’s exports remain dominated by primary products



Note: In US\$ million

Source: UN Comtrade (mirrored)

supporting policies in place. A continuation of the current diversification trend could mean, for instance, that 1,000 new export lines (at HS 6-digit), each exporting US\$1 million per year, would open over the next five years.² But international experience also shows that new export products tend to suffer from high “infant mortality”: many survive only one or two years and then disappear. In order to achieve sustained diversification while minimizing the failure rate, the government could put in place export-promotion structures that have been shown in other countries to help new exporters reach out to potential buyers.

² This calculation is based on replacing 1,000 currently inactive HS6 export lines by an export value of US\$1 million and recalculating the Theil index. The value obtained is 4.74, which is the value that the Theil index will reach five years from now based on a continuation of the trend observed over the past five years.

Figure 2.8: International gas prices are volatile



Note: British Thermal Units (BTU) are standard measures of energy used as proxies for quantities of natural gas.

Source: infomine.com

Despite the recent trend towards diversification, the commodity structure of Myanmar’s exports remains heavily dominated by commodities and primary products. Figure 2.7 shows how the sectoral composition of Myanmar’s exports has evolved over the past half-decade. Gas exports remain large, at over 37 percent of the total (albeit down from a high of 59 percent in 2008, at a time when gas prices were high), while garment products account for a paltry 11 percent. Rice exports are subsumed in the “other products” category. According to mirrored international trade data, rice accounts for less than 2 percent of Myanmar’s exports. However, according to some estimates, informal overland exports to Thailand and China could top US\$500 million per year, or close to 5 percent of total exports.³

Myanmar’s export basket is also heavily concentrated in a handful of products sold in particular countries. Gas is a commodity that currently dominates Myanmar’s export basket, since major production started. Over the period 2011-13, 43 percent of gas exports went to Thailand. This concentration of gas exports may even reinforce itself once a pipeline to China becomes operational.

³ This calculation is based on replacing 1,000 currently inactive HS6 export lines by an export value of US\$1 million and recalculating the Theil index. The value obtained is 4.74, which is the value that the Theil index will reach five years from now based on a continuation of the trend observed over the past five years.

There is great uncertainty not only about the rice trade but even about production levels, with Myanmar’s Ministry of Agriculture and Irrigation (FAO-MOAI) providing different estimates from the US Department of Agriculture (see OECD, 2014, p. 51).

Diversifying away from the country's heavy dependence on gas exports could be a long-term priority for the government. While gas is an important source of revenue, hydrocarbon prices have historically proven volatile (Figure 2.8) and are likely to remain so. In countries that are dependent on hydrocarbon exports, international experience shows that this volatility tends to translate into volatility in exports, GDP growth, and fiscal revenue, complicating the state budget planning process. Moreover, dependence on natural-resource exports has often led to chronic currency overvaluation, making other export-oriented sectors less competitive and retarding their growth, a syndrome known as “Dutch disease”. Thus, dependence on hydrocarbons tends to be self-perpetuating unless government authorities pursue a deliberate strategy of diversification, including, at the macro level, smart management of the exchange rate (see Chapter 1).

Beans and pulses, largely exported without any processing, do not show any noticeable growth. However, this may be due to the fact that large flows of overland trade with the Chinese province of Yunnan remain partly unrecorded. The lack of formalization of these trade flows reflects the lack of supportive infrastructure for Myanmar's producers, who suffer discounts and moral hazard in their dealings with foreign buyers, denying them of much of the gains from trade (Box 2.1). The same issues affect several products and have prevented investment and growth.

Agri-business can provide the rural poor with opportunities for higher incomes. Value addition activities, such as sorting, processing and packaging, have great potential in Myanmar, where a large portion of the poor population live in rural areas with a strong vocation for agriculture. Currently, significant shares of the produce (rice, pulses, fruit, etc.) are exported informally across the borders into China and Thailand, where they are processed and marketed, or further exported. This means that Myanmar is losing out both in terms of value addition and job opportunities, which are being lost to neighboring countries.

Specific interventions will be needed, taking into account the experience of other countries. Specific interventions to address market failures and to link farmers to markets could be designed to suit local needs and take into consideration good practices in other countries, including in the region. The government could consider offering tax incentives and other forms of public subsidies to attract investment in agribusiness. This could be coupled with training programs targeting

farmers with high potential. It could also address bottlenecks in specific products' value chains to increase the competitiveness of Myanmar's agri-products.

2.1.5 Making garments a catalyst for manufacturing-led development

As discussed, international experience suggests that manufacturing growth plays a key role in ensuring “convergence”, i.e., income catching-up by poor countries relatively to richer ones. Given Myanmar's low initial income, ensuring that its national export strategy bets on an effective growth engine is key, and manufacturing is central in this. Only one of the NES's seven sectoral priorities, namely textiles/garments, is a manufacturing activity. The key question is whether developing a textiles/garments cluster is an appropriate short-term objective for Myanmar given its factor endowment, as fostering activities that mobilize large amounts of capital and/or energy can result in “cannibalization” of other sectors and end up being counterproductive.

Myanmar could promote a textiles/garments cluster as recommended, by facilitating garment production while importing textile products (fabric). The textiles/garments cluster is composed of two distinct segments with radically different factor intensities (Figure 2.9). The upstream textile sector, which comprises activities such as spinning cotton fiber to produce yarn, weaving the yarn to produce fabric, and dyeing and cutting the fabric, is relatively capital-intensive, with a capital-labor ratio of typically over US\$50,000 per worker. It also requires a steady electricity supply and a sufficiently good business environment to convince investors to immobilize costly machinery that cannot be moved out easily. Finally, operating the machinery requires skilled workers and technicians. Thus, the ideal location for such activities is middle-income countries such as Turkey, or lower-middle income ones such as Thailand.

The downstream garments sector, in contrast to fabric, comprises very labor-intensive activities. The downstream garments sector is essentially assembling pre-cut pieces into garments, often under subcontracting arrangements known as “cut, make and trim” (CMT). These activities can flourish in less sophisticated business environments and are therefore well suited for LDCs where they provide an entry door to industrialization. Garment production provides female jobs that are often critical income sources for rural or urban low-income households. The predominantly unskilled workforce, combined with

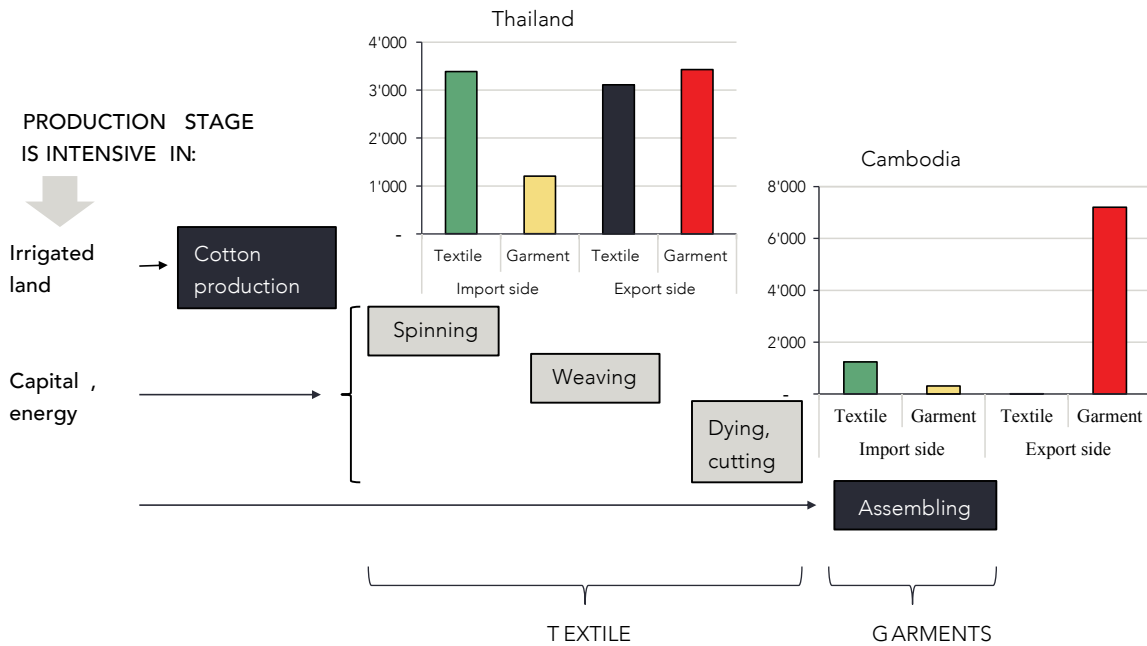
Myanmar ships large quantities of peas to India through Yangon, with India accounting for over two-thirds of Myanmar's recorded exports of beans and pulses. Substantial quantities of beans are also exported overland to China through the Muse border post.

Trading takes place at the Mandalay pulse exchange where large traders set prices at the start of the trading day for all remaining transactions. Most of the products exported to China are brewed to produce alcohol. Myanmar's beans are exported raw as producers have not succeeded in convincing Chinese buyers to buy processed products. As a result, domestic mills are run at less than full capacity and lose money. While there are many reasons for the inability of Myanmar's producers to squeeze more value-added from their products, the lack of SPS infrastructure does not help, although a few traders in Yangon have managed to obtain certification and export to the EU.

The lack of sanitary and phytosanitary (SPS) infrastructure has similarly prevented mango producers from diversifying export destinations and reaching out to higher-end markets. Most OECD countries require fumigation, which itself requires substantial investments in the exporting country. The lack of certification and good logistics makes high-end markets such as Singapore, where quality products can fetch high unit values, largely unattainable. Producers rely on the marketing networks of intermediaries with only weak quality management capabilities and little strategic vision. As a result, they remain largely dependent on informal sales to Chinese buyers with severe moral-hazard problems. For instance, according to Burmese producers, in some cases sales are made in Mandalay over a handshake, but when the product reaches the border the buyer claims that its quality is not what had been agreed and applies a discount. Sometimes the claim is real, reflecting poor logistics and storage conditions, but often it is just a "hold up", which the producer, having no alternative, is forced to accept.

Overcoming moral hazard through the formalization of marketing channels and contracts, encouraging and certifying quality, and providing producers with information on market opportunities, all require a support infrastructure that is currently non-existent in Myanmar. Putting in place such an infrastructure is a first-order priority to ensure that export development translates into income and growth for farmers.

Figure 2.9: Similar to Cambodia, Myanmar’s comparative advantage lies in the downstream, labor-intensive segment of the textile value chain



Notes: All trade flows refer to 2013, are measured in US\$ (million), and are mirrored; therefore, import flows are FOB, while export flows are CIF.

Source: Team calculations using UN Comtrade.

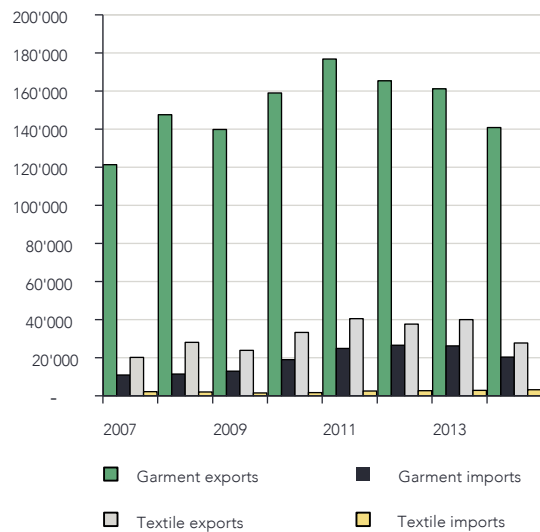
supply chain pressure on garment factory working conditions, means that it will be important for income and labor protections to be integral to the framework for garment industry growth.

Myanmar shares many of the fundamentals of Cambodia and can follow its lead. Figure 2.9 shows how trade patterns in the textiles/garments sector reflect the fundamentals of producing countries. Cambodia, a poor country with scarce capital and energy but a large supply of labor, is a natural location for garment manufacturing. This is reflected in trade patterns, with large imports of textiles and large exports of garments. The wide difference between garment exports (red bar) and textile imports (hashed blue bar) reflects the combination of domestic value addition and transport costs, as textile imports are measured in FOB by the exporting country, while garment imports are measured in CIF by the importing country.⁴

Myanmar’s garments sector is entering into a new boom and it is important to think how the sector can move up its value chain. According to Myanmar’s

Garment Manufacturer Association (MGMA), exports have already grown by a factor of five in five years, from US\$350 million in 2010 to 1.6 billion today; the

Figure 2.10: China’s comparative advantage in garments is starting to fade, creating opportunities for relocation



Note: Trade flows are measured in US\$ millions, and are mirrored; therefore, import flows are FOB, while import flows are CIF.

Source: Team calculations using UN Comtrade.

⁴ This is unusual and is due to the use of mirrored trade data because of the lack of direct trade data for Myanmar.

MINIMUM WAGES AS A SAFEGUARD TO PROTECT WORKERS

The setting of a minimum wage is one of the most widely used labor policy instruments in the world, with varying types of design and implementation. The primary objective in setting a minimum wage is to establish an acceptable wage floor to protect low-income workers and to correct labor market distortions whereby employers keep workers' wages artificially well below market levels. However, countries may have other objectives in setting a minimum wage, such as reducing poverty, narrowing inequality, or incentivizing workers' productivity as better paid workers can lead to higher consumption spending.

Empirical evidence is mixed on the impact of minimum wages on demand for labor and unemployment. For developing countries with dual labor markets (formal and informal workers), it is possible that increases in minimum wages will have limited impact on unemployment, as workers can shift from formal to informal jobs. But in a situation where most jobs are informal jobs, raising minimum wages can displace informal workers as formal workers become informal job seekers. The impact of raising minimum wages on formal workers also depends on compliance with minimum wage regulations. In Honduras and Nicaragua, strict compliance with minimum wages caused job losses in large corporations, while smaller firms were less formal and could absorb the relocation of formal workers. However, in Indonesia, where compliance with the minimum wage is less strict, raising the minimum wage in the late 1990s had more impact on labor absorption among small firms as they faced higher labor costs. For industries that rely more on the size of domestic demand, minimum wage increases in the late 1990s are associated with increasing formal employment in firms producing goods for local consumption or non-tradeable goods (Macgruder, 2013).

- Myanmar already has minimum wage legislation. The first minimum wage policy was introduced in 1949 and in 2013 the government passed a Law on Minimum Wage Rules. To strengthen institutional arrangements and capacity in setting minimum wages that are equal for men and women but at levels that do not jeopardize trade competitiveness, below are several key issues that Myanmar may want to consider:
- **Setting (single) clear objectives for the minimum wage that aim to address imperfections in the labor market.** Minimum wage is quite an appropriate tool for use in correcting labor market inefficiencies, which cause discrepancies between wages and economic productivity. But the empirical evidence shown in the Del Carpio and Pabon Study (2014) in ASEAN, reveals that the relationship between minimum wage and poverty is far from compelling. In some cases, the poor benefit with better wages; however, much of the evidence suggests that the poor are more disadvantaged in that they are more likely to lose their jobs and/or leave the formal labor market
- **Keep the minimum wage structure simple:** A complex minimum wage structure may appear desirable but can be difficult to enforce.
- **Agree on the key principles and comprehensive criteria for setting the minimum wage level:** It is important to agree on a comprehensive list of criteria and indicators. These typically include: cost of living/consumer prices, productivity, enterprise capacity to pay, producer prices, competitiveness, income inequality, immigration, the informal economy, unemployment and GDP growth, among others. It is also important for the law to take into account wage structures. For instance, in Myanmar, the notified minimum wage is for a standard eight-hour working day and there is no mention of overtime compensation, which forms the bulk of take-home wages in many sectors, including garments.
- **Determine the policy tool and process for future adjustments of the minimum wage:** It is important for Myanmar's National Minimum Wage Committee to derive a suitable range of minimum wages, which can serve as a basis for negotiations between parties. It is crucial that the relevant information is available to support the negotiations. It is important that the process is time-bound and involves all the negotiating parties, including independent technical experts to represent the public interest.
- **Strengthen enforcement and monitoring capacity:** Although only a small fraction of the labor force in Myanmar will be covered by the new minimum wage, it is important to strengthen enforcement and monitoring capacity to ensure compliance with the regulations.

association projects that employment could reach 1.5 million people within a decade. FDI are leading the establishment of new garment factories in Myanmar and they have benefitted from access to offshore financial services and a network of suppliers of intermediate inputs. In contrast, local companies are facing higher transaction costs from the underdeveloped financial sector at home (see section on trade finance below) and import clearance procedures that make it difficult for them to expand away from CMT garments.

Opportunities for attracting offshored garment activities are substantial. Thai textiles/garments investors looking for alternative locations for garment manufacturing could view Myanmar as an attractive platform given its pool of labor at relatively competitive wage costs. For Myanmar's investment-promotion authority, this suggests a strategy of identifying and approaching possible Thai investors in the garments sector and putting in place a coherent strategy to attract them in terms of business environment, logistics, and dialogue with the national authorities.

A similar pattern is observable in China (Figure 2.10). As wages rise, in particular in the eastern part of the country, garment production is increasingly suffering from competition from countries with lower wage costs. Wages in China's main EPZs are said to range between US\$300 and US\$1,000 per month, or roughly three times their level in Myanmar.

While productivity is high in Chinese factories, the scope for further productivity increases in garment activities is limited by the lack of scope for mechanization and the already breakneck pace of operations in many factories. Against this background, the choice for Chinese garments manufacturers is either to relocate further inland or to go offshore. The downside of relocating inland is to lose the advantage of powerful logistics of the coastal regions, a crucial loss in a time-sensitive sector like garments. This makes locations such as Myanmar, with pool of labor and access to the sea, potentially attractive, provided that Myanmar can offer improved logistics and a more favorable and predictable business environment.

But Myanmar may want to avoid tying its industrialization strategy to social or environmental dumping. Industrial salaries set at fair levels (i.e., equal to the value of the marginal product of labor) can have positive spillovers beyond the workers themselves, for example through remittances to farm households that can then be invested in education, health and productive assets. Myanmar already has minimum

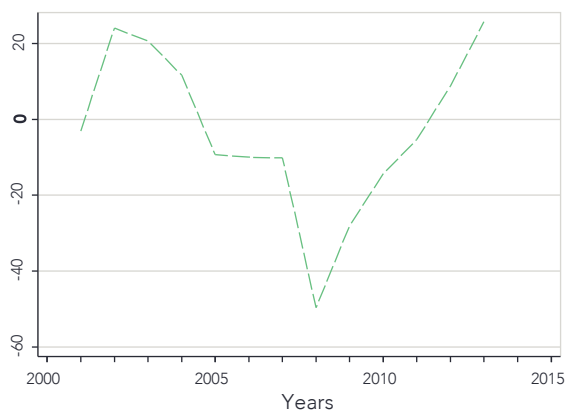
wage legislation and a process for setting minimum wage level be strengthened to ensure that male and female workers are equally protected, but at wage levels that do not jeopardize competitiveness (see Box 2.2 for a discussion on minimum wages). However, setting a minimum wage is not necessarily the best tool for reducing poverty and therefore improving access to basic social services (e.g., health, education), particularly for poor families, remains important. Similarly, market access for logging products would be enhanced by adherence to international standards (e.g., the Forest Stewardship Council (FSC) and the European Union Timber Regulation (EUTR)) in terms of legality of woods and sustainability in forest management.

2.2 Myanmar's opportunities are huge

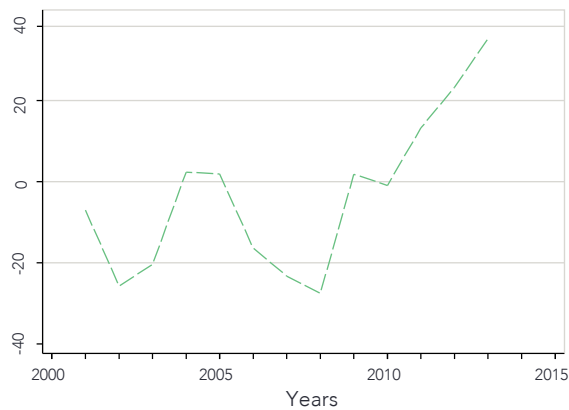
Myanmar is located at the heart of the world's most dynamic trading area. New trading opportunities arise with both existing and new partners, including Vietnam, Malaysia and India. Myanmar's strategy could be geared to developing in parallel export-oriented manufacturing and attractive market-access conditions in key partner countries.

Figure 2.11: Myanmar's trade is developing rapidly with key partners

(a) with China



(b) with Thailand



Source: The vertical axis measures the discrepancy, in percent between Myanmar's actual trade and the predicted value from a gravity model estimated by PPML with country-time fixed effects over 2000-13.

Source: Team calculations using IMF DOTS.

(c) with India



Source: See above.

Source: Team calculations using IMF DOTS

2.1 Dynamic markets are just around the corner

Myanmar can use its location to advantage being at the crossroads of potentially important trade routes to develop logistics-related services. The country is surrounded by three populated and growing regions (albeit at unequal levels of development): Thailand; China's Yunnan province; and Bangladesh/eastern India. Gravity estimates suggest that under the combined effect of the rebalancing of its trade during the sanctions period and of its rapid opening up, Myanmar trades intensively with key partners

(China, Thailand and India) relative to the benchmark provided by a gravity model (Figure 2.11).

Myanmar can play a pivotal role in facilitating trade between South and Southeast Asia. Figure 2.12 shows economic activity reflected by night lights captured by satellites in 2013. Agglomeration of population and activity is visible over Thailand and Bangladesh. The gravity model of international trade predicts that these two regions would normally engage in significant trade. However, realized trade values are currently very small: US\$63 million from Bangladesh to Thailand, and US\$830 million from Thailand to Bangladesh, according to the IMF's DOTS statistics. Estimations based on the gravity model are that these trade values would rise to US\$2.2 billion and US\$7.4 billion, respectively, if logistics bottlenecks were to be removed.

One-fifth of Myanmar's international trade is across overland borders. While sea ports remain important for Myanmar's international trade flows, at least one-fifth of Myanmar's international trade is across overland borders (Figure 2.13), highlighting the importance of

Figure 2.13: Myanmar trades substantially through overland border posts

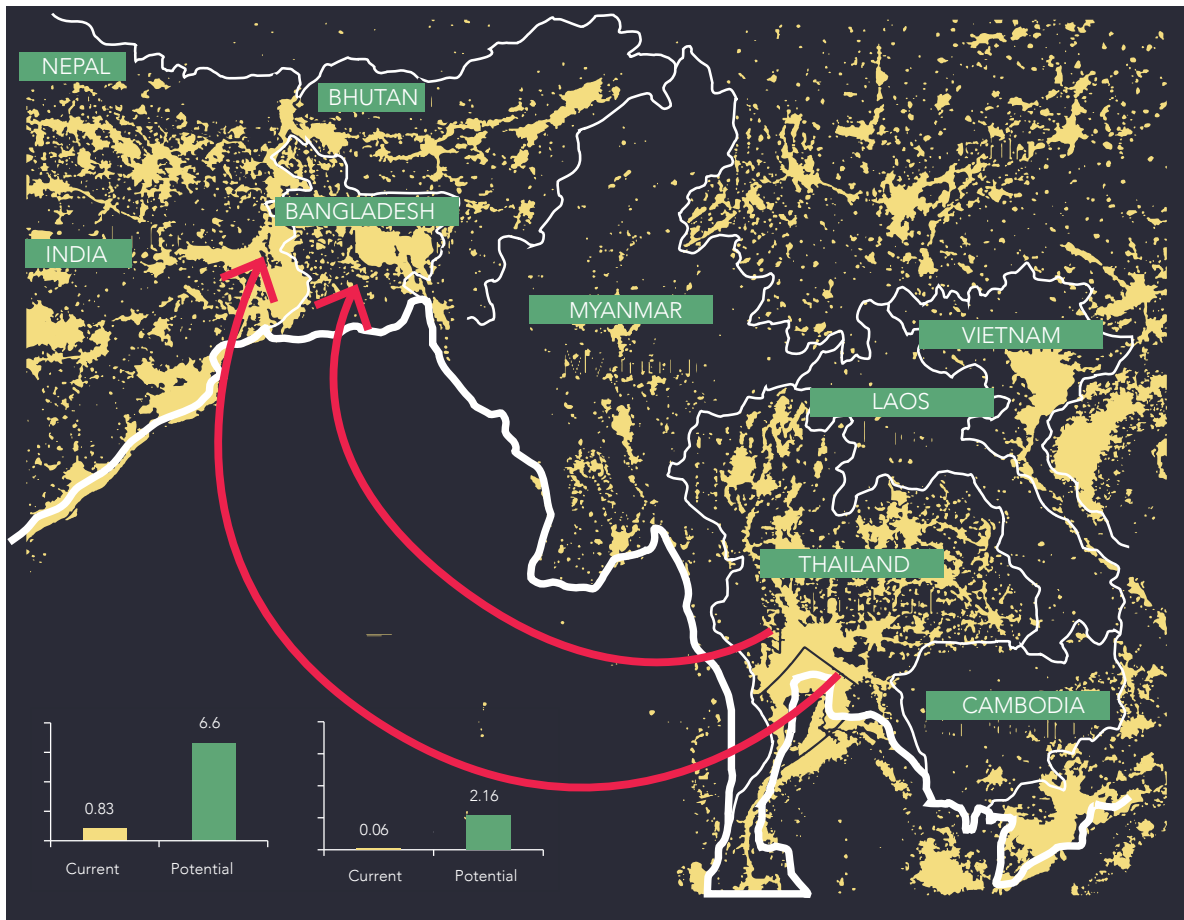
(a) with China



Note: Traffic is measured in US\$ million, 3-month moving average)

Source: Team calculations from CEIC.

Figure 2.12: Night lights show large population and activity centers around Myanmar, suggesting potential trade increases



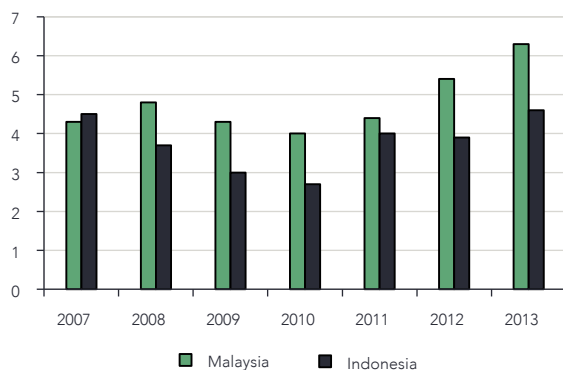
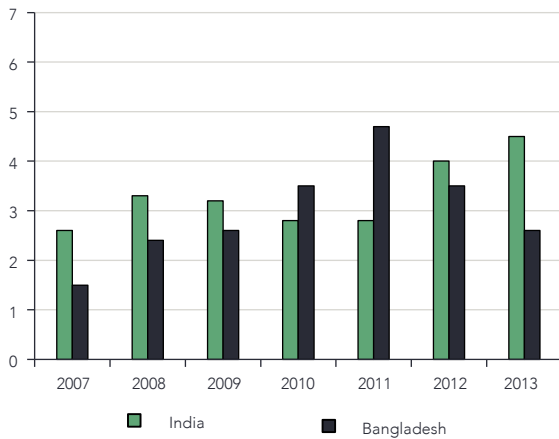
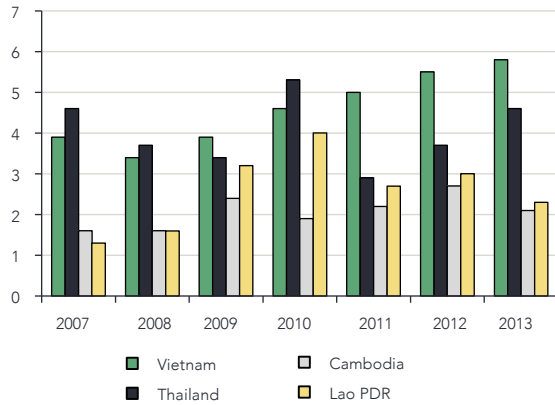
Source: Team calculations based on OLS estimation of a gravity equation with country-time fixed effects. Trade increases based on bilateral residuals for 2013, in US\$ billion. Night lights are from ArcGIS software.

corridor projects (e.g., east-west and southern economic corridors under the GMS program). Between 2013 and 2014, the value of cross-border trade officially recorded by Myanmar authorities through 15 border posts increased by 25 percent compared with the trade taking place via sea ports and the airport (normal channels) of 14.9 percent. The Muse border post handles the largest traffic for trade with China, while Myawaddy is the main gate for cross-border trade with Thailand. Cross-border trade with India is handled through Tamu, around 400 km west of Mandalay. The Tachilek border post also connects China with Thailand through Myanmar. Outbound cargo from Myanmar mainly consists of agriculture products, frozen fisheries products, woods and minerals, while inbound cargo from China and Thailand is mostly machinery, clothing and various consumer products.

A land route through Myanmar would be a natural way for goods to transit, as it would reduce transit times substantially (see Chapter 3).⁵ While heavy truck traffic can be, in general, a nuisance, under the right conditions it can also be a source of development of logistics-related service activities. Myanmar could benefit from truck transport with an appropriate strategy based on the modernization of its truck fleet, better infrastructure, and cross-hauling arrangements with its neighbors. Such arrangements could be obtained as a *quid pro quo* for investment in infrastructure, for which development partners could provide financing.

⁵ Part of India's trade with its eastern province goes through Myanmar's Kaladan port, near Sittwe, from which goods are loaded onto trucks or barges. This avoids transit through Bangladesh but implies using equally bad inland logistics.

Figure 2.14: Myanmar is developing trade complementarity with key partners

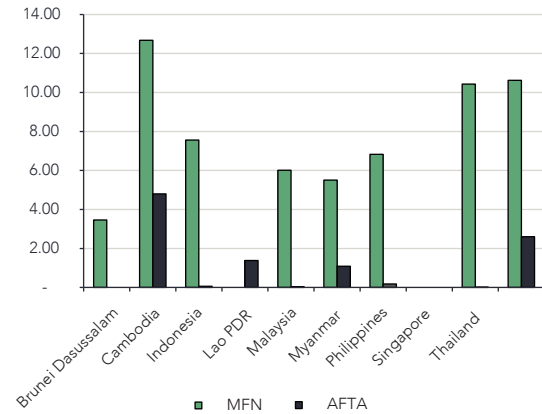


Note: See Appendix A1 for calculation details.

Source: Team calculations using UN Comtrade. (average)

Source: Team calculations from CEIC.

Figure 2.15: ASEAN's tariff preferential margins are substantial...



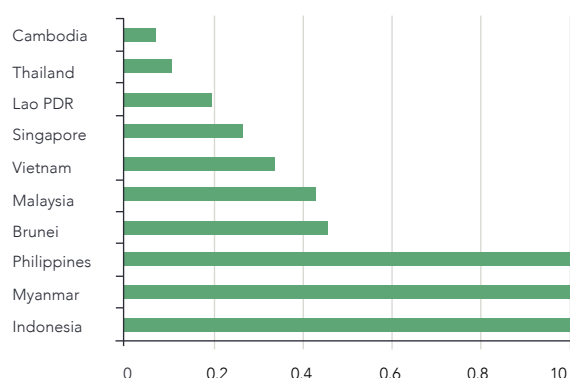
Source: Cadot and Ing (2014).

Myanmar's exports are becoming progressively more complementary with the sourcing needs of key partners, including Vietnam, Malaysia and India. Bilateral "trade complementarities" between two countries arise when the sectoral structure of one country's exports (here, Myanmar) broadly fits that of its partner, suggesting that its comparative advantages match its partner's comparative disadvantages. In such a situation, there is scope for profitable trade. Figure 2.14 shows that trade complementarity indices have been rising over the past five years with Vietnam, India and Malaysia, three large and growing markets. This rise in trade complementarities offers opportunities that Myanmar's NES could leverage through trade promotion and priority facilitation projects.

The rise of trade complementarities with Vietnam and Malaysia highlights the benefits that Myanmar can derive from its membership of ASEAN, provided that lingering trade barriers are lifted. Under the 2009 ASEAN Trade in Goods Agreement (ATIGA), ASEAN has set as its objective the elimination of all barriers to regional trade and the creation of the ASEAN Economic Community (AEC) by the end of 2015. So far, ASEAN has been fairly successful at the elimination of intra-bloc tariffs (Figure 2.15). The tariff-preference margins thus created are substantial, generating a competitive advantage for regional producers.

However, the use of regional tariff preferences in ASEAN is hampered by the offsetting influence of non-tariff barriers and rules of origin. Figure 2.16 shows the proportion of ASEAN members' imports covered by one or more non-tariff measures (NTMs),

Figure 2.16: ...but so is the use of NTMs



Note: The horizontal axis measures the proportion of imports affected by one or more non-tariff measure.

Source: Adapted from Ando and Obashi (2010).

an indicator known as the NTM coverage ratio, for the last year when data were available, typically 2011 or 2012. For some countries such as the Philippines, Myanmar, or Indonesia, the coverage ratio was 100 percent, reflecting the widespread use of licensing (licensing reform, currently under way in Myanmar, is discussed in detail in the following section). For other countries, NTMs were essentially sanitary (SPS) and technical (TBT) regulations, whose main purpose was not trade-related. However, in some cases, these regulations can constitute disproportionate obstacles to trade because they are complex, overly burdensome, or not harmonized. For instance, Indonesia's regulation of steel imports involves not only licensing but also a complex and largely unnecessary certification process for the producer.

The problem is not always with the design of the regulations but the way in which they are administered. For instance, in many cases border controls involve physical inspections of all shipments where randomization and risk management could achieve the same results in terms of safety while allowing much speedier clearance. Issues of this type are discussed in detail in Chapter 4. Also, Myanmar's traders are unaware of the use and benefits of ASEAN Form D (certificate of origin), resulting in much trade being exported to Thailand at extremely high costs or exported informally to by-pass duty and tax payments.

The expansion of regional trade is also conditioned and, to a certain extent, constrained by rules of origin (ROO). ROO are rules agreed on regionally to determine the eligibility of products to preferential treatment, depending on the degree of local

transformation. They are used in free-trade areas to prevent extending preferences to outside producers importing products in kits for superficial assembly in a member state, then re-exporting them tariff-free to the whole area. This is called a "trade deflection" and can be profitable when one member state has low external tariffs while others have high ones.

Although ASEAN's ROO are in general more inclusive than those of NAFTA, nevertheless, they create costs for ASEAN's regional trade estimated to be equivalent to an average 3.4 percent tariff across the board (2.09 percent if calculated on a trade-weighted basis—see Table 2.2). While this may not look much, in some sectors of potential interest to Myanmar the tariff equivalent (also called "ad-valorem equivalent") is much higher. For instance, for textiles and apparel it is 8.29 percent, and for footwear it is 12.67 percent.⁶

The government could be mindful of the constraints that ROO impose on its producers.

Even though, as said, ROO have not proven, so far, to be fraught with special-interest politics in ASEAN as much as they were in NAFTA or the EU's Southern agreements, there are reasons for policymakers and trade negotiators to worry about the potential costs of ROO. First, Myanmar's exporters seem to make no use of ASEAN preferences, as the use of "Form D" certificates concerned less than 1 percent of Myanmar's exports (against 47.1 percent of Cambodia's exports).⁷ Second, as some countries in the region see their labor costs rise and garments jobs dwindle, pressures may rise to deny the benefit of preferential tariffs to low-cost entrants such as Myanmar, by either renegotiating ROO to make them more stringent (the textile rule is already proving the most restrictive of ASEAN's ROO), or enforcing them at the border in a way that makes them *de facto* restrictive. This can be done for instance by making the acceptance of certificates of origin a hassle, a ploy widely used by middle-income and high-income countries against low-income ones.

Finally, the government might consider how to support Myanmar's traders confronted with moral hazard. When trading overland with Chinese buyers, Myanmar's traders face an uneven distribution of

6 We use here simple averages rather than trade-weighted averages. While the latter have the advantage of not over-emphasizing small items, they are biased downward because restrictive ROO reduce trade and thus reduce

7 Source: ASEAN Secretariat statistics on Form D utilization, based on national customs reports.

AD-VALOREM EQUIVALENT OF ASEAN'S ROO

Section	Summary Description	Average AVE (%)	Trade weights a
1	Live animals; animal products	-	
2	Vegetable products	1.91	2.61
3	Animals or vegetable fats	6.67	0.58
4	Food, beverages and tobacco	1.73	3.05
5	Mineral products	1.52	19.59
6	Products of the chemical or allied industries	3.5	9.7
7	Plastics and articles thereof; rubber and articles thereof	1.87	4.63
8	Leather and leather products	0.05	0.60
9	Wood and articles of wood	-3.2	0.77
10	Pulp and paper	4.98	1.75
11	Textiles and apparel	8.29	4.05
12	Footwear	12.67	0.77
13	Cement, glass and stone	2.42	0.93
14	Precious metals and stones	3.81	2.97
15	Base metals and articles of base metal	-0.46	7.77
16	Machinery and electrical equipment	-0.36	25.89
17	Vehicles	6.89	8.99
18	Precision instruments, optics, watchmaking	3.34	3.33
19	Arms and ammunition, parts and accessories thereof	-	-
20	Miscellaneous manufactured articles	-3.37	1.99
21	Works of art, collector's pieces and antiques	-	
Average (%)			
Simple		3.4	
Trade weighted			2.09

Note: AVE stands for ad-valorem equivalent; an AVE of, say, 7 percent means that the ROO is as restrictive as a 7 percent ad-valorem tariff would be. Negative AVE are measurement

Source: Cadot and Ing (2014).

The Generalized System of Preferences (GSP) is a WTO-sanctioned system of non-reciprocal preferences offered by the EU to developing countries in order to assist them to overcome obstacles to market access in the EU. There are three main variants (arrangements) of the system:

The standard GSP scheme, which offers limited tariff reductions to developing countries, in the form of partial or entire removal of tariffs on two-thirds of all product categories.

The “GSP+”, a system of enhanced preferences involving the full elimination of tariffs on essentially the same product categories as those covered by the general arrangement for countries that have ratified and implemented international conventions on labor rights, environment and good governance.

The “Everything–But–Arms” (EBA) scheme for least-developed countries (LDCs), which grants duty-free quota-free access to all products except arms and ammunitions.

There are two basic problems with trade preferences such as the GSP. The first is called “preference erosion”—the fact that preferences granted to a large number of beneficiary countries may end up being of little benefit for anyone of them because competition between beneficiaries pushes down producer prices to a level where the incentive effect of preferences is all but eliminated.

The second problem is with rules of origin (ROO), particularly in the garments sector. The EU’s EBA initiative in its original form did not relax rules of origin mandating that, in order to qualify for preferences, garment products had to be produced out of locally-made fabric, a rule called “double transformation” (from yarn to fabric and from fabric to garment). As weaving is a capital-intensive activity that is typically not profitable in LDCs, this requirement severely undermined the usefulness of the EBA scheme. The problem was particularly apparent when compared with the US’s AGOA, which relaxed the double transformation requirement for African countries.

Recognizing these two limitations of the EBA initiative, the EU introduced phased reforms to improve its effectiveness. In 2010, the double-transformation rule was relaxed, making garments made out of imported fabric eligible for tariff-free import into the EU. Moreover, in January 2014, the EU introduced a reform of its GSP system, reducing the number of beneficiaries.

Thus, Myanmar is today joining an EBA initiative that is poised to be substantially better designed and more useful than the original version. This is of crucial importance for Chinese investors looking for advantageous locations for offshored garment production.

risks. There are no contracts, and sellers face payment default risk, exchange rate risk and failure to accept the cargo at the agreed time. For instance, if the cargo deteriorates because the buyer fails to accept the cargo on time, the buyers often demand discounts (see box in paragraph 2.1.4). Since the cargo is already on Chinese soil, the seller is left with no choice but to accept. At the same time, Myanmar's sellers become subject to price speculation whereby Chinese traders pay a lower price/demand a discount when market prices fall (between initial purchase and delivery), or only pay the agreed amount when prices soar. In addition, a lack of cold-chain infrastructure and equipment leads to frequent cargo spoilage.

2.2.2 Global opportunities opening up

Beyond its potential to generate opportunities for trade growth in particular markets, the lifting of sanctions opens up opportunities for Myanmar to benefit from all the advantages offered by the multilateral trading system. As a member of the WTO, the country is entitled to nondiscriminatory treatment by all its partners and to all the resources (special agreements, technical assistance, etc.) that WTO membership offers. As a developing country, Myanmar is eligible for tariff reductions in most industrialized countries.

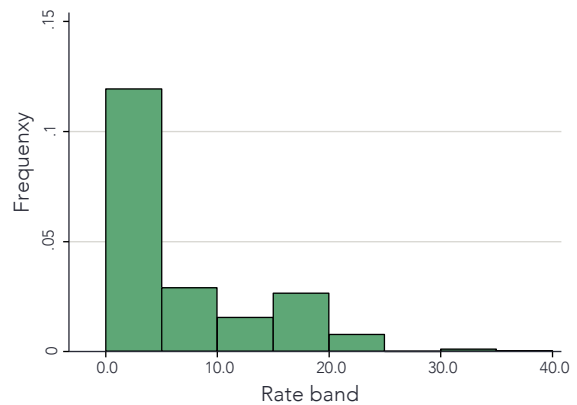
Since 2013, Myanmar has also been eligible for the EU's "Everything-But-Arms" (EBA) initiative, opening critical opportunities for the garments sector in EU markets. This could have potentially huge implications in terms of job creation. Following the ILO's June 2012 statement recognizing progress in the labor-rights situation in Myanmar, EU preferences, which had been withdrawn in 1997 as part of international sanctions, were formally reinstated on July 19, 2013. This meant that Myanmar became not only eligible for the Generalized System of Preferences (GSP), but also, as a least-developed country (LDC), to the EBA initiative. The EBA initiative offers tariff-free, quota-free access to the EU (Box 2.3).

2.3 Leveraging the opportunities

In order to successfully implement its national export strategy, it will be important for Myanmar to consider implementing radical improvements on two priority fronts: access to credit and the business environment. Reforms in trade finance, a critical area, will be required for improved clarity, consistency and predictability of rules.

2.3.1 A moderate tariff structure that could be streamlined

Figure 2.17: Myanmar's MFN tariffs are moderate



Source: Team calculations, Ministry of Commerce.

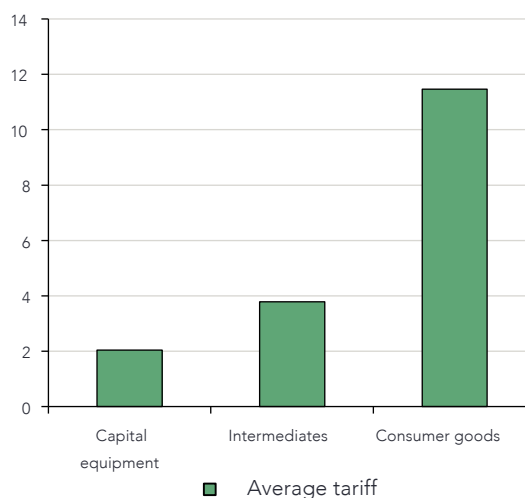
It will be important for Myanmar's policy stand to be fully consistent with its new outward-oriented development strategy, providing the right incentives for operators and serving as a signal of government commitment for potential investors. Tariffs are not a major impediment but could be simplified; in contrast, licensing will require a vigorous effort to bring the reforms currently under way to completion and ensure that they go deep in the simplification of import procedures.

TOO MANY TARIFF RATES INVITE FRAUD AND BUREAUCRACY

Rate	Number of HS8 lines	Percentage of all lines	Cumulative percentage
0	379	4.0	4.0
0.1	2	0.0	4.0
0.5	123	1.3	5.3
1	2,917	30.5	35.8
1.5	1,219	12.8	48.6
2	219	2.3	50.9
3	813	8.5	59.4
4	101	1.1	60.4
5	877	9.2	69.6
7.5	625	6.5	76.2
10	626	6.6	82.7
15	1,150	12.0	94.7
20	333	3.5	98.2
30	112	1.2	99.4
40	58	0.6	100.0
Total	9,554	100	

Source: Team calculations from Ministry of Commerce data.

Figure 2.18: Myanmar's tariff escalation avoids penalizing imports of capital equipment and intermediates



Source: Team calculations, Ministry of Commerce.

Myanmar's MFN tariff (that applies only on non-ASEAN imports) is relatively low, with a simple average of 5.6 percent and an imported-weighted average of 8.49 percent,⁸ is not a major impediment to trade. Tariff peaks at 30 and 40 percent concern essentially spirits (HS 2208) and four-wheel drive vehicles (HS 8703). In both cases, there is a legitimate argument concerning the negative externalities (in the case of four-wheel drive vehicles, this is about pollution and the safety of other road users, as these heavy vehicles tend to cause damage and casualties in other vehicles in accidents).

There is scope for simplification of Myanmar's tariff structure. Figure 2.17 shows Myanmar's tariff structure distribution simplified into bands of 5 percentage points each. However, actual tariffs vary far more and many are described as "nuisance tariffs", as they are too small to make a difference in terms of either tariff revenue or protection of domestic industries, while forcing importers and Customs to devote time to the monitoring of small payments. For instance, close to 3,000 lines have rates of 1 percent and more than 1,000 have rates of 1.5 percent (Table 2.3). So many rates create an unnecessary monitoring burden for Customs and invite fraud, as importers are tempted to negotiate the reclassification of products in categories with lower rates. It will be important to consider the full fiscal implications of any reform in this area carefully as part of the intervention to streamline tariffs.

8 Weights are calculated using mirrored imports for 2013.

Higher tariff rates on consumer goods serve to create deep preferential margins for Myanmar's ASEAN partners. In terms of incentives, the escalating structure of Myanmar's MFN tariffs encourages the domestic production of consumer goods, which fetch typically higher tariffs than capital equipment or intermediates. Low tariffs on capital goods and intermediates are crucial to avoid stifling investment and efficient sourcing. However, MFN tariffs apply only to non-preferential partners, so higher rates on consumer goods essentially serve to create deep preferential margins for Myanmar's ASEAN partners. The positive of this is that it encourages intra-regional trade, in accordance with ASEAN's objectives; the negative is that it discourages Myanmar's consumers from taking advantage of possibly cheaper consumer goods outside of the block, a source of inefficiency known as "trade diversion".

2.3.2 NTMs: Myanmar's licensing reform is well under way

Myanmar is currently undertaking an ambitious reform of its licensing system. The stakes are high. The experiences of India and Indonesia, which both liberalized highly complex and bureaucratic licensing systems in the 1990s, show that streamlining licenses can improve the business environment, attract foreign investors, and expand consumer access to high-quality products. In both India and Indonesia—and in other countries as well—the elimination of cumbersome licensing coincided with a period of deep economic modernization. A basic argument for further reform is that Myanmar's licensing system is a legacy of a period when the government was concerned about the external balance and the protection of domestic producers against foreign competition, concerns that are less pressing today.⁹ Following a depreciation of the kyat over the past few years, and barring unexpected macroeconomic shocks, the deficit in Myanmar's current account appears to be on a sustainable path; as for competitiveness, it is progressively improving and will improve further with reform of the business environment and improvements in trade facilitation and infrastructure.

Myanmar initiated a reform of its import licensing regime in 2012, when it replaced a universal non-automatic licensing requirement for all merchandise imports with a hybrid system in which a "positive list" of products was designated for

automatic licensing. In April 2013, import licensing requirements were abolished for 166 products, representing over 1,928 tariff lines at the HS 8-digit level out of a total of about 9,500 (WTO, 2014). In July 2015, the Ministry of Commerce issued Minister's Office's Decree No. 69/2015 established a "negative list" of export/import licensing requirements, which further reduced the list of products that are subject to import licenses from 78.9 percent of tariff lines to 44.8 percent of tariff lines. Within the list of products that are subject to license, the Ministry of Commerce has also identified products that are subject to automatic licenses vs. non-automatic licenses.

Enhanced capacity to properly implement the WTO's safeguard clause for trade remedies can enhance confidence for further reforms in trade licenses. Temporary price wars, which erupt from time to time on international markets, can do permanent damage to employment and the viability of SMEs. Until recently, Myanmar did not have trade-remedy laws and had to rely on licenses as a potential tool of last resort in such cases (although there has been not such occurrence so far). However, with assistance from UNESCAP, the MoC is acquiring the legal and administrative capability to use the *safeguard clause*, a WTO-consistent trade remedy, to address temporary market disruptions such as import surges that could threaten the viability of domestic producers.

The addition of a safeguard clause to Myanmar's trade-policy toolbox opens the question of why licenses are need at all. The availability of, and capacity to use, trade remedies relieves the need to use licenses as a trade remedy, offering more transparent and better protection against market turbulence to domestic producers. Here two cases need to be distinguished: if license issuance is automatic, licenses play essentially no role and have only an optional value to restrict imports administratively; but, as discussed, in the presence of a safeguard clause this is redundant. Therefore, licenses play a role only if they are non-automatic. What are the pros and cons of non-automatic licensing?

There are essentially two arguments against non-automatic licensing. The first is a legal one. Myanmar's WTO and regional commitments under ATIGA make it practically impossible to justify non-automatic licensing for commercial purposes, exposing

⁹ This note is concerned only with the import licensing system. For a description of the export licensing system, see WTO (2014).

The Ministry of Commerce (MoC) is currently undergoing a significant transition that will modify fundamentally the nature of its work. Historically, the MoC's predominant activities were to issue export and import licenses, based on policy decisions made by higher authorities. This has started to change as Myanmar reintegrates with the global economy, and the MoC has been given a mandate to coordinate and formulate policies in the following domains: trade policy, trade promotion, trade remedy, competition, and consumer protection. The MoC has also been called upon to play an active role within the government on trade-related issues that involve inter-ministerial coordination, such as trade facilitation, tariff rationalization, standards and quality infrastructure and Aid-for-Trade projects.

Similar to other government institutions in Myanmar, this transition will reduce the emphasis on clerical functions of the MoC and increase the focus on analytical and policy coordination functions. Outdated command and control mechanisms within government institutions are gradually being replaced by mechanisms that are compatible with the market-oriented economy, greater democratization, demands for accountability, and greater demands for inclusiveness.

While the MoC has emerged as a strong champion of policy reform, the transition poses significant challenges as the MoC is called on to narrow its capacity gaps to function as a modern trade ministry. There is still limited capacity in its knowledge of basic trade and economic policy issues, data analysis and report writing, policy formulation and consultations, and trade negotiations. The MoC's 3,050 staff of 12 ranks are all recruited through the civil servant recruitment process managed by the Union Civil Service Board, in addition to officers being transferred from the Army. The process of securing new recruits with adequate profiles often takes considerable time.

Currently, the MoC's staff capacity is being developed both under an internal program and with the support of development partners. The MoC has been organizing in-house trainings for staff in computers, languages, and procedures to issue trade licenses. Development partners have also been providing, and plan to provide, training on policy analysis and have organized workshops on various topics, such as NTMs, trade remedies, regional integration and trade facilitation.

Nevertheless, more assistance is needed to strengthening the MoC's capability in formulating policies and implementing policy reforms. The formulation of a comprehensive capacity development program would include a thorough needs assessment of the MoC's staff, based on both its current and future responsibilities in the area of trade-related reforms as listed in the DTIS Action Matrix. The assessment will lead to the development of a prioritized capacity development program to be implemented and monitored with the assistance of development partners, in the interest of better aid efficiency. In-class workshops could be complemented with on-the-job training, whereby experts are assigned to support specific officers who are responsible for sensitive tasks, such as those supporting decision-making in the Directorates (e.g., data analyses, policy consultations, reviewing regulations, etc.). Sending staff abroad with high-level training in specialized institutions could also be selectively promoted by the MoC. A system to incentivize staff to develop their capacity and make them more effective in their daily work could also be devised. This could include: (i) adequate incentive and career development path to reward well-performing staff; and (ii) aligning the MoC's incentives and organizational structure to ensure greater responsiveness to demand for accountability, transparency, and inclusivity in policymaking.

the country to litigation by its trade partners.¹⁰ The second argument relates to the ease of doing business. Non-automatic licenses impose a bureaucratic burden on companies already facing a difficult business environment, distracting managerial attention and reducing the “readability” of the regulatory environment. Multinational companies looking for host countries in which to locate segments of global value chains (GVC) require highly “programmable” environments, and a requirement for import licenses sends a negative signal in this regard. Thus, licensing hurts Myanmar’s attractiveness as a potential GVC partner, with potential costs for employment and the economy.

However, there is a non-trade argument in favor of the maintenance of licenses in certain cases.

Specifically, when imported products carry potential hazards to consumers or the environment, it is legitimate and may be wise for governments to impose screening. Sanitary and technical regulations have a key role to play in a modern economy, and the more liberalized the economy, the more important such regulations become.¹¹ Licenses may help in this regard if they effectively facilitate enforcement. For instance, in the case of pharmaceuticals, if licenses make it possible to effectively control the traceability of products and the qualification of importers, their maintenance is justified.

Thus, the reform’s next steps could be based on an overarching principle of equipping Myanmar with an adequate toolbox of WTO-consistent trade-policy instruments (including the safeguard clause).

In this case, licenses could be fully decoupled from trade concerns and imposed only: (i) on the basis of safety (health and environmental) concerns; and (ii) when they provide effective enforcement tools for SPS or TBT measures.¹² In terms of valuation, this means that licenses should have no implications for customs valuation; in terms of trade policy, it means that licenses should not be used to regulate supply and demand. Adopting such a “decoupled” approach would

automatically reduce the number of eligible goods to a small number (essentially foodstuffs and chemicals) and avoid ad-hoc choices.

Based on this approach, it is important that the choice of which products to keep on the “negative list” (of products still subject to licensing) be grounded on rational consumer-protection criteria. These criteria could be defined and applied in cooperation with concerned line ministries (e.g., health, agriculture, and MST) in order to generate a consensual list. This is particularly important in order to avoid the substitution, by line ministries, of other documentation requirements to replace the eliminated licenses, which could happen if licenses are eliminated without consultation.

2.3.3 Regional engagement and commitments

Myanmar can use regional economic cooperation to leverage its geographical location in a region with sustainable growth and a dynamic trade sector.

In addition to its two neighboring rising super-powers, China and India, Myanmar could also benefit substantially from integrating into the ASEAN Economic Community (AEC). As discussed in paragraph 2.1.3, Myanmar’s main opportunity for trade expansion is with Thailand and other countries in the region, either part of ASEAN or linked to ASEAN under the Regional Comprehensive Economic Partnership (RCEP). To enhance regional formal trade flows and connect to regional value chains, it will be important for Myanmar to comply with the commitments undertaken with its regional peers and most notably the ASEAN Trade in Goods Agreement (ATIGA) (Box 2.4). By structuring its trade reform program around ATIGA commitments, Myanmar will also achieve full compliance with its WTO obligations, as ATIGA is WTO+ in many regards.

Efforts to meet ATIGA commitments are being undertaken by several ministries,

under the coordination of the Ministry of Planning and Finance, which represents Myanmar at Ministerial and Senior Economic Officials Meetings, and the Department of Customs, which represents Myanmar at technical meetings (Coordinating Committee for the implementation of ATIGA–CCA). The Ministry of Commerce retains responsibility for issues relating to, among others, rules of origin, licensing, non-tariff measures, and the National Trade Repository, while other sectoral issues are dealt with by the Ministry of Agriculture, Livestock and Irrigation, the Ministry

10 For instance, under the current system, Myanmar’s import licenses determine the valuation of imported products that is used by Customs to assess the base on which border taxes are assessed. This is contrary to the WTO’s Customs Valuation Agreement.

11 See Vogel (1995, 2004, 2012).

12 In WTO jargon, SPS (sanitary and phytosanitary) measures are regulations destined to protect human, animal and plant health from pests and toxins. TBT (technical barriers to trade) measures are regulations destined to protect consumers from unsafe products and hazardous substances.

ASEAN TRADE IN GOODS AGREEMENT (ATIGA)

ATIGA entered into force on May 17, 2010, consolidating all commitments related to trade in goods and bringing greater legal certainty and transparency to regional trade liberalization. ATIGA focuses on tariff liberalization, non-tariff measures, simplification of rules of origin, Customs reform and trade facilitation.

ATIGA consolidates and streamlines all the provisions of former ASEAN Free Trade Area (AFTA) Agreement and AFTA-Common Effective Preferential Tariff, and formalizes several ministerial decisions. An Annex to ATIGA provides the full tariff reduction schedule of each AMS and spells out the tariff rates to be applied on each product for each year up to 2015. It comprises elements to ensure the realization of free flow of goods within ASEAN, including the following: tariff liberalization; removal of non-tariff barriers; rules of origin; trade facilitation; Customs; standards and conformance; and sanitary and phytosanitary measures. In order to account for challenges unique to the less-developed ASEAN member states, ATIGA also provides additional flexibility for Cambodia, Lao PDR, Myanmar and Vietnam (CLMV).

Under ATIGA, Myanmar benefits from zero-duty access for 99 percent of tariff lines in ASEAN-6 countries and in 40 to 78 percent of tariff lines in CMLV (where bounds represent differences in commitments among CLMV countries). Figure 2.19 suggests that ASEAN members, with the exception of Cambodia, are on track in meeting target of import duty elimination according to ATIGA.

of Industry, the Department of Food and Drugs Administration and the Department of Research and Innovation

The government is mapping progress towards meeting ATIGA commitments. Currently, the government is conducting a gaps assessment aimed at mapping progress towards meeting ATIGA obligations. The assessment is expected to result in a comprehensive reform matrix that can be fully streamlined in the DTIS. Initial findings from the assessment show that Myanmar is fully compliant with its commitments to reduce tariffs on trade with the other ASEAN member states. However, Myanmar still has to review products in Schedules D and E (unprocessed agricultural products) with a view to improving market access for these products, pursuant to Article 21(2).

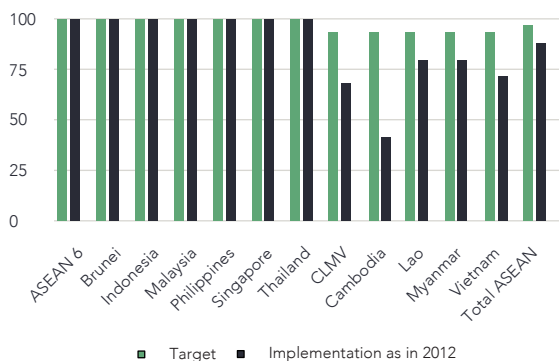
One particular area of focus is on improving transparency of trade rules and regulations. The government is actively working on several other areas covered by ATIGA, including improving transparency of trade rules and regulations. NTMs are being collected and classified to be published in the National Trade Repository, together with procedures, tariff schedules and other information required under

Article 12(2) of ATIGA.¹³ Moreover, Myanmar is also expected to publish online fees and charges under Article 7(2). The National NTM Committee was established under a Presidential Decision to ensure progress in this area. The Committee is chaired by the Ministry of Commerce, which is being assisted by the World Bank Group and USAID with the objective of improving transparency and developing capacity in the administration to assess the impact of NTMs and work towards their streamlining and simplification. However, the Committee is not fully active and the government could consider merging it with the National Trade Facilitation Committee, which is expected to be established pursuant to the Trade Facilitation Agreement. The strong limitations in the MoC's analytical capacity have justified the creation of a task force together with local think-tank organizations and academic institutions charged with providing technical support to the NTM Committee. The task force will be supported over the medium term to ensure that it can analyze the impact of NTMs on the competitiveness of Myanmar's exports and on the overall welfare of the population, as NTMs can have direct effects on market prices.

In order to ensure steady progress vis-à-vis AEC implementation, a detailed work program could be developed based on the findings of the ongoing ATIGA gaps assessment. Similar work could also be done to cover also services (ASEAN Framework Agreement on Services, or AFAS) and investment (ASEAN Comprehensive Investment Agreement, or ACIA). Given the diversity of national institutions involved, responsibility for monitoring implementation of the work plan could be formally assigned to a single institution with the mandate to report directly to the President, given the importance of the issues involved.

Myanmar also participates in ASEAN preferential agreements with ASEAN partners, namely Australia and New Zealand, China, India, Japan and the Rep. of Korea. ASEAN has started negotiation of a Regional Comprehensive Economic Partnership (RCEP), which is expected to be the new platform for regional economic agreements. It will be accompanied by

Figure 2.19: ASEAN schedule for tariff reductions under ATIGA



Source: Adopted from ASEAN and the World Bank on ASEAN Integration Monitoring Report.

13 ATIGA, Art. 12.2: "The ASEAN Trade Repository shall contain trade related information such as (i) tariff nomenclature; (ii) MFN tariffs, preferential tariffs offered under this Agreement and other Agreements of ASEAN with its Dialogue Partners; (iii) Rules of Origin; (iv) non-tariff measures; (v) national trade and customs laws and rules; (vi) procedures and documentary requirements; (vii) administrative rulings; (viii) best practices in trade facilitation applied by each Member State; and (ix) list of authorised traders of Member States."

cooperation to strengthen capacity for implementing trade and investment agreements, and places ASEAN at the center of the negotiating process.

Myanmar's participation in an ASEAN-led process for regional trade agreements can lead to a favorable outcome. So far, ASEAN has facilitated more trade flows among member countries at no expense to trade between individual member countries with outside members. It has also lowered their MFN rates in conjunction to phasing in of preferential rate for ASEAN members. RCEP, which recently started its negotiation process, can potentially help Myanmar to reduce the cost of engaging in bilateral negotiations with many countries, as ASEAN is supposed to use a single template for negotiations with its six partners (Australia, New Zealand, China, India Japan, and the Rep. of Korea). If RCEP is successfully implemented, Myanmar's exporters, particularly SMEs, can use the same form to declare the origins of goods to access preferential rates in all RCEP member countries.

2.3.4 Further reforms to promote FDI are crucial to boost growth

Myanmar has taken important steps to attract foreign investment. In 2012, the government passed a new Foreign Investment Law, which allows 100 percent foreign ownership except in activities that are restricted or prohibited through implementing regulations. It passed the Myanmar Citizens Investment Law in 2013 and promulgated the Special Economic Zones Law in 2014, which provides a framework for SEZs and generous tax incentives for investing in them.

Gradual economic liberalization has attracted significant foreign investor interest since 2011. Major multinationals involved in light manufacturing industries are investing in Myanmar and expanding their operations. Foreign direct investment (FDI) commitments rose very sharply in 2014/15. Commitments went from around US\$3.2 billion in 2013/14 to around US\$8.0 billion in 2014/15. About 40 percent of this was driven by investment commitments in the gas sector, which picked up rapidly following agreement on 20 production-sharing contracts (PSCs) in 2014/15. Commitments in the telecommunication and manufacturing sectors (20 percent each) also grew rapidly, contributing over US\$1.5 billion each in 2014/15. Foreign investment in manufacturing accounted for two-thirds of the number of newly approved FDI projects in 2014/15. A large share of these were in the garments and footwear sectors.

To sustain momentum, it will be important for the government to adopt further reforms to improve the investment climate, focusing on increased transparency and predictability. The regulatory regime needs to be overhauled in order to lower barriers and improve certainty for the private sector to conduct activities, and to avoid regulatory capture that undermines trust. While Myanmar has shown remarkable progress in improving the business environment, it could benefit from further efforts to level the playing field and allow for greater competition. This could be enabled through the adoption and implementation of several fundamental pieces of legislation that would help establish the foundations of a strong business-enabling environment. The Investment Law is a key law that unifies the Foreign Investment Law and the Myanmar Citizens Investment Law to provide a level playing field for investors, ensure adequate investor protections to provide greater confidence, and provide mechanisms for the settlement of disputes between investors and the government if they do occur. As part of this reform, the government could streamline procedures related to the investment approval process and remove the discretion that the Myanmar Investment Commission has in that process.

The draft Companies Law is another important piece of legislation, as it regulates how companies are formed and managed. The Companies Law contains provisions on key matters such as the registration of companies, the management and conduct of companies' affairs, financial reporting and audit requirements for companies, share capital and capital-raising matters, the duties of directors, and the winding-up of companies. A key issue addressed in the law that affects investment in the country is the definition of a foreign company provided in the law. Currently, a single share owned by a foreign investor classifies a company as foreign, thereby restricting land ownership. The law seeks to establish a threshold investment amount by foreigners in a local company before it is classified as a foreign company. This would allow foreign equity investment in local companies without requiring joint-venture arrangements and enable Myanmar companies to raise equity capital from abroad. This provision would also enable foreign participation in future capital markets once these are established. Another key law is the Arbitration Law, which would strengthen contract enforcement by provided alternative dispute resolution for investors, which can be faster than the prevailing practice through local courts.

2.4 SUMMING UP: RECOMMENDATIONS

By 2019, Myanmar could treble its exports of goods and services. This ambitious target is based on two sub-targets: (i) raising GDP growth to 7.7 percent per year from now on (the National Development Strategy's target); and (ii) doubling the country's openness ratio from the current one-third to two-thirds, a level more in line with Myanmar's fundamentals (comparable to that of, say, Lao PDR in around 2000). For that, exports will need to grow from now on at 20 percent annually. While this will be difficult and require many conditions if it is to be fulfilled, it is not impossible. In turn, an annual export growth rate of 20 percent would be the best guarantee that the 7.7 percent GDP growth rate is achieved. Thus, all growth objectives are inter-related.

Achieving such an ambitious target will require a well-thought-out reform sequencing, with immediate actions and more long-term ones. Some of these actions are relatively easy, some more complex; all will require assistance from development partners with experience in how to carry out complex reform programs drawn from other countries.

Immediate and relatively easy action ("quick wins") is required in the following areas:

1. **Licensing reform** is needed towards a meaningful end. No or automatic licensing should become the rule, and non-automatic licensing the exception. This means that no more than two sections (foodstuffs and chemicals) should be covered by non-automatic licensing, plus possibly a few isolated but well-chosen product lines. Moreover, licensing should have as its only objective the protection of consumers, and therefore rely on random sampling and testing rather than on systematic inspection and bureaucratic processes.
2. The capacity to produce key **economic statistics** requires rapid improvement in order to better inform government decision-making. Currently, Myanmar has very few foreign-trade or national-account statistics, severely hampering the government's ability to set realistic targets, monitor progress, and discern ultimate impacts on men, women and regional patterns of development.

In parallel, more complex reforms can be undertaken in five other areas, as follows:

1. A **garment development plan** could be implemented with assistance from development partners and consultants, including: (i) a fiscal regime ensuring simplicity but no "race to the bottom", for instance, a bonded-warehouse system ensuring the smooth clearance of imported fabric and a flat-rate corporate income tax (but no unjustified tax holidays); (ii) a labor-regulation regime inspired from Cambodia's "better factories" program sponsored by the ILO, ensuring consistency with US standards; and (iii) an infrastructure-development plan set up in dialogue with the sector's operators and potential investors in energy and transport infrastructure.
2. Similar plans for **other key sectors**, including the development of an SPS certification infrastructure (agribusiness, beans & pulses, mangos) and of an environmental certification (wood products); and the creation of a well-run import-promotion office with private-sector involvement.
3. The implementation of a **regulatory improvement** program, in collaboration with line ministries (health, agriculture), to ensure that a best-practice regulatory structure is put in place. This would imply setting up an agency with authority over government regulatory oversight (ensuring both business-friendly regulations and adequate protection of consumers and the environment) and competition policy (fighting collusion and abuses of monopoly positions), with adequate technical staffing.
4. The deployment, with development-partner assistance, of **private-sector development programs** for upgrading SMEs' and entrepreneurs' capabilities in reporting standards (e.g., financial literacy, book-keeping), processes and quality management in production.
5. The creation of a (possibly informal) dialogue structure between the Ministry of Commerce, the Planning and Finance and the Central Bank of Myanmar to ensure that **trade competitiveness** is part of macroeconomic policy, in particular exchange-rate management.

REDUCING POVERTY THROUGH TRADE

Despite Myanmar's recent growth pick-up, poverty remains prevalent. Export-led growth has the potential to reduce poverty substantially and sustainably, and offers major opportunities to remote and border areas. However, seizing these opportunities depends on key bottlenecks in labor markets being removed through adequate policies, including improvements in the coverage and quality of public education.





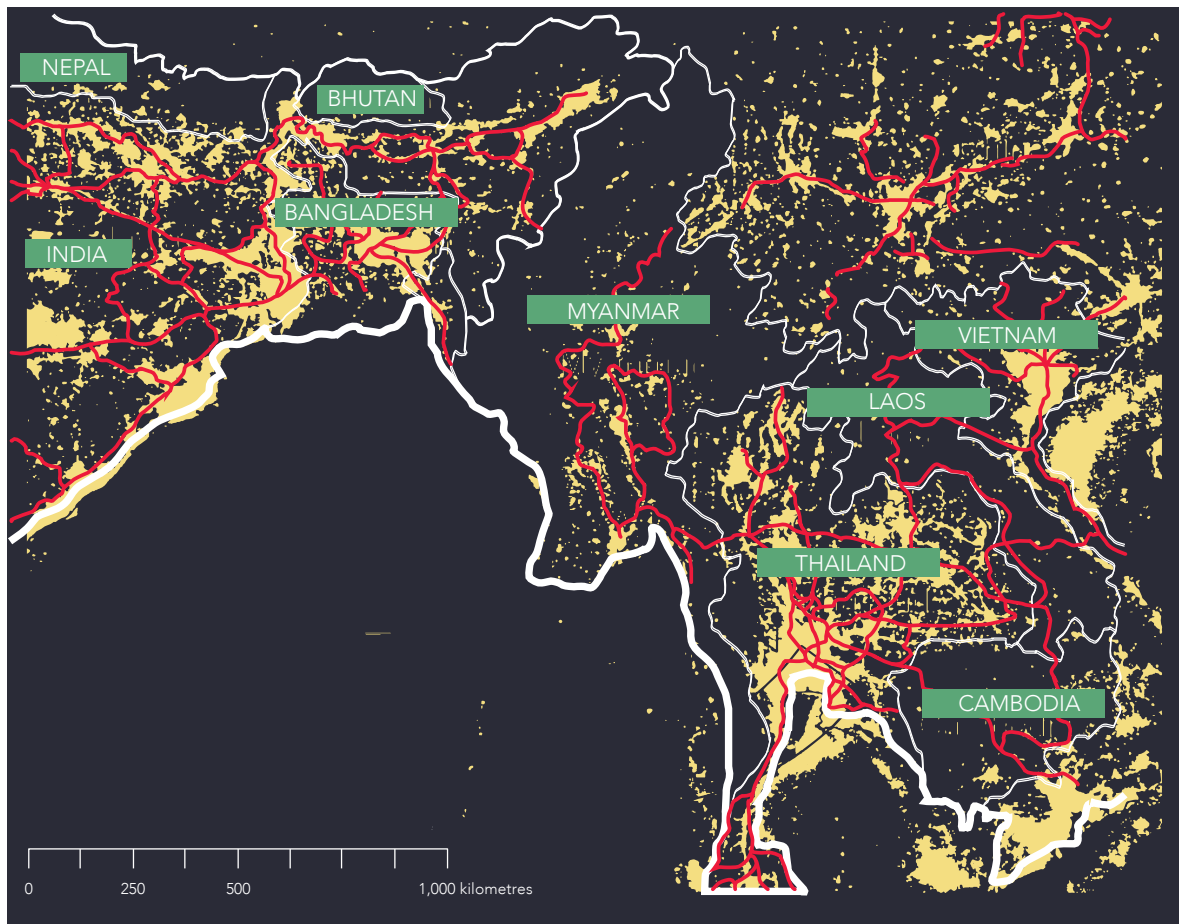
3.1 Poverty is prevalent, although its incidence varies

Myanmar's integration with the global economy promises to be a powerful force in helping the country to reduce poverty relatively rapidly. Indeed, the high poverty rate is partly the result of decades of international isolation (World Bank, 2014a). Reversing this isolation is likely to be an important step towards achieving economic growth and poverty reduction. In fact, evidence from repeated surveys carried out in rural areas shows that the general condition of the population improved significantly between 2011 and 2013 (UNDP, 2014). For example, during this period, small businesses and trade increased as a source of household income and the share of households

with one or more months without enough food to eat dropped dramatically. While the surveys are not nationally representative, they do indicate unequivocal improvements associated with the timing of the beginning of the country's political transition and integration with the global economy.

In most developing countries, poverty is predominantly a rural phenomenon and Myanmar is no exception. Three-quarters of Myanmar's poor live in rural areas. However, this is because most of Myanmar's population lives in the countryside. Poverty rates between rural and urban areas are similar, and even large cities such as Yangon and Mandalay have high poverty rates, although estimates may vary with new data. These rates in part reflect the high and rising cost of living in urban areas, especially the limited access to local services and rentals. But they are also the product of difficult labor market integration of rural-urban migrants, who have limited access to stable, well-paid jobs (World Bank, 2014a).

Figure 3.1: Increase in night lights shows rising spatial agglomeration



Notes: Yellow areas are increases in night lights from 1990 to 2013. Glow over sea areas not corrected. Red lines are major highways.

Source: Team calculations using ArcGIS software.

Poverty in Myanmar is typically higher in border regions, especially in the western part of the country. Rakhine State, for example, has relatively high poverty rates of around 80 percent with peak of over 90 percent on the Bangladeshi border, and Chin State has poverty rates of around 70 percent. Other border areas, including northern and eastern Shan and northern Kachin, also have relatively high poverty rates. Some of the distribution of poverty incidence is consistent with long-standing conflicts between the central government and ethnic armed groups (EAGs) that are concentrated in several border areas. While the poverty figures are not available for several conflict-affected townships (especially in southeastern Kayin areas) in the nationally representative survey by the UNDP in 2010, the relatively high poverty rate in Chin, northern and eastern Shan and northern Kachin states may be also consistent with the conflict incidence.¹ The legacy of conflict adds to the impact of exclusion along ethno-linguistic lines in a cycle that appears to be difficult to break.

In terms of absolute numbers, many of the poor are also concentrated in other areas. In particular, the Ayeyarwaddy region accounts for 18 percent of the country's poor and, combined with the other most populous central regions of Yangon and Mandalay, it accounts for 42.6 percent of the poor. That is due not only to the concentration of the population in the central plains (the delta and the dry zone) but also to moderately high poverty rates in these areas (e.g., 45.7 percent in Ayeyarwaddy and 34 percent in Yangon). In contrast, Chin State accounts for only 1.4 percent of the poor due to its small population, while Rakhine State accounts for 14.9 percent of Myanmar's poor, given its high rate of poverty and the relatively high population.

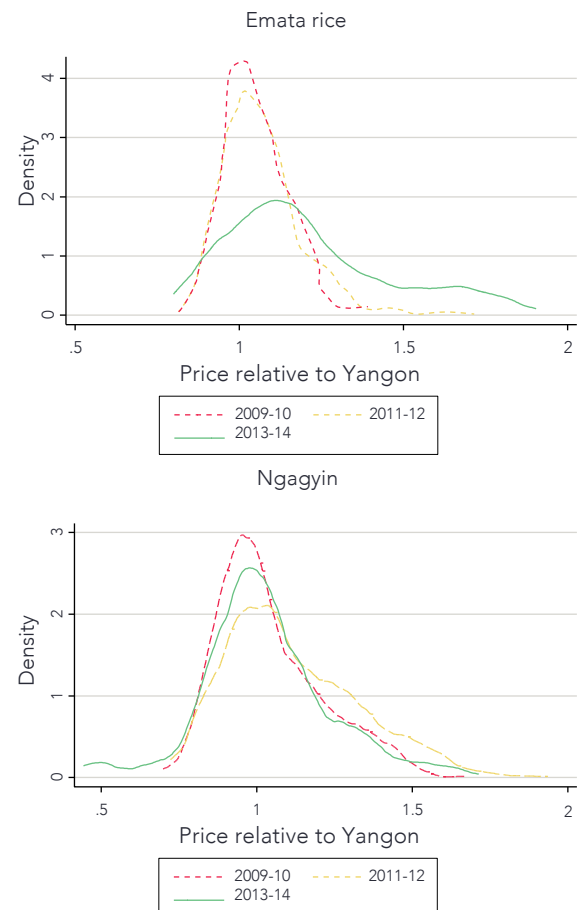
Myanmar's recent growth has reinforced the agglomeration of activity—and hence of economic opportunities—towards the center, at the expense of the peripheral regions most affected by poverty. Figure 3.1 shows the absolute increase in the night lights captured by satellites above Myanmar and neighboring countries between 1995 and 2013 (the first and latest satellite measurements). The strongest increases in night lights, which correlate closely with increases in economic activity, show up as white spots in Figure 3.1. Clearly, these increases have taken place in the country's center rather than along its border areas, reinforcing spatial inequality.

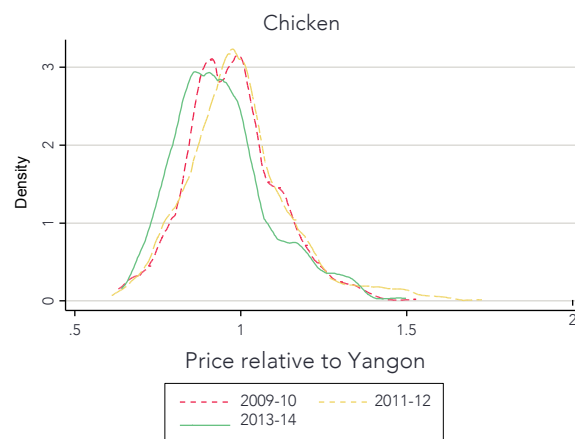
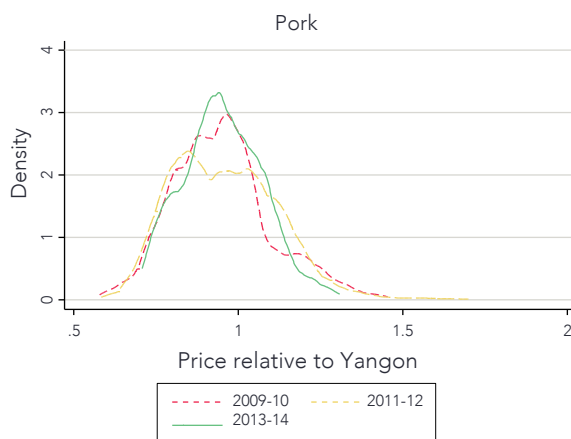
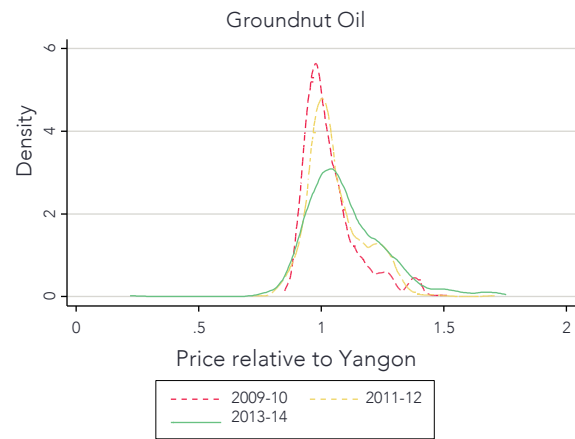
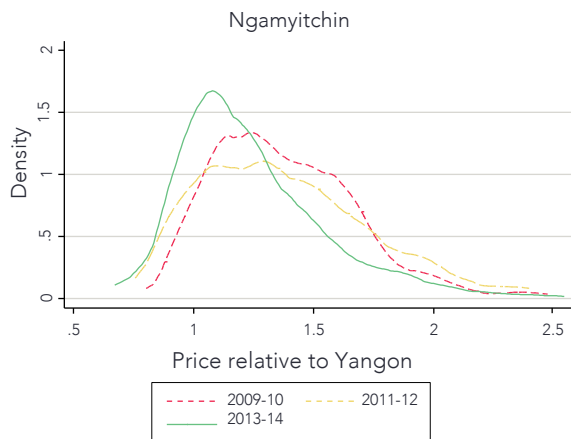
¹ While there was a ceasefire in Kachin State between 1994 and 2011, this was not very effective at improving the livelihoods of people after decades-long conflict (see Chapter 4).

The contrast is striking with neighboring Thailand, where coastal development, while dominant, has gone hand-in-hand with inland development. Figure 3.1 suggests that Thailand had large increases in night lights all the way to inland borders. In other words, border areas of Thailand also experienced economic development. Thailand's spatial development patterns, which are consistent with the predictions of economic theory, provide a possible model for Myanmar's future development.

Poverty in remote regions reflects not just the lack of economic activity in those regions but also the different cost of living. Myanmar's households also face different prices, as Figure 3.2 shows substantial price dispersion across the national territory (relative to Yangon prices) for six important food prices, with most of the distribution above Yangon prices (i.e., above 1 in Figure 3.2). Regression analysis suggests that these systematic price differences do not stem only from distance to ports and production locations. They also seem to correlate with a host of factors inhibiting the free flow of goods, including conflict and ethnic fragmentation.

Figure 3.2: Households in remote regions face higher prices





3.2 Deprived and vulnerable

3.2.1 Poverty relates to gender, limited access to land, and a limited supply of skills...

Overly small land tracts and landlessness constitute “poverty traps” for Myanmar’s poorest households.

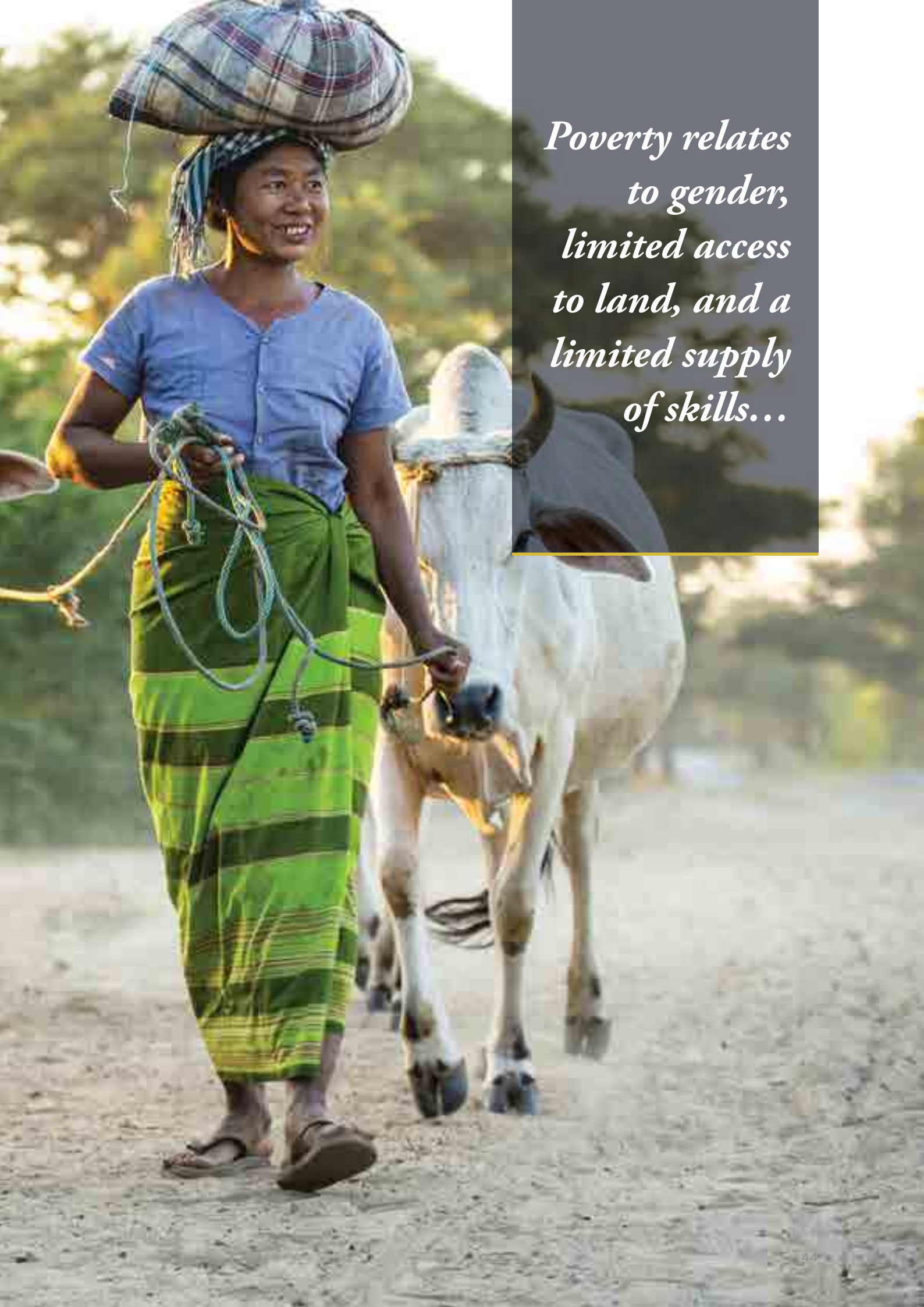
Given their rural location, the poor tend to rely on agriculture and casual employment for their livelihood. However, agriculture is the primary source of livelihoods, not just for half the poor, but also for nearly half of all households. A large share of the rural poor in Myanmar are landless or functionally landless, i.e., cultivation rights to less than 2 acres of cultivable

land (World Bank, 2014a).² Those rural dwellers constitute 40 percent of Myanmar’s population, but make up over half of the poor. The association between land and poverty is particularly strong in the delta, coastal and dry zones (Figure 3.3). In the hill zone, the correlation is less evident as landlessness is less prevalent and shifting cultivation on cleared forest land more common (World Bank, 2014a). Access to land is not only an important determinant of current poverty but it is also likely to be important in reaping the benefits of increased trade integration, as discussed below.

Widespread poverty also relates to the informality prevalent on Myanmar’s labor markets. A majority of workers are informal, with 42 percent self-employed,³ 14 percent unpaid family labor, and 5 percent casual workers (Figure 3.4). Three-fifths work

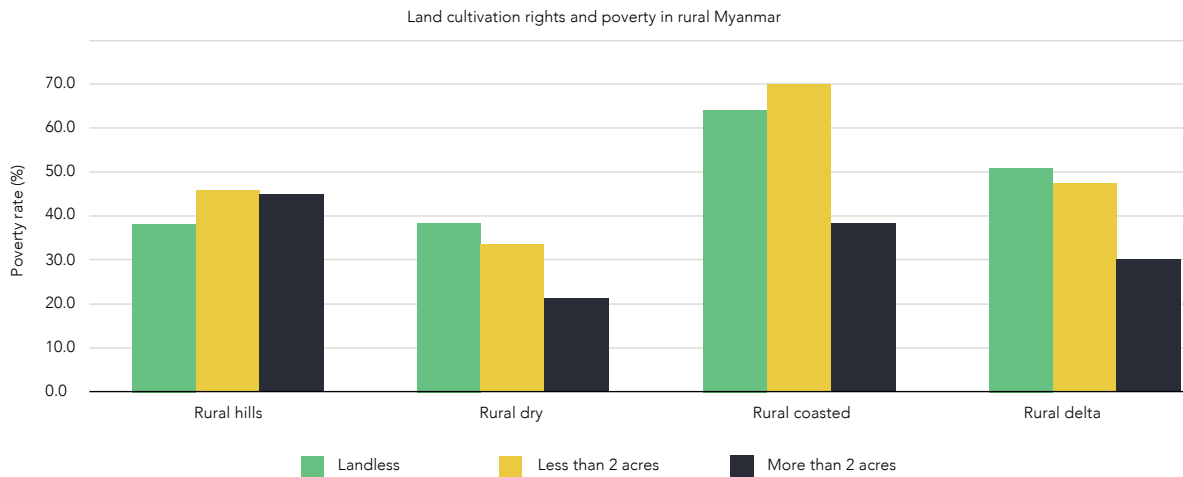
² The Ministry of Home Affairs indicated that according to Farm Land Law 2012, land for agriculture cultivation is largely under the Ministry of Agriculture, livestock and Irrigation.

³ This includes self-employed farmers.



*Poverty relates
to gender,
limited access
to land, and a
limited supply
of skills...*

Figure 3.3: Poverty correlates with landlessness in rural Myanmar

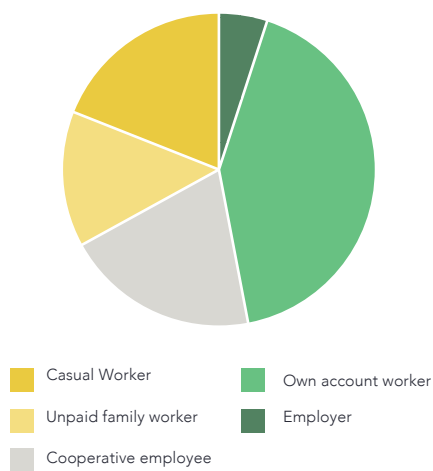


Source: World Bank (2014a).

in elementary occupations (e.g., manual labor) or as skilled agriculture or fishery workers. About 54 percent of rural casual workers are living below the poverty line (World Bank, 2014a). The association between casual work and poverty is particularly strong in the delta and coastal zones.

The poor also have, unsurprisingly, low levels of human capital, and physical and financial assets, lack reliable access to quality basic services, and are weakly connected to factor and goods markets. These characteristics are not unique to the poor but are shared to a certain degree by most of the population. For example, only 28 percent of household heads have more than primary education among the households in the bottom decile of the income distribution. However, that share is still only 36 percent for the

Figure 3.4: Workers' employment status

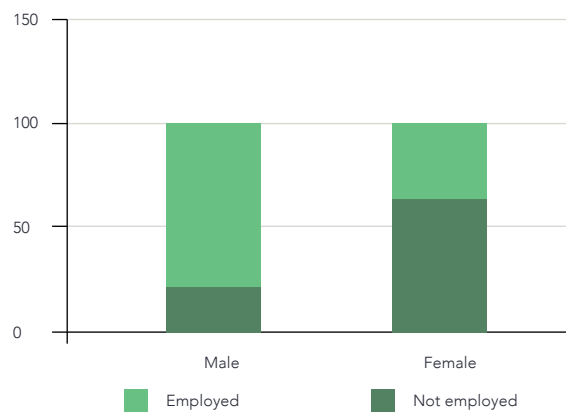


Source: Authors' calculations using the 2009-10 Household Survey.

second top decile. Similarly, access to basic services is more prevalent among the non-poor than the poor, but even the former suffer from substantial gaps in access.

Gender is also a key issue in terms of access to opportunities. While poverty hits male-headed and female-headed households in similar proportions, opportunities open to women in terms of employment are far more limited (Figure 3.5). The low level of female employment in Myanmar translates into a lack of empowerment for women in the household, a lower level of household income, and the under-utilization of the country's potential labor force. The development of a dynamic garments sector has the potential to play a key role in providing income-earning opportunities for women, provided that employment does not interfere with the ability of young girls to receive an education.

Figure 3.5: Women face fewer income-earning opportunities

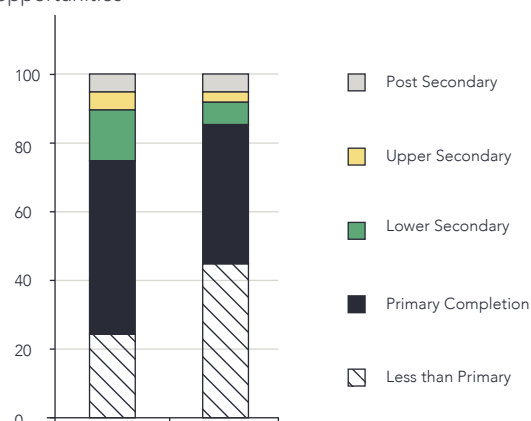


Source: Team calculations.

BETTER UNDERSTANDING THE ROLE OF GENDER IN FORMULATING TRADE POLICY

Female access to education is severely constrained, with almost 40 percent of women having no formal education. Women's progress from education to employment is highly skewed (Box 3.1). Figure 3.6 shows that female access to education is severely constrained overall, with over 40 percent of women not having any education at all. Even when employment opportunities develop in the garments sector, meaningful promotion opportunities into entry-level managerial jobs and above will open up for women only if they have adequate levels of basic education and vocational training. Similar patterns exist in agriculture where women tend to be relegated to less skilled tasks, have less access to agricultural extension information and show lower utilization of technology. In contrast, women account for a higher proportion of tertiary graduates than men. While the employment outcomes of these graduates is not yet reported, women's lower representation at senior levels of the public and private sector, including in firm ownership, means that Myanmar is not optimizing this highly educated female cohort.

Figure 3.6: Women are also have few educational opportunities



Source: Team calculations.

Female education and vocational training could therefore be a key priority for the government.

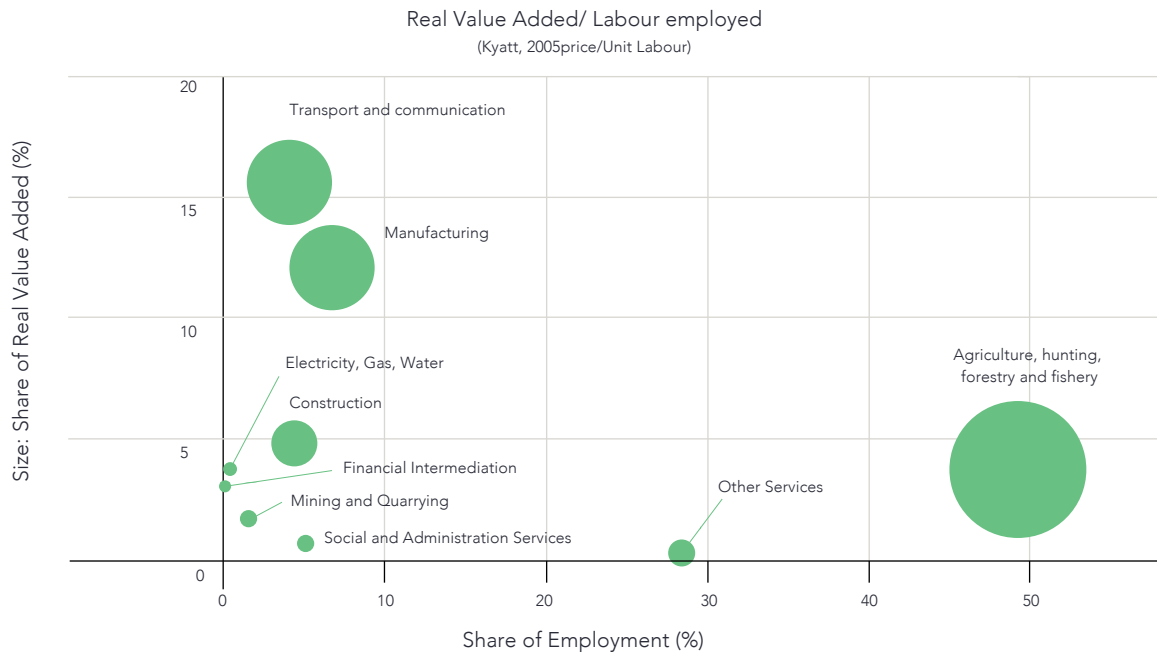
While education policy is not under the direct purview of the Ministry of Commerce, it can play a key role in facilitating partnership platforms between incoming export-oriented employers, development partners, and the Ministry of Labor, Immigration and Population and the Ministry of Education. This could ensure joint efforts in the financing and management of effective vocational training—an area in which government-private sector coordination is key to generating results.

The need to better understand the role of gender in trade is an important part of formulating a more inclusive trade policy in Myanmar.

Evidence from the developing world suggests that poverty disproportionately affects and discriminations against women, adversely affect their ability to escape poverty (World Bank and WTO, 2015). Preliminary analysis using available household survey data (HLAC, 2010) suggests that women in Myanmar have access to fewer income-earning opportunities and have a higher proportion who have not completed primary education.

While this information is useful, further data are needed in order to analytically inform the dialogue on inclusive trade reform and the options for policy intervention. In the context of Myanmar, possible gender-relevant analysis for trade and private sector development in general might include: (i) constraints affecting women workers in agribusiness, light manufacturing and tourism; (ii) discrimination against, or impediments faced by, women-led businesses; (iii) options for gender-sensitive trade facilitation for border trade; and (iv) potential economic opportunities for women in conflict-affected areas. All of these areas require the collection of data with adequate coverage of information to identify issues faced by women, such as through the labor force survey, the household survey and the enterprise survey (World Bank, 2014b).

Figure 3.7: Share of employment, labor productivity and share of sector in the economy



Note: The size of the bubble represents the sectoral share in total value-added.

Source: Authors' calculations using the 2009-10 Household Survey.

3.2.2 ...all of which feed back into low productivity

Half of all workers are engaged in the primary sector, and services dominate the remaining share of employment. But these sectors have very low productivity, as shown in Figure 3.7. Manufacturing and construction are the most productive sectors, and while they account for large shares of the economy (reflected by the large bubble sizes), they only account for 7 and 4 percent of total employment, respectively. These patterns suggest that most jobs have very low levels of productivity, consistent with Myanmar's largely agrarian economy. Three-quarters of jobs are in rural areas, and even manufacturing activities are primarily located in rural areas.

Low enrollment rates mean that Myanmar's workers are ill-prepared to meet the shifting needs of the modernizing sectors.⁴ Enrollment rates are also very low by regional standards, particularly at the middle- and high-school levels. According to 2010 data reported in the World Bank Country Partnership Framework,

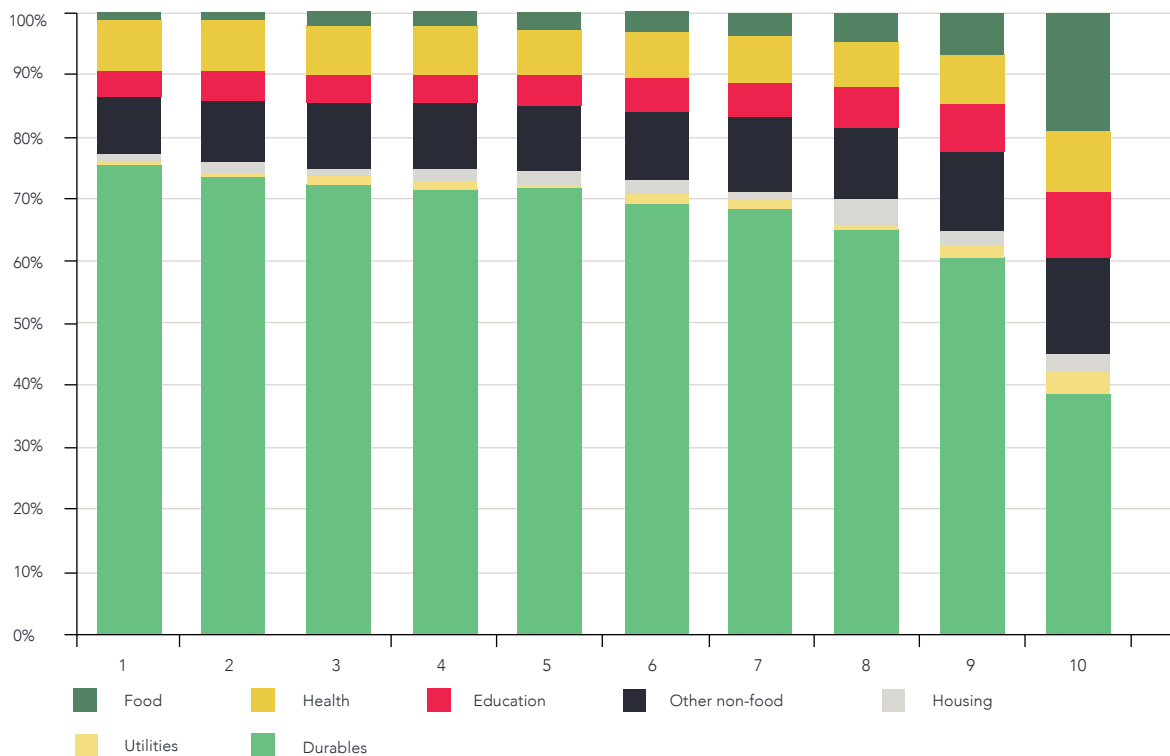
4 Many firms also face non-labor related constraints to raising their productivity adequately to meet international competition standards.

enrollment rates were 87 percent in primary school (grades 1-5), 58 percent in middle school (grades 6-8) and 32 percent in high school (grades 9-11).⁵ Poor families, especially in rural areas, have very low enrollment rates. Until recently, government resources for education were inadequate, but a renewed commitment to expand access is expected to generate better enrollment outcomes. The government has tripled its education budget over the past two years, hiring additional teachers and raising teacher salaries (which nevertheless remain low).⁶

In addition to the need to increase enrollment rates, there is significant room for improving the quality of education services. Data on leaving test pass rates for 2009 show that just over one-third of students completing secondary school passed the exit exam (Central Statistical Office Statistical Yearbook, 2009). This means that out of a Grade 1 cohort of about 1.2 million students, only 460,000 make it to 11th grade, and 166,000 successfully graduate by passing the leaving exam.

5 There is some discrepancy in enrollment measures due to different data sources and coverage.

6 Source: Forthcoming Public Expenditure Review, draft Education chapter by Lars Sondergaard, January 2015.

Figure 3.8: Food staples dominate the poor's budgets

Source: World Bank staff estimates on the basis of 2009-2010 IHLCA survey.

Myanmar's poor education outcomes—due to low enrollment rates and low quality—mean the workforce is ill-equipped to compete for skilled jobs or perform at productivity levels necessary to keep pace with the modernizing economy. This includes self-employed or micro-entrepreneurs trying to run their own informal businesses. Foundational literacy and numeracy skills are essential to participating effectively in economic opportunities, even at the most basic level. Myanmar's increasing integration into regional and global markets means that economic opportunities are rapidly changing, and Myanmar's workers are struggling because their training is inadequate for many types of employment.⁷ Furthermore, low literacy rates, particularly in rural regions where education access is weakest, undermine the capacity of farmers to acquire knowledge about improved farming techniques. On the other hand, the increasing penetration of mobile phones allows farmers to access the market information system tied to the

beans and pulses exchanges, under which daily prices are compiled into an automated audio information database accessed by phone, giving farmers up-to-date information on market prices.

Only a small number of employers provide on-the-job training to overcome the lack of preparedness, and these tend to be large firms. According to the World Bank's 2014 Enterprise Survey (World Bank, 2014b), less than 10 percent of small firms provide training to their employees. For the firms that do provide training, many tasks are firm- and product-specific, such as the use of machinery in garment manufacturing, or the maintenance and repair of specific machinery. In addition to providing on-the-job training, we encountered other coping strategies used by employers to address inadequate skills. The first is a reliance on hiring only experienced factory workers, with particular preference for migrants returning from factory work in Thailand (these workers also demand significantly higher pay). The second is to hire over-qualified workers for unskilled or semi-skilled tasks. For example, one firm hires only university graduates for agro-processing work, using the attainment of a BA degree as a signal of capacity to acquire skills.

⁷ The Myanmar education system offers only 11 years of instruction compared with 12-13 years in the rest of the region. The curriculum is outdated and the teaching techniques are based on rote memorization rather than reasoning skills. Reference: Public Expenditure Review chapter on education.

3.2.3 The poor are also vulnerable to price shocks

Because food staples constitute a dominant share of the poor's budget, trade can affect the poor through the price of food, and some form of social protection may be needed to mitigate the impact.

Figure 3.8 illustrates that food represents about 73 to 75 percent of 1st and 2nd quintile households' spending, which makes them vulnerable to price shocks. Indeed, simulations suggest that even moderate shocks on food staple prices could have severe effects on poverty, illustrating the vulnerability of Myanmar's households to price fluctuations.⁸ For instance, based on household-survey consumption patterns, a 10-percent rise in the price of rice and cereals for consumption (excluding paddy, the rice typically produced by households) could raise the cost of living by 4.3 percent and could raise the incidence of poverty by around 2.9 percentage points.⁹ A 50-percent rise would raise poverty by 14.4 percentage points, or close to half the baseline poverty rate.

3.3 Trade can reduce poverty and vulnerability

3.3.1 Export-led growth can improve outcomes for many...

International evidence shows that a more open trade policy is associated with higher economic growth in the long run.¹⁰ As economic growth is the main driver of poverty reduction (Dollar and Kraay, 2002; Ravallion, 2001; Dollar et al., 2013), increased trade also tends to be associated with poverty reduction in the long run (Dollar and Kraay, 2004). Increased trade should also boost shared prosperity, given that

8 The team used Quadratic Almost Ideal Demand System (QUAIDS) developed by Banks et al. (1997)

9 These estimates need to be adjusted in the case of households being net producers.

10 See Rodriguez and Rodrik (2000) for a critique of early studies establishing the positive link between trade openness and growth; see Feyrer (2009) and Brückner and Lederman (2012) for more recent evidence in support of the positive trade-growth link using new methods.

the elasticity of income to GDP for the poor is similar to that for the non-poor (Dollar et al., 2013). Several recent examples demonstrate the role of export growth in 'poverty reduction miracles' observed in East Asia, South East Asia, Botswana and Mauritius, among others (Cali et al., 2015).

Trade policy can also contribute to more harmonious development across regions. The agglomeration of economic activity in the country's center illustrated in Figure 3.1 results from the combination of conflict in border areas (see Chapter 4) and of Myanmar's past inward-looking policies. Theoretical and empirical research going back to the work of Krugman and Livas Elizondo (1996) has shown that inward-oriented trade policies lead to the agglomeration of economic activity around large urban centers. By contrast, open trade, in particular through overland borders, leads activity to spread out spatially.

For exporting firms or firms importing intermediaries, congestion costs offset the benefits of locating in large urban centers, leading them to choose alternative locations. In many large urban areas in developing-country megalopolis, congestion costs appear quickly because of the lack of adequate sanitary and public-transportation infrastructure, which have typically not kept pace with rapid urban population growth. For these type of firms, the domestic backward and forward linkages that lead firms to agglomerate are weaker than firms that rely significantly on local markets for their input sourcing or product sales.

Myanmar could encourage firms to move to the northern part of the country, closer to China. In the case of trade expansion with China, for example, Myanmar could make location in the northern part of the country more attractive for firms to locate under acceptable security conditions. This trade-induced spatial de-concentration of activity could be a chance for Myanmar's peripheral regions and could play a role in the integration of conflict-affected areas into the national development process, provided that markets work (in particular labor and credit markets) and that development takes place in a context of law and order where vulnerable groups are protected.

3.3.2 ...provided that key bottlenecks on factor markets are addressed

Key constraints holding back Myanmar's export growth include continuing labor-market bottlenecks and low productivity. It will be important for these constraints to be addressed through investments in education and training, as well as, possibly, active labor-market policies, although these are typically difficult to implement effectively.

Labor-market bottlenecks

Anecdotal evidence suggests that the post-isolation boom in export demand and GDP growth translated into sharply higher labor demand. As factories expanded, new factories were created, and road traffic and the demand for freight transportation and other modes of transport increased, generating a burst of transport services growth, dramatically increasing demand for labor. The increasing demand for agricultural exports such as rice, beans & pulses, and fruit may not have increased the number of farmers, but certainly increased the total area under cultivation. It has also generated jobs in basic processing, such as cleaning/sorting/packaging these products for export.¹¹ The surge in demand from once-restricted markets, such as the EU, the Rep. of Korea and Japan, has created an excess demand for labor as labor supply struggles to catch up.

But what is holding back the supply of labor in a country with a large population? This raises questions about why labor supply cannot keep up with demand, particularly given Myanmar's large population, the relatively high rate of poverty, and the low skill levels that characterize most work. Are labor shortages affecting all sectors and all skill types, or only in semi-skilled and skilled manufacturing and services sector jobs? Or are there other factors (e.g., labor mobility constraints, skills/training) impeding the matching of demand and supply?

Although there seems to be a limited structural shift from primary activities (farming/mining) to secondary (manufacturing) and tertiary (services), these shifts are beginning to occur, and workers are moving—or at least temporarily migrating—to where jobs are to be found within Myanmar. In 2009-10, 6 percent of households had at least one

temporary internal migrant,¹² and 8 percent had at least one permanent internal migrant. The states with the highest share of households with an internal migrant were Kachin (33 percent), Kayah (22 percent), Sagaing (21 percent) and Taninthayi (18 percent). Note that workers migrate due to both push and pull factors, with push factors being a dearth of local employment opportunities and high poverty rates. Logistics regressions on the determinants of internal migration indicate that households below the poverty line, or in the bottom 40 percent of the income distribution, are twice as likely to have an internal migrant compared with the non-poor or the top 60 percent of households in the income distribution.

Excess labor demand appears to affect both skilled and unskilled workers, but for different albeit related reasons. As discussed above, the majority of jobs in Myanmar are unskilled due to the relatively non-technical nature of agricultural and industrial production, and relatively low levels of capital investment. There are many reasons for low capital investment, including financial constraints, regulations prohibiting imports of used machinery, and poor supporting infrastructure, such as electricity and the transport network (discussed in other chapters). The labor part of the equation is also important: Myanmar has an abundance of unskilled labor and a severe under-supply of skilled workers. Educational attainment rates are low (as discussed above), access to educational services in remote areas is limited, education quality is poor, and technical and vocational education and training (TVET) programs are modest (e.g., the Ministry of Labor's three training centers graduate a total of 1,000 workers annually in a work force of over 30 million workers).

Excess labor demand can be seen in high turnover rates and wage increases. The signs of excess labor demand—both skilled and unskilled—are seen primarily in high turnover rates, particularly in manufacturing activities,¹³ and also by increasing wages. Unfortunately, the lack of wage data precludes us from measuring the wage inflation effect. But a sampling (non-representative) of wage data indicates that base manufacturing wages have nearly doubled in the past three years. Also, there seems to be an increase in the daily wage of unskilled day-laborers. For

11 Agricultural packaging is primarily for raw products (e.g., rice is packaged into 50 kg bags) for export to distributors/wholesalers who transform or repackage products for consumers.

12 A temporary internal migrant is one who relocates within Myanmar for work, but for three months or less. A permanent internal migrant relocates internally for more than three months.

13 Based on anecdotal evidence from interviews.

A fundamental factor exacerbating the labor shortage is the ease with which workers can migrate to readily available jobs in Thailand. Large numbers of Myanmar citizens work in Thailand, most of whom reside there at least temporarily, although the duration of residency varies significantly, from day workers to those holding 3- to 7-day border passes (renewable), to those with regularized status who have worked and lived in Thailand for over 10 years.¹

An estimated 2 million Myanmar nationals currently work in Thailand, although the number could be higher, since accurate measurement is difficult. Wages in Thailand are significantly higher, even for the least skilled workers such as agricultural day laborers. The minimum wage in Thailand is Baht 300 per day (equivalent to US\$10/day and K 12,000 per day), about three times the going wage in Myanmar. Based on an IOM survey of Myanmar migrants in Thailand,² about one-third earn less than the minimum wage (most of whom are undocumented), one-third earn the minimum wage, and one-third earn more than the minimum wage. There is significant heterogeneity in the sector of work, wages and formality status (the majority being informal), and these vary across the different regions of Thailand. Prior to migrating, about 20 percent were unemployed, one-third were self-employed farmers, and 40 percent were wage employees. About one-third comes from urban areas, two-thirds come from rural areas.

Not only are higher Thai wages attracting workers from Myanmar, the real wage is even higher given the lower cost of living in Thailand. Myanmar's prices are inflated in part due to high transportation costs given its landlocked position. The recent growth and investment boom have also driven prices higher, not only the price of labor, but also the price of consumer products and especially the cost of land.

1 The current legal maximum residency is four years.

2 Chapter 10: Assessing Potential Changes in the Migration Patterns of Myanmar Migrants and Their Impacts on Thailand, "Thailand Migration Report 2014", the United Nations Thematic Working Group on Migration in Thailand, edited by J. Huguet.

example, at Mandalay Port, a steady supply of informal workers—mostly internal migrants—camp along the river banks in search of day work loading/unloading cargo. The current (end-2014) daily rate averages K 10,000 per day, more than double the pay of semi-skilled factory workers.

The inability of Myanmar’s employers to offer more attractive wages despite excess labor demand highlights the need to improve profitability through better quality. Despite significant wage growth since 2011, wages in Myanmar remain very low compared with other lower-middle income countries. Some firms have offered higher wages to attract and retain workers, reducing turnover and maintaining a trained workforce with specific skills and acquired expertise that raise the productivity of the firm. Nevertheless, there is tight competition between firms, so employers are wary of becoming involved in a price war and seeing their trained workers poached by competitors offering marginally better compensation. Moreover, given the prevalence of low quality of outputs, some producers are operating with very small margins that may not be able to accommodate significantly higher wages. And where margins are sufficient, employers may be loath to raise wages without a link to productivity gains.

As industrial and farming activity and exports continue to grow, the labor shortage for unskilled workers could begin to push up wages, thereby diminishing Myanmar’s comparative advantage regarding low wages in attracting FDI. On the other hand, this could have the positive effect of attracting skilled migrants back from Thailand. But the wage gap is very large and would require significant wage increases in Myanmar and most likely a long adjustment period. Moreover, the Thai economy relies heavily on migrants, who make up 7 percent of its total labor force, and between two-thirds and three-quarters of Thailand’s roughly 3 million migrants come from Myanmar.

Lower wages in Myanmar compared with neighboring countries may deter Myanmar’s migrant workers from returning home. According to a survey of Myanmar migrants in Thailand, most intend to return to Myanmar eventually (80 percent, according to the IOM survey),¹⁴ but relative wages are very low and many plan to accumulate significant savings first

because they want to return to their villages, not to economic opportunities in urban centers. The factors determining the migration decision could change as Myanmar’s economy grows, and alternative and more attractive employment becomes available. On the other hand, nearly two-thirds of surveyed migrants say they would require at least the same level of income in Myanmar to induce them to return from Thailand (Box 3.2).¹⁵

Specific skill shortages

The shortage of skilled professionals is especially acute. Yangon University, a leading institution of higher learning in the region in the 1950s, suffered unrest in the 1960s and periods of closure in the 1980s and 1990s. According to the CESR report (2012), “[b]etween 1988 and 2000, universities in Yangon were closed for 10 out of 12 years”. For example, graduates from business-related disciplines such as accountancy and marketing, and more technical skills such as engineering, are difficult for employers to find. Demand and competition for these skills is so great that turnover rates are high and wages at the very top of the skills spectrum are being bid upwards. Firms participating in the World Bank’s 2014 Enterprise Survey (World Bank, 2014b) cited the dearth of skilled workers as one of the biggest constraints to firms operating in Myanmar.

Part of the reason is the drain of migrant workers abroad seeking better opportunities and pay. Nearly 4 percent of households in Myanmar have at least one permanent external migrant.¹⁶ The states with the highest share of households with an external migrant were Tanintharyi (20 percent), Kayin (19 percent) and Chin (16 percent). This contrasts with the recent UN survey of migrants in Thailand, which indicates that most migrants come from states bordering Thailand, with the largest share being from Shan State.¹⁷ Logistics regressions on the determinants of external migration indicate that poor and vulnerable households are

14 “Assessing Potential Changes in the Migration Patterns of Myanmar Migrants and Their Impacts on Thailand”, International Organization for Migration, Country Mission in Thailand, December 2013.

15 Thailand’s stance on immigration has evolved over time, with periodic initiatives to regularize immigrants, which involves a degree of legal and social protection while at the same time imposing a fixed duration for legal residency. But unskilled migrants are not allowed permanent residency, and informal workers are ineligible for social security, although an increasing number of migrants can pay for optional health insurance coverage.

16 More than three months.

17 “Thailand Migration Report 2014”, United Nations Thematic Working Group on Migration in Thailand, edited by J. Huguet.

more likely to have an external migrant. For migrants to Thailand, large numbers are informal and work in agriculture, fishing, construction and domestic work.¹⁸

Low productivity

Labor productivity and therefore skills need to at least keep pace with wages. If Myanmar's workers are to compete regionally and internationally, average labor productivity will need to rise significantly. Even if wages for unskilled work remain competitive, there are non-wage factors that determine labor productivity relative to labor cost, including both cognitive and non-cognitive skills. For example, firms perceive a lack of soft skills even among highly skilled workers. And with respect to the knowledge economy, Myanmar ranks almost last out of 145 countries in the World Bank's Knowledge Economy index, which assesses country preparedness for competing in the knowledge economy.¹⁹

The acquisition of workplace skills is essential to firm productivity, competitiveness and ultimately, inclusive growth. Addressing the skills gap is critical for improving the productivity and competitiveness of Myanmar firms, especially SMEs, which are less able to provide training to their workers directly.

Low wages are not enough to attract investment. Myanmar's unskilled but very low-wage work force has been adequate to attract foreign investment so far, but the level and intensity of capital investment have been limited by the lack of supporting infrastructure. Low wages are not enough on their own; inputs need to arrive undamaged and on time to the production line, and outputs need to be packaged, quality controlled and delivered to market. These various supply chain processes require efficient and reliable logistics and other supporting services, aspects of Myanmar's economy that remain underdeveloped. Without concurrent progress in these areas, the economy will struggle to attract very large amounts of FDI that can help it to move more quickly up the value chain.

18 Ibid.

19 <http://siteresources.worldbank.org/INTUNIKAM/Re-sources/2012.pdf>

3.4 Policy Options

3.4.1 Education

Closing the skills gap will require intensified efforts on the part of the government to improve education outcomes. These could focus on expanding education access in remote areas, increasing enrollment rates so that a secondary education becomes the norm, curriculum reform to better align graduates' skills with the demands of the private sector, and upgrading the quality of teaching. The most effective way to address competitiveness challenges in a country with low human capital levels such as Myanmar is to focus on basic education, rather than industry-specific skills, and can help to foster more broad-based job creation and therefore more inclusive growth.

Technical and vocational education training (TVET) programs attempt to address the skills shortage but may not have the scale to have much impact in Myanmar. The Ministry of Labor (reorganized as the Ministry of Labor, Immigration and Population in April 1st, 2016), fully aware of the skills shortage, is currently expanding its offerings, with development partner technical assistance. The Ministry of Labor has three training centers—in Yangon, Mandalay and Patheingyi—that provide skills in nine disciplines (e.g., welding, electrical, AC, pipe-fitting, etc.).²⁰ The TVET budget is K 90 million per year, allowing the training of 1,000 people annually, which is unlikely to make much of a dent in labor market demand. The Ministry of Industry is also directly engaged in TVET, and training about 1,000 participants annually through six training schools and another 1,200 participants through “Mobile TVET” throughout the country. Other ministries also provide training (e.g., the Border Affairs, Agriculture and Tourism), and the government wants to further expand its TVET capacity (under the National Education Law). To finance this expanded skills development program, the government plans to establish a skills development fund financed by employers, equivalent to 0.5 percent of employee salaries, as well as through PPP arrangements with training institutes. Ultimately, the TVET programs will be combined into a polytechnic institute with equivalence to the post-secondary level.

20 The Mandalay center offers training in only two disciplines, and the Patheingyi center in only one discipline.

Myanmar is also participating in an ASEAN-based skills upgrading effort. This ASEAN-based effort focuses on accreditation of training centers, establishing national competency standards, and certification of competencies (i.e., testing). It has signed eight Mutual Recognition Agreements (MRAs) for professional workers under ASEAN. GIZ is providing TA to implement a pilot project for skills development, the first round of which has been completed. The training/certification framework will encompass four of the eight levels in the national qualification framework. The government is also drafting an Employment and Skills Development Law. The government's objective is to ensure that Myanmar's workers can compete locally with labor inflows from other ASEAN countries post-AEC, as well as compete internationally in other ASEAN countries in the context of potentially higher labor demand for Myanmar workers abroad.

3.4.2 Active labor-market policies

Helping employers to find workers and helping workers to find jobs can increase the efficiency of the labor market. Active labor market policies typically provided in other countries include employment information services, pre-service training for new labor force entrants, job centers that help employers and employees create good matches, and policies to increase labor mobility. Further analysis of the dynamics of Myanmar's labor market is necessary in order to recommend measures to address the most pressing needs.

Support for external migrants would be helpful in boosting remittances. In order to enhance the positive impact on development of migration outside of Myanmar, the government could seek to develop additional protocols on cross-border worker movements to complement the migrant documentation currently required by Thailand (the largest receiving country), and also extend these to other ASEAN member countries. There may be other aspects of support for external migrants that could facilitate skills development and transfer to the domestic economy, such as through lowering the cost of remittances, and/or improving access to financial services and schooling options for itinerant workers and their families, among others.

3.4.3 Closing the data gap

There is currently a lack of relevant employment data. The dearth of employment data makes it difficult to document carefully the characteristics of employment in terms of sectoral, occupational, geographic and gender composition, particularly with respect to their evolution in the post-isolation period and how particular population groups have been affected. The Ministry of Labor publishes annual data on formal employment using surveys of firms enrolled in social security. The data cover 18 industrial zones across nine sectors (ISIC codes), as well as data from outside the industrial zones. But these data cover only 850,000 social security affiliates—i.e., formal sector employees—out of a likely total employment level of around 30 million.

The Ministry of Labor is now engaged in an extensive effort to improve its labor data. In early 2015, the Ministry of Labor fielded a labor force survey (LFS) of 26,000 households, with financial and technical assistance from the ILO and some technical input from the World Bank. This is the first LFS since 1990. The World Bank provided the sample frame based on the recent census and also conducted its own pilot survey of 3,648 households in 2015.

It is essential for the government to be able to track the evolution of job creation and job quality for the entire economy. Looking ahead, it will be important for the government to collect labor-force survey data and/or household survey data, as well as agricultural census data, on a regular basis in order to track the evolution of job creation and job quality for the entire economy, both formal and informal, and to highlight any divides between men and women or particular ethnic populations and regions. Making the data publicly available will increase their usefulness and allow both the government statistical offices and researchers from a range of research centers and development institutions to analyze the data. Such analysis will be useful to inform the government's labor strategy and identify welfare measures that can be used to target social protection or other government services to needy population groups.

OPENING UP FOR PEACE

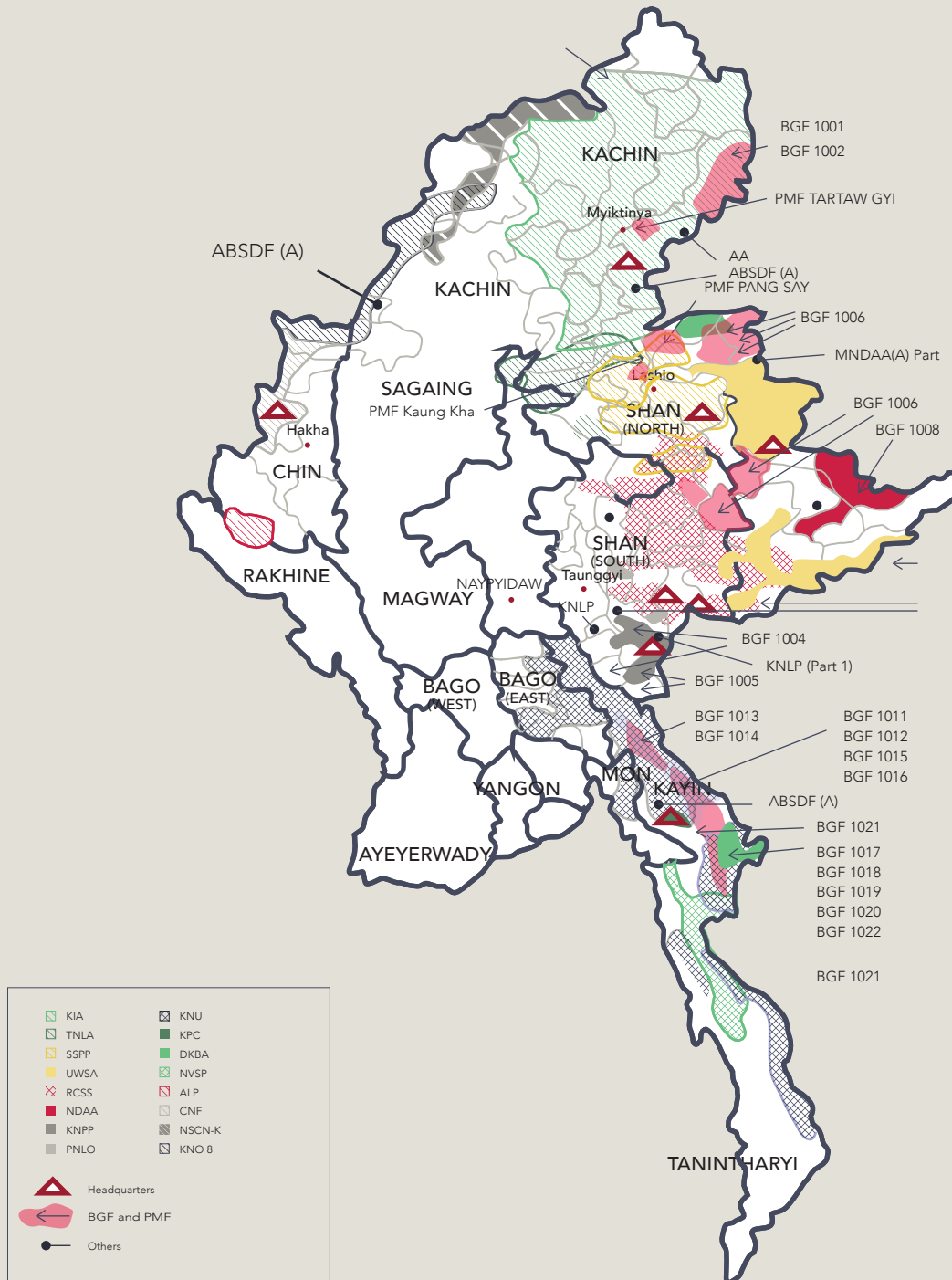
Trade opens new economic opportunities for populations that have long been isolated by years of conflict. But the development of trade also carries risks of increased tensions if its benefits are not perceived as being shared fairly and/or if proper safeguards are not put in place to protect vulnerable groups from expropriation, environmental degradation, or poor working conditions. Such safeguards could take cross-cutting forms, such as legal definition and enforcement of property rights, in particular for traditional farmers, transparency in large contracts, and project-specific measures. It is important that trade development plans in ethnic areas in Myanmar recognize the tension-creating potential of large projects and include proactive consultations with ethnic minorities in their early design. Support for local ethnic communities could be made available to compensate those groups that stand to lose from trade-induced changes.





Photo credit © Minzayar - Natural Resource Governance Institute (NRGI)

Figure 4.1: Many areas were still controlled by EAGs in 2014

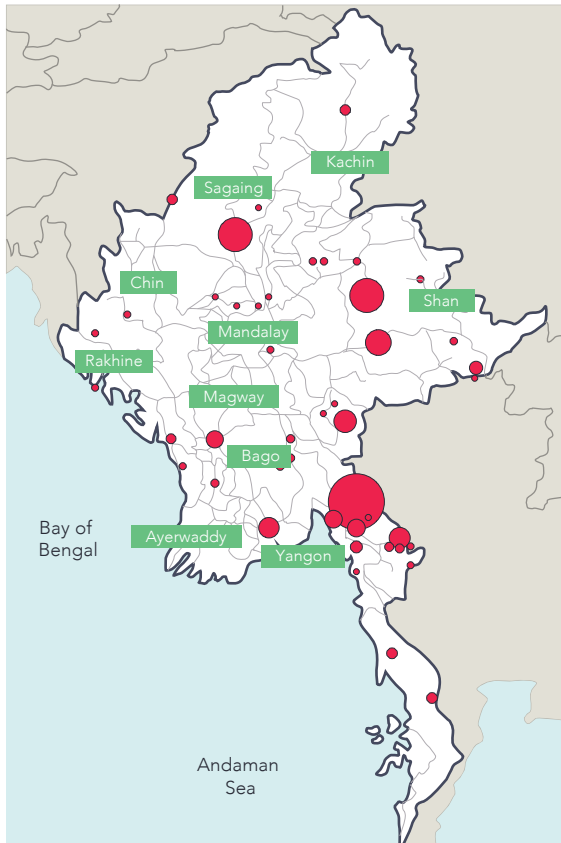


Source: Burma News International, "Deciphering Myanmar's Peace Process," 2014, p. 45.

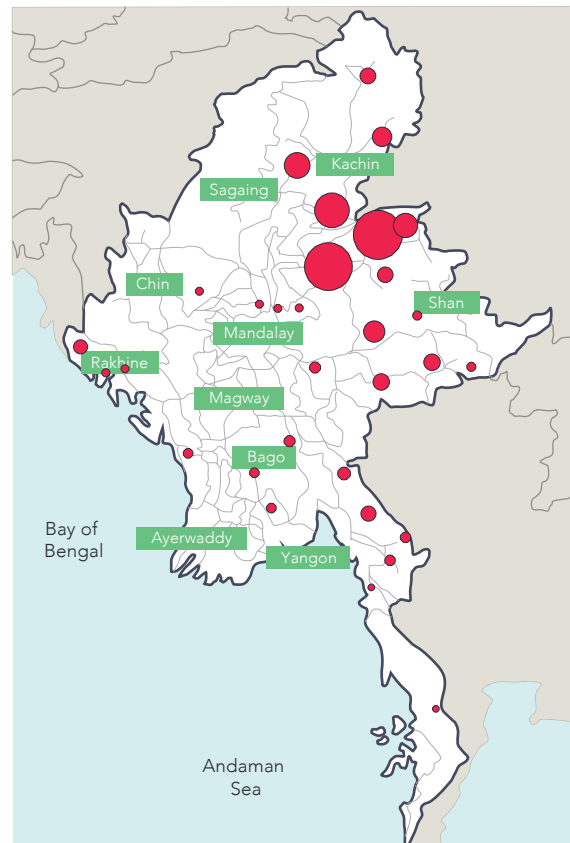
4.1 Shaking off a legacy of conflict

Figure 4.2: The locus of armed conflict areas has shifted

Panel A: 1997-2009



Panel B: Sept. 2011-Mar. 2015



Source: Myanmar Peace Monitor for 2011-15 data and ACLED for 1997-2009 data.

Myanmar's effort to reengage with the global economy is taking place against a backdrop of internal conflicts and efforts to secure peace with ethnic armed groups (EAGs). Myanmar is home to an ethnically diverse population, with around 135 ethnic groups. Internal conflicts started almost immediately after the declaration of Burma's independence, driven by numerous factors, including ideological, religious and ethnic differences, and historically different administrative structures from the British era (Taylor, 2009).¹ Natural resources, while not often mentioned by ethnic groups as a reason for conflict, were certainly

one consideration among many for ethnic groups to seek greater autonomy in a federal structure. The Communist Party of Burma began to engage in hostilities in 1948, while Myanmar's longest-running civil war, with the Karen National Union (KNU), was officially declared in January 1949 (Keenan, 2012). Numerous other ethnic groups also have longstanding hostilities against the government. Many of the ethnic minority groups maintained control over territory, establishing de facto "mini states" including administration, schools and hospitals, and sought to defend their "liberated" areas" (International Crisis Group, 2003). From 1989 to 1995, the military negotiated ceasefires with over 25 insurgent groups, the first of which were parts of the failed Communist Party of Burma (South, 2011). These ceasefire deals were often unwritten, allowed groups to retain weapons and some territorial control, and rewarded them with

¹ According to Taylor, one of the key causes of the post-independence Karen conflict was a "growing perception that the state could not protect the Karen Christian community, and that the Karen thus owed a higher loyalty to their ethnic label than to the state."

business concessions, especially in natural resource extraction, including mines and timber (Min Zaw Oo, 2013). In 2011, the government began signing a new series of temporary ceasefire agreements with ethnic minority groups. By the middle of 2012, 13 EAGs had reached ceasefire agreements with the government (Min Zaw Oo, 2013). In March 2015, ethnic leaders and the Myanmar government agreed on a draft nationwide ceasefire agreement (NCA), an important step in the peace process.²

While ceasefires have helped to improve the situation on the ground in some parts of Myanmar, many ceasefire areas are not universally seen as secure (Figure 41). Conflict has resumed in other parts of Myanmar, notably in Kachin and Shan states. In February 2015, fighting also erupted in Kokang, between the government and the Myanmar National Democratic Alliance Army (MNDAA), which also had a ceasefire with the previous regime. Besides the conflicts between the Myanmar military (*Tatmadaw*) and EAGs, the country has also experienced a surge in communal violence between different religious groups in Rakhine State.

The geographical concentration of conflict has shifted over time with increased intensity in north-eastern Myanmar. Figure 4.2 shows changing patterns of conflict over time and across Myanmar. Panel A shows data from media reports gathered by the Armed Conflict Location Events Dataset (ACLED), suggesting that between 1997 and 2009, conflict was relatively concentrated in Kayin State and Kayah State and Sagaing Division, and much less in Kachin and Rakhine states, where conflict was essentially absent. Panel B draws on over 700 different reports of conflict incidence collated by the Myanmar Peace Monitor between September 2011 and March 2015. The incidents are concentrated in northeastern Shan State and southern Kachin State, and to a lesser extent in southern Shan, Kayin and Rakhine states. This pattern is different to that registered in the pre-ceasefire period, when the ACLED suggests that the conflict was relatively concentrated in Kayin and Kayah states. Figure 4.2 also suggests that areas of historical conflict only partly overlap geographically with the current conflict areas. The conflict mapping also shows that despite the current ceasefire, conflict incidents still happen in these areas.

2 However, the NCA was short on detail of key components, such as a military code of conduct or interim arrangements for EAGs. Much remains undiscussed, most importantly the entirety of the political dialogue that will form the basis for a final peace agreement.

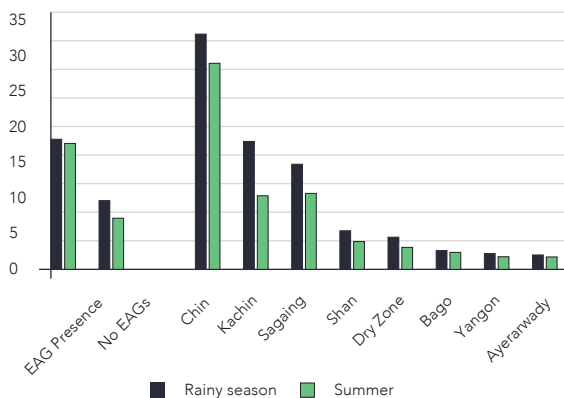
Besides the loss of life, conflict in Myanmar has often lead to forced labor, land confiscation, arbitrary taxation, exploitation of forestry and natural resources, and restrictions on movement, which has stifled productive economic activity and bred distrust and resentment between the state and the local populace. Given the ongoing conflicts and illicit nature of many of these activities, systematic figures on their pervasiveness do not exist. However, there is widespread documentation of their existence and consequences. Practices such as forced labor and forced conscription were previously ‘widespread’ in Myanmar, according to some reports.³ DTIS team interviews suggest that the intensity of such practices has reduced in most ceasefire areas although it has not ceased altogether.⁴ Conflict drained fiscal resources that could otherwise have been spent on productive activities: the previous military government apportioned around 20-25 percent of total government spending during the 2000s of the budget for military purposes (IMF, 2007).⁵ Conflict creates uncertainty and risk for businesses, particularly small businesses, deterring investment and disrupting trade. For example, fighting in Myanmar’s Kokang region in early 2015 led to the imposition of martial law and the closure of many roads. Trade through Myanmar’s most important land border crossing to China, Muse/Ruuli, decreased and all trade was halted as Myanmar’s third-largest crossing at Chin Shwe Haw was temporarily closed and almost all businesses in that town also shuttered as residents fled in fear of the fighting (Kyaw Hsu Mon, 2014 ; Kyaw Hsu Mon, 2015 ; and the EU-Myanmar Center, 2014).

3 ILO (2012), “Decent Work in Myanmar” for forced labor, see Earthrights International, (2003). The DTIS team interviews found that nearly half of the interviewees complained about some kind of land confiscation, while nearly one quarter had experienced corrupt or arbitrary taxation of livestock and shops or businesses. About the same had shared reported forced labor (Vicary, 2005).

4 The ILO Liaison Officer in Yangon noted in a recent interview with the Irrawaddy newspaper: “In the regions where the army has a heavy presence, the situation continues to be serious. And it is the army that enforces mainly forced labor. And it is the army which is the problem, in terms of action too.” (Hong-Trang Perret-Nguyen, Interview with the Irrawaddy).

5 The estimates of military spending are likely to understate the true level of resources flowing into the military, for multiple reasons. A multi-tiered exchange rate system obscures official figures by undervaluing imported military equipment, while official budget figures do not include any funds or in-kind resources raised at local levels, either voluntarily or involuntarily.

Figure 4.3: Average distance between villages to the closest markets (in hours)



Source: WFP Agricultural Survey 2013/14.

The large economic costs of conflict in Myanmar are consistent with the evidence from other civil conflicts. Evidence from Sierra Leone (Collier and Duponchel, 2013) and Côte d'Ivoire (Klapper et al., 2013) shows the large direct impact of conflict on individual earnings as demand for and production of goods and services are disrupted. Ksoll et al. (2013) also show the large negative impact of political violence in Kenya on exports, especially by restricting the mobility of labor. Conflict can also restrict the mobility of goods as in the case of the Israeli checkpoints in the Palestinian territories, which have large negative economic impacts (Cali and Miaari, 2013). In the Basque region of Spain, conflict-related violence significantly reduced economic growth relative to neighboring regions (Abadie and Gardeazabal, 2003). Conflict can dramatically increase poverty, too. In Rwanda, for example, 20 percent of the population sank into poverty following the genocide (Justino and Verwimp, 2006). Taken together, the international evidence clearly suggests that conflict reduces incomes, demand, production and trade, and increases poverty. This pattern is also likely to apply to the conflict-affected regions of Myanmar, although the lack of systematic socio-economic data in conflict affected areas does not currently allow us to test this hypothesis more formally.

A legacy of predatory behavior against local ethnic populations by the various parties involved in fighting is likely to affect their response to new trade opportunities. Various reports suggest that the military and ethnic armed groups engaged in conflict often imposed arbitrary taxation, forced labor and

land confiscation on the local population.⁶ While the state often lacked the transparency in granting concessions for the extraction of forest and natural resources, armed groups also used revenue from natural resources and the taxing of borders and local trade to finance their struggle or to sustain their survival. Such experiences may cause passiveness or abnormal responses of individuals and businesses in conflict areas to the growing trade opportunities, such as avoiding to produce surpluses, staying small to avoid arbitrary taxation, and staying away from main roads to avoid confiscation of assets, property and production by actors involved in armed conflict.

4.2 Trade can help give peace a chance in Myanmar

4.2.1 Trade can provide opportunities for border regions...

Experience from other countries and Myanmar suggests that higher income from trade opportunities and lower prices are important channels associated with a reduction in conflict intensity. In Colombia, higher incomes among coffee growers (due to increases in international coffee prices) were associated with reductions in conflict intensity (Dube and Vargas, 2013). Similarly, Palestinian localities that experienced positive export shocks experienced a lower intensity of subsequent conflict (Cali and Miaari, 2014). Berman and Couttenier (2014) show that these conflict-reducing effects also apply to African regions that benefitted from the introduction of preferential market access in the US. International evidence suggests that a reduction in the prices of the main commodities consumed by households raises their real incomes and reduces the risk of violence (Bellemare, 2015). For Myanmar as well, there seems to be a strong association between reduced conflict intensity and increased trade, as measured by price differentials (Abidoye and Cali, 2015).

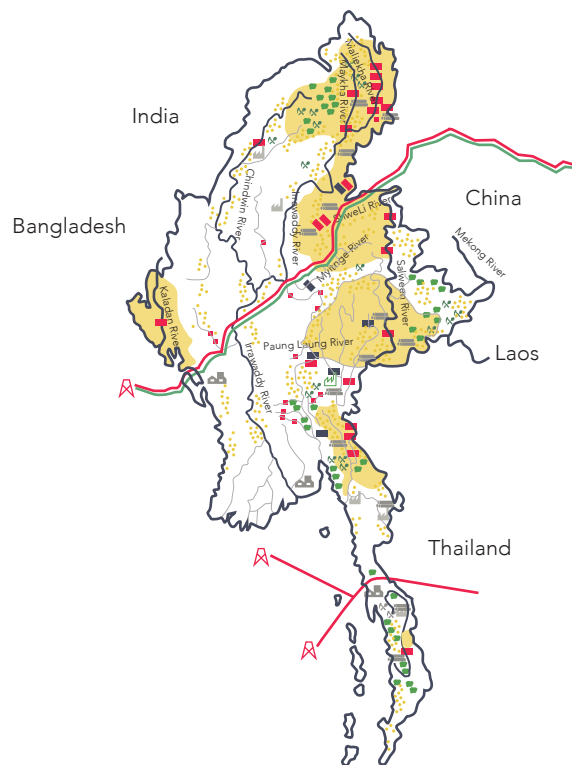
⁶ The pattern is well-documented in the Karen Human Rights Groups "orders reports", which contain translations of written orders from the military to villagers. Here are two samples, one from 1998 and one from 2008-11: <http://www.khrg.org/1998/03/khrg9802/slorc-orders-villages-set-98-pa%E2%80%99an-district-central-karen-state> and <http://www.khrg.org/2011/10/khrg1103/civilian-and-military-order-documents-march-2008-july-2011>

Trade can help to connect ethnic areas of Myanmar, long isolated by conflict, with the rest of the economy, and expand opportunities for rural communities beyond subsistence agriculture. In doing so, trade holds the promise of increasing production, reducing prices and increasing incomes. This can also help to reduce the conflict risk in these areas by increasing the opportunity cost of engaging in conflict, which is the cost of using the time to engage in activities other than income-generating ones. The higher the income, the higher the cost of engaging in militias and armed groups.

International trade can also encourage the location of economic activity in border areas, helping to prevent its excessive agglomeration around large urban centers. International trade is, in general, a factor of spatial de-concentration of economic activity, as hypothesized long ago by Krugman and Livas-Elizondo (1996). As mentioned above, recent research shows that relatively closed borders and inward-oriented trade policies lead to agglomeration of economic activity in large cities and away from border regions, while expanding international trade leads activity to spread out spatially. This has been observed in an African context using night lights captured by satellites. On average, across countries, night lights tend to become sparser as one gets closer to borders. However, in the case of borders characterized by good facilitation and logistics, this effect is reduced, showing that economic activity develops in border areas.

Given the relative isolation of many of the conflict-affected regions, these channels may be particularly important for Myanmar as trade integration has more potential to raise incomes and reduce consumer prices. In addition, many of the ethnic areas are plagued with difficult geography and low market density, which can increase the returns to investing in trade-related infrastructure. A survey of the UN's World Food Programme (WFP) of 796 villages across seven states plus the dry zone suggests that villages with a presence of one or more EAGs have on average a substantially higher distance from the closest market than villages in other areas (Figure 4.3). Conflict-affected regions, including Chin and Kachin states, record the largest average time to the closest markets. Villages in Shan also have on average a higher than median time to markets.

Figure 4.4: Natural resources concessions and conflict areas



Map of Natural Resources & Conflict Area

- Planned Mega Dam
- Constructed Mega Dam
- ⚠ Oil and Gas Concessions
- Agri-Business Concessions
- Commercial Forestry Production
- Proposed Construction Industrial Estate
- Proposed/ Under Construction Special Economics Zone
- ✖ Mining Concessions
- Gold Mines
- Conflict Area

Source: Myanmar Peace Monitor (2013)

Encouraging ethnic communities to trade with other ethnic groups through better connectivity can help sustain peace by contributing to the building of trust between warring parties. Indeed, trade hinges on trust between groups and, by fostering trade, trust can help deter civil conflict (Rohner et al., 2013). At the same time, trade also stimulates mutual trust between groups, e.g., as trade relations require learning the language or the customs of the other group. This conflict-reducing effect of ethnic trade has found empirical support in other contexts (e.g., Olsson, 2010, in Sudan; Porter et al., 2010, in Nigeria). This effect would be maximized if ethnic minorities from the economic peripheries were involved in trading activities with the economic core. Better connectivity would mean lower transport costs. This channel is

important as in the more remote ethnic areas there is not much trade, especially with the economic core of the country. DTIS fieldwork suggests that most of the trade by local ethnic groups in many of conflict areas is rather with Thailand and China. If there are no other barriers—such as regulatory ones—and the local markets are profitable enough, this would lead to increased competition among traders to buy from and sell to connected villages.⁷

Furthering trade relations with neighboring countries is also an important strategy to help resolve internal conflicts. A high volume of trade with neighboring countries can be an important deterrent for domestic civil conflict (Cali and Mulabdic, 2014). Neighboring countries can mingle in domestic conflicts, often by helping insurgents and thus destabilizing fragile equilibria. Intense trade relations between two neighbors, A and B, increase the costs to A of a conflict in B and vice-versa. This higher cost reduces the opportunity of the intervention of A in fomenting civil conflict in B (and vice-versa). The role of regional neighbors seems to be important also in Myanmar's conflicts, with both Thailand and China nurturing relations with Myanmar's rebel groups along their borders (Ball and Farrelly, 2013).

4.2.2 ...provided that it is inclusive

For trade to generate opportunities, it will be important for sensitivities associated with conflict and trade to be addressed. Sensitivity about trade development is rooted in a lack of trust between the government, ethnic armed groups, and local ethnic communities. The distrust held by many ethnic people in Myanmar is a direct result of longstanding conflict and discrimination, which included forced labor, arbitrary taxation, land confiscation and development projects that had negative externalities for local communities. For many ethnic populations, their primary historical engagement with the state was with the military, which had a strong presence in many ethnic minority areas. Because of this, many ethnic people view the military and the government as synonymous (Interview with civil society representative, Shan State, January 24, 2015). Ethnic populations often hold suspicions not only about government projects but also work by other outside organizations, such as companies and INGOs, especially when these organizations come with government permission (Interview with international expert, Yangon, January 13, 2015). Natural-resource

extraction, in particular, carries serious risks and challenges for trade development in conflict areas. Two important factors may exacerbate the risk of expanding trade in these areas.

First, low trust between groups involved in conflict tends to increase the risk of conflict around logging and extraction of minerals, precious stones, and oil and gas. There is abundant evidence that the presence of such resources is associated with higher conflict risk, for example in Colombia (Dubes and Vargas, 2013), in the Democratic Republic of Congo (Maystadt et al., 2014), in Nigeria (Abidoye and Cali, 2015) and throughout Africa (Berman et al., 2014).⁸ This is particularly the case in contexts with low accountability, with a recent history of civil conflict, with high ethnic and economic divisions (Cali and Mulabdic, 2014), conditions that are prevalent in conflict-affected areas in Myanmar. While systematic data on natural resource production and potential by regions were not readily available to the team, DTIS fieldwork and existing literature suggest that ethnic areas have large endowments of natural resources, including minerals, precious stones (jade), hydro-power and tree crops. Indeed, a recent report (Global Witness, 2015) estimates that the value of jade exports—mostly unrecorded from Kachin State—dwarfs that of total formal Myanmar exports.

Figure 4.4 shows that most dams (both planned and constructed), forestry and commercial agri-business concessions are concentrated in and around conflict areas, as are many mining concessions. Certain resources, notably jade, are particularly concentrated in ethnic areas, which are also home to significant deposits of rubies, gold, and many other minerals. However, other sectors such as manufacturing and services are relatively undeveloped in these areas, and ongoing conflict is one of the key reasons for this. This further contributes to dependence on natural resource extraction in these areas.

Furthermore, there is a lack of settled land in post-conflict areas, which tends to increase the fragility of peace. While land is often the greatest asset of rural people, official land titling is largely lacking in post-conflict areas. Ethnic populations in ceasefire areas often cannot 'prove' land ownership for lack of formal documents, and sometimes cannot demonstrate continuous occupancy because conflict has forced them to migrate or traditional farming patterns rely

7 DTIS team interview 127 with civil society, Shan State, January 25, 2015.

8 This is due to what the literature defines as 'rapacity effect', which refers to the idea that valuable economic resources can provide an incentive to fight over their control.

THE PRECEDENT OF KACHIN STATE

The ceasefire between the Kachin Independence Army (KIA) and the Myanmar military, which lasted from 1994 until 2011, was one of Myanmar’s longest lasting and most important. However, the lack of conflict was not associated with rapid, broad-based development.

The most immediate consequence of the ceasefire was a widespread growth in natural resource extraction (mostly jade) and plantation agriculture in Kachin State. Despite 17 years without fighting, the ceasefire brought limited benefits for the people of Kachin State and was “widely regarded as [a time] of lost opportunities” (Transnational Institute, 2013). Despite promises from the SPDC, a political dialogue about the future of Kachin-Burmese relations did not occur. There was little improvement in public goods and services. For example, limited government statistics show that throughout the 2000s, the total length of all roads in Kachin State increased by 7.3 percent (Central Statistical Organization, 2012). Yet over the same time, natural resource extraction grew dramatically. During the 2000s, the number of non-jade mines in Kachin State grew from 0 to 342, the officially recorded production of jade jumped more than 2,400 percent, and the volume of teak and hardwood trees extracted grew nearly 500 percent (Central Statistical Organization, 2012). Yet the Kachin people enjoyed few benefits from outsized growth in resource extraction, in part because there were no robust, transparent mechanisms within either the government or the KIO/KIA to translate resource revenues into broad social spending and development projects.

Natural resource extraction did benefit the government, Kachin’s EAGs and select businesses. For the Kachin Independent Organization (KIO), the ceasefire created opportunities to get into business, which meant new revenue coming especially from jade, gold mining and logging (International Crisis Group, 2013). Global Witness, a UK NGO, argued that the ceasefire actually opened up the needed space for logging on “an industrial scale” (Global Witness, 2003). According to a recent report by the Transnational Institute (TNI), the government also benefitted, as regime officials and businesses took over many lucrative natural resource concessions in Kachin State, including logging, gold-mining, agriculture and the valuable jade mines at Hpakant.

Growth of crony business, disenchantment about the failure to further the Kachin ‘cause’, growing militarization in Kachin State, and stagnation on political dialogue, together contributed to deteriorating relations between Kachins and the Myanmar government. Over time, there were “increasing complaints from communities and civic groups over the lack of transparency of these resource revenues” because little of it was used for the benefit of the population (International Crisis Group, 2013). Many in Kachin perceived that their cause had been “systematically discriminated against by *Tatmadaw* and government leaders”, and became increasingly dissatisfied with Myanmar’s central government (Transnational Institute, 2013; International Crisis Group, 2013). At the same time, the central government took advantage of the ceasefire to increase the number of Burmese soldiers in Kachin State (number of battalions rose from 26 in 1994 to 41 in 2006) (Kachin Development Networking Group, 2007). The long-standing grievances of the Kachin were not addressed through political dialogue, and in the lead-up to the 2010 elections, the regime reneged on key promises to the KIO, including by making demands that they transform into a Border Guard Force (International Crisis Group, 2013). This contributed to the government abrogating the ceasefire, and the resumption of conflict in Kachin State. Since 2011, the KIA and the government have been engaged in active fighting, which has been concentrated in strategic and resource-rich areas, including Hpakant, Myanmar’s jade capital, again a sign of the importance of the presence of natural resources for conflict. The ‘Kachin case’ now serves as a cautionary tale for many of Myanmar’s other ethnic groups about the risks of economic development before a peace agreement has been reached.

on shifting cultivation. This generates concerns that increased government authority in ceasefire areas will help outside businesses to take over land from farmers, especially if the government's granting of land concessions proceeds more quickly than land titling (Community Visit 106, Kayin State, January 16, 2015). For traditional land owners, the lack of official title increases the risk of having land confiscated, and lowers the chance of receiving compensation if a private business obtains that land via government concession.⁹ The government and the KNU are starting titling activities in some areas (Community Visit 106, Kayin State, January 16, 2015). However, these efforts are small in comparison to the scale of the problem.

While trade certainly opens new economic opportunities for ethnic groups, the benefits are by no means automatic. The benefits from trade-related infrastructure development, such as hotels, restaurants, transportation services and commercial agriculture, can open up economic activities that may have previously been unviable, and improve the economics of other businesses that depend on transportation networks. However, these benefits are by no means automatic. DTIS fieldwork found that some ethnic group members believe that they are not in a position to take advantage of new opportunities, because they lack the necessary capital to develop even small businesses or to grow existing businesses, and lack the skills to obtain newly created jobs or directly benefit from enhanced trade opportunities.¹⁰ The lack of agreement, or even substantive dialogue, between the government and ethnic actors about the distribution of benefits and the role of ethnic actors in decision-making significantly increase the risk that key actors will be dissatisfied with trade-related development. This evidences one of the key challenges of trade-related developments in conflict-affected areas: ethnic minorities need to also realize benefits from them.

⁹ Title cannot always prevent land from being confiscated but it can be useful when negotiating compensation with businesses that obtain land concessions. Traditional land owners without official title often receive less compensation than those who have titles (Interview 127 with civil society, Shan State, January 25, 2015).

¹⁰ For example, our interviews suggest that in southern Shan local mining businesses complain that they cannot develop medium and large mines as they lack capital. This emerged in the team's fieldwork both in Kayin and Shan areas. Because of this dearth of appropriate skills some EAGs feel that these trade opportunities would be mainly filled by migrant workers from other areas of the country. This can complicate ethnic relations if it contributes to a perception of economic domination.

Improving the governance of natural resources extraction, such as through the Extractive Industries Transparency Initiative (EITI), can strengthen the trust between Myanmar's ethnic populations and the government, and help to share the benefits of trade with local populations. One key challenge for trade-related infrastructure is that it can hasten the development of contentious and poorly governed sectors, including mining, logging and commercial agriculture. Both mining and logging are important natural resources in ethnic-minority areas of Myanmar. However, the existing regulatory structure provides few environmental protections for local communities and no direct revenue from resource extraction to state/regional or local governments. The distribution of natural resource revenue is certain to be a key issue in political dialogue between the government and EAGs, many of which cite the precedent of Kachin State (Box 4.1) to illustrate the problems with economic development during ceasefires that did not include any agreement on economic governance.¹¹ Myanmar's participation in EITI can help improve the quality of governance in extractive industries and increase the confidence of stakeholders, including ethnic communities, over the reform steps in the industries.

DTIS fieldwork suggests there are at least two important conditions for engaging local ethnic communities and EAGs in economic decision-making.

- 1. A broad and transparent consultative process with meaningful influence over the decision-making process.** There is currently no formal framework for EAGs to participate in and influence the decision-making around development projects in ethnic areas, although the signing of the Nationwide Ceasefire Agreement (NCA) may change that. EAGs and ethnic communities generally want to be active decision-makers in trade-related development of ethnic areas, not passive beneficiaries of state- and development partner-led decisions.
- 2. An effective mechanism to compensate negatively affected people, including also redressing eventual complaints and grievances from the process.** The incipient Bawgata dam,

¹¹ The Nationwide Ceasefire Agreement provides vague mention of economic development projects, and notes on some occasions the need for 'consultation' and 'joint development'. However, the document lacks detail and guidance on implementation.

a proposed project involving the Myanmar government, the KNU, and the Norwegian Water Resources and Energy Directorate (NVE) in the eastern Bago Region, demonstrates that ongoing and meaningful consultation combined with mitigation of negative externalities can significantly improve the prospects for development projects in minority areas (South, 2014).

4.3 Developing opportunities in ceasefire areas

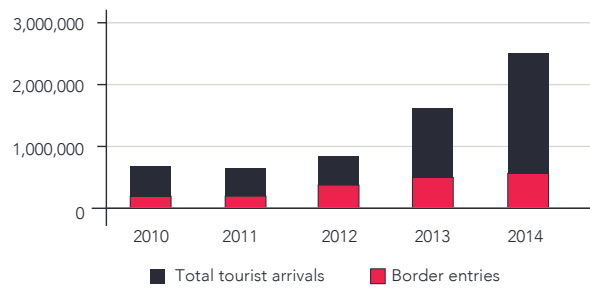
The government's National Export Strategy (NES) highlights key products that Myanmar wishes to prioritize in its export development. This section briefly addresses five such key sectors, namely agriculture, tourism, timber, mining, and manufacturing, to illustrate the potential costs and benefits of their development in conflict-affected areas.

While these sectors and others will all play a role in the country's development broadly, the costs and benefits of developing each of these in conflict-affected areas differ from their development in the rest of Myanmar. As some of these sectors, such as timber and mining of minerals and precious stones, are particularly concentrated in conflict-affected areas, this could inform the entire development strategy of the sector, and may lead to reconsidering the identification of the key export sectors.

4.3.1 Agriculture

The agriculture sector holds unique prospects for immediate improvements in well-being. The majority of people living in these areas engage in agriculture, sometimes for subsistence but also for small-scale trade. There are numerous advantages to developing agriculture in ceasefire areas. First, because such a significant portion of the population engages in agriculture, the benefits would be broad-based. While skill levels across the economy are generally low, most people already have a familiarity with agricultural production. By raising labor incomes agricultural development could also be helpful in reducing the risk of conflict in these areas.

Figure 4.5: Foreigners' arrivals, border vs. other entries



Source: Ministry of Hotels and Tourism, "Myanmar Tourism Statistics 2014", http://www.myanmar-tourism.org/index.php?option=com_content&view=article&id=368&Itemid=359

158. However, despite the near-term possibilities in developing agriculture, sectors outlined in the NES, with the exception of tourism, do not appear to be as relevant in contributing to development in post-conflict areas. Myanmar's NES puts significant weight on agricultural and fishing products by including four groups of products—rice, rubber, beans & pulses, and fisheries—among the seven key export sectors (Republic of the Union of Myanmar, 2014). Beans and pulses are a valuable export crop but largely grown in the dry lowland climatic areas. Rice is a widely grown crop but the often hilly terrain, lack of transportation infrastructure, and the comparatively low value for weight of the crop make it less economical to develop. Rubber is commonly grown in areas of mixed control (both government and EAGs), although it is not grown as regularly in areas under the control of ethnic groups. With rubber, however, the crop takes some up-front investment and trees require 5 to 7 years to begin producing. This long time horizon is problematic in conflict areas, where continued instability and tenuous relations between the government and EAGs lessen its appeal. There are significant risks that an investment in rubber may not yield a return if there is a reversion to conflict

Given the lack of physical infrastructure and the slim prospects for its development in the near term, post-conflict areas would benefit most from agricultural development programs that focus on high value, low weight, non-perishable crops that can provide near-term returns (spices such as cardamom, as well as tree crops including coffee and tea, although timelines are longer). Increased agricultural trade and production in ceasefire areas also hinge on how well the two aforementioned cross-cutting issues are addressed:

land and the increased authority of the government. As explained above, much of the land is not properly titled in conflict-affected areas. This creates significant challenges in reallocating land to more efficient uses through market mechanisms, and creates significant potential for grievances when one or more individuals claim traditional land ownership over areas that have been allocated to another owner through government concession. Agricultural development is also likely to be accompanied by an increase in government staff, with the ministry such as the Ministry of Agriculture, livestock and Irrigation playing the lead role in licensing and oversight to the agricultural sector. However, this influx of government staff is a potential problem in areas where the trust towards the central government is low, and where EAGs fear this presence may jeopardize their legitimacy.

4.3.2 Tourism

Tourism is Myanmar's largest services sector export and, given the region's popularity and Myanmar's unique cultural and geographic sites, the subsector is primed for significant growth. The number of tourists entering through Myanmar's major tourist entry points (Yangon, Mandalay, Bagan, Mawalmayine, Myeik) has nearly tripled in the past five years, to almost 585,000 in 2014. However, the number of people crossing the border overland has nearly quadrupled, to almost 2 million people in 2014, likely also as a consequence of the temporary ceasefire deals signed in these areas (Figure 4.5).¹² These figures show that nearly two-thirds of visitors to Myanmar are coming to border areas, which are often dominated by ethnic minorities. While most of the border entries visit only for a day, significant growth in the numbers is evidence of the huge potential to develop services to lengthen these visitors' stays from one to a few days. Also, there is an important need to focus tourism development in ethnic areas near these key border crossings, not to cater to the travelers arriving through major airports, but to those coming from China, Thailand, and other neighboring countries. If managed properly, the growing tourism sector has the potential to bring significant benefits to ceasefire areas and ethnic minorities.

The benefits of the surge in both regular tourism and border entries will have greater benefits for Myanmar's ethnic minorities if unneeded regulatory

12 A significant number of these people are probably crossing the border for some type of economic engagement. Available figures do not differentiate the various purposes for crossing the land border.

barriers on services are addressed or removed.

Restrictions on homestays and guides, as well as licensing challenges for hotels, all serve as barriers to entry into the tourism sector, although these barriers are lower for other tourism-related businesses such as travel agents. Other barriers to entry include access to finance, as the vast majority of people in ceasefire areas cannot get a bank loan (they are unbanked and own no titled property, which is required to get a loan in Myanmar). The legacy of conflict also affects potential tourism development, for example landmines prevent adventure tourism in large parts of Myanmar's ceasefire areas. By bringing a more solid prospect for peace, the NCA could spur further tourist arrivals to these areas. This would increase the need of scaling up tourism-related infrastructure in areas long forgotten by international and domestic tourism flows.

4.3.3 Timber

The timber sector is a major source of export income for Myanmar, worth US\$1.2 billion in 2012, or about 12 percent of Myanmar's total exports (Republic of the Union of Myanmar, 2014) and income for conflict-engaging parties. Most of Myanmar's formally exported timber, until 2014, was raw or marginally refined. However, legislation that came into effect that year banned the export of raw logs, permitting only value-added forestry products. While timber holds significant potential as a revenue- and employment-generating export, Myanmar's timber has long been a source of funding for key conflict actors in the military, private sector and the EAGs. One of the challenges for forest management in ethnic areas is that there is little presence of the Ministry of Natural Resources and Environmental Conservation. Instead, logging in these areas is often controlled by the military and EAGs.¹³ This happened in Kachin State in the 1990s and 2000s, and created a 'vacuum' in which Chinese companies and others took advantage (Global Witness, 2003). Timber provided financing for both ethnic insurgents and the military to fund conflict (Global Witness, 2003). Given the opacity of the timber trade, especially in ethnic areas, it is hard to assess the extent to which this trade has financed fighting parties, but the field interviews suggest that much of the trade is informal and is appropriated by these parties.

13 A Global Witness report on Kachin State noted that logging in Kachin State was "controlled by several groups including the SPDC Northern Command Tatmadaw (armed forces) units, the NDA(K), and the KIA/O." (Global Witness, 2003).

The mining sector presents some of the most significant challenges for development and trust-building in ceasefire areas.



There are significant discrepancies in Myanmar's timber export data and the corresponding import data of trading partners. Myanmar's exports to China were only 26 percent of the reported Chinese imports from Myanmar. However, Myanmar's exports to Thailand were 190 percent larger than Thailand's reported imports of timber from Myanmar. These discrepancies only serve to illustrate the significant informality in the timber trade, and cannot account for any of the trade that was not captured by either importer or exporter (which is likely to be a significant share of the trade).

There are a number of other major challenges with development of the timber sector. First, timber harvesting in Myanmar is currently unsustainable and has led to significant environmental damage and deforestation. Myanmar's forests shrank by an average of 435,000 ha and 309,000 ha per year between 1990 and 2000, and 2000 and 2015, respectively (Forest Research Assessment, or FRA). Together, the country lost 15 percent of its forest cover over those 25 years (FAO Global Forest Resource Assessment, 2010). Since forests are often in Myanmar's peripheral ethnic areas, these negative externalities are borne by ethnic people and risk feeding existing grievances with the government. Also, forestry products have the potential to create employment. However, there are issues with the distribution of costs and benefits from development of this sector. The majority of value-added activities in which raw timber is converted into finished products would take place in larger cities such as Yangon and Mandalay, with little benefits would go to local ethnic communities from where a significant portion of the harvested timber originates. These environmental and conflict externalities suggest that it will be important to strengthen the institutional mechanisms governing environmental sustainability and the distribution of benefits before developing timber exports further.

4.3.4 Mining

The mining sector presents some of the most significant challenges for development and trust-building in ceasefire areas. The main beneficiaries of mining activities are generally narrow, and the sector requires good governance—specifically transparency in licensing, output extracted, revenue management and effective government spending—to transform mining revenue into broad-based benefits. Mining is also associated with costs that are often borne by people living around mines (e.g., environmental degradation, battered local infrastructure) and there is often a disconnect between those who bear the costs of mining

and those who reap the benefits. DTIS field interviews suggest that mining is often associated with negative externalities for local communities, such as water and land pollution, and land confiscation. These costs of mining are also in line with international evidence (Aragon and Rud, 2015). In Myanmar, light regulation of mining and the lack of an effective, accessible judicial system often prevent communities near mines from obtaining adequate (or any) compensation for these negative externalities.

Mining in conflict-affected areas is also more complex to develop. There is no agreement between the government and most EAGs about mining, so although a company may hold a license to mine in an EAG area, it is often unable to develop a mine because it also has to ask for informal permission from the EAGs (Focus Group 108 with the Private Sector, Kayin State, January 16, 2015).¹⁴ The expansion of the mining sector entails a number of conflict-related risks. These include increasing divisions over the distribution of natural resource revenue, creating greater incentives for all groups to seek a greater share of resource revenue, and creating new grievances because of the ongoing failures to properly regulate the sector or provide redress mechanisms for affected individuals and communities.

4.3.5 Manufacturing

Manufacturing is essential for the prospects of many of the country's ceasefire areas. These areas are often close to large markets in neighboring countries and the lower wages in certain border areas may provide a competitive advantage in developing the sector. In addition, manufacturing development is also less likely to create controversy than natural resource-based development in these areas. It also generally has lower land requirements than agriculture, and the distribution of value-added is typically more inclusive than for mining and commercial forestry.

However, the challenges of developing a strong manufacturing base in conflict-affected areas are significant. Many conflict-affected areas, especially those outside urban areas and towns, lack even

14 In one DTIS field interview a businessperson referred that it was not possible to do mining in some KNU areas because "there is no clear understanding between the armed groups and the government on mining" and therefore the KNU "won't agree to let them do mining" (Focus Group 108 with Private Sector, Kayin State, January 16, 2015). However in other KNU areas, civil society groups reported that the local brigade "provided security for the company that did coal mining" (Focus Group 111 with Civil Society, Thailand, January 18, 2015).

the most basic infrastructure, such as roads and reliable electricity. These areas also often lack the necessary labor, as decades of conflict have hindered development and pushed many people from conflict-affected areas to seek work elsewhere, making many communities remittance dependent. The smaller labor force and remittance dependence are likely to push the reservation wage up, though detailed data on prevailing wage rates for unskilled labor in Myanmar's ceasefire areas are not available. Post-conflict parts of Myanmar also lack large urban centers and thus economies of agglomeration, which are often important for keeping the manufacturing sector competitive via lower costs and/or higher quality. Most importantly, there remains the ever-present risk of conflict in current ceasefire areas, due to the still fragile relations between the government and the EAGs. Especially for export-oriented manufacturing sectors that have relative freedom in their choice of location, the additional risk of investing in Myanmar's remote conflict-affected areas makes them less competitive. This emerged clearly in field interviews with businesses in northern Shan State. There, Lashio could serve as a magnet to catalyze investments in manufacturing thanks to the availability of labor, decent infrastructure and the proximity to the Chinese market. However, such investments have not materialized allegedly at least in part due to the instability associated with the renewed fighting.

While green-field manufacturing activities may be challenging to set up in the difficult conditions of border areas, mining-based manufacturing can offer substantial benefits. For instance, Myanmar's jade mined in Kachin State is mostly exported raw. A complex web of regulations affect the trade, including Ministry of Mines Order No. 11/97 banning the jade trade in certain border towns, Order No. 19/2000 designating specific routes for the jade trade, and a number of other laws and regulations. However, these regulations—essentially non-tariff measures restricting the jade trade—do not seem to contribute to an orderly market in any way, as they fail to prevent parallel trade and they do not address the sector's key issues, including how to ensure sustainable mining, how revenues are shared, and how Myanmar can better appropriate the gains from trade. While the prevailing view seems to be that peace should come before any reform of the jade mining regime, the government could instead reinforce the peace process by improving the jade mining sector's contribution to the local economy. In particular, the government could encourage the development of local jade-processing activities to provide employment alternatives to smuggling and to ensure that the gains from trade remain in Myanmar.

4.4 Implications for policies and projects

If they are to succeed, trade-related interventions need to address the political challenges as well as technical challenges. A general implication of the DTIS analysis on this topic is that in conflict-affected areas, trade-related development cannot be approached as a technical problem. This work is inherently political. It will be important for trade-related interventions to address both the technical and political challenges, and risk failure if they do not. How interventions are done can be as important as what trade-related activities are implemented. For trade-related interventions to have a positive effect on Myanmar's peace process and ethnic relations, they could support the framework for relations as outlined in the draft Nationwide Ceasefire Agreement (NCA), and incorporate means through which ethnic populations have a voice in determining their economic future, a role in crafting it, and a share of the benefits.

The draft NCA calls for consultation between EAGs and the government for carrying out certain projects in ceasefire areas during the interim period, as well as during peace negotiations. Included in these projects is aid from development partners for 'regional development and capacity-building', as well as any 'regional development and capacity-building' work (Draft Nationwide Ceasefire Agreement, 2015). The draft NCA also notes that for 'planned mega-economic projects' that could impact civilians in ceasefire areas (which would likely include all mega-economic projects), implementation 'shall be undertaken in consultation with local communities and relevant ethnic armed organizations' (Draft Nationwide Ceasefire Agreement, 2015). Both of these areas have direct relevance for the recommendations of the DTIS and the development of Myanmar's trade and trade-related infrastructure. Underlying all the recommendations is the important conclusion that the process of how interventions are made matters greatly. Their success or failure, and their effect on inter-ethnic relations and the peace process, will depend as much on the way in which they are conducted as on the problems they aim to address.

Myanmar's long-running conflicts and the ceasefire agreements have important implications for the country's trade integration. These complexities lead to three different sets of recommendations to development partners, as well as the government:

- A list of policy actions that can promote trade in a way that maximizes the benefits for peace and helps improve ethnic relations;
- A negative list of interventions that could be avoided, or at least considered carefully, so as not to undermine the delicate peace transition and the fragile trust between ethnic minorities and the government; and
- A list of recommendations conditional on a set of changes to happen.

In this regard, it is important for the government and all development partners that are planning to engage in trade-development projects in conflict-sensitive or ceasefire areas to practice the following approach:

4.4.1 Positive list

Process

- Sequence carefully the roll-out of select trade-related activities and infrastructure development in ceasefire areas to follow the signing of a nationwide ceasefire agreement. This would help to prevent the trade development strategy in conflict areas from moving ahead of the peace process, and may provide a further incentive for further parties to sign the NCA.
- Help affected local communities to understand, participate in, and benefit from trade integration. This would require first a clear understanding of the most important constraints in each area to reap the benefits from increased trade opportunities. On the basis of this, programs could be developed for the ethnic-minority communities, for instance on learning about development projects, accessing government services, developing relevant skills and helping them to access capital.
- Advocate for improved transparency in mining activities, including in particular jade mining, through the establishment of accessible and transparent statistics on the sector's operators and the terms of their licenses. This could be achieved through collaboration between DICA and other government ministries' departments.
- The Ministry of Commerce could undertake a natural-wealth evaluation study following the World Bank's established methodology, in order to assess the sustainability of current mining operations and the rate at which the country is currently depleting its natural capital.

Content

- To the extent possible, promote the development of more labor-intensive land-scarce economic activities in conflict-affected areas, including tourism, manufacturing and certain agro-industrial production. In particular, local jade processing could be encouraged, leading to the development of a local jewel industry. This could be encouraged through market-based instruments, including an export tax on raw jade. Such a tax would be justified economically given that Myanmar is a very large producer of jade and can therefore affect the terms of trade in its favor, through well-designed instruments such as an export tax at the appropriate level.
- Enhance access to land by improving the functioning of the land market and security of land tenure in conflict-affected areas, including also by resolving the overlapping claims on land by government and non-state actors.
- Improve the connectivity between Myanmar's main growth centers (Yangon and Mandalay) and the ethnic periphery, with careful attention to the other recommendations on process made here.
- Increase trade with neighbors, as this reduces their incentive to create internal instability in the country.

4.4.2 Negative list

Postpone trade-related activities and trade-related infrastructure development in areas close to existing conflict, including but not limited to the corridors from Lashio-Muse, Lashio-Chin Shwe Haw and throughout Kachin State. Risks associated with the current conflict risk causing stoppages in projects and causing trade patterns to change quickly and dramatically.

Similar concern applies to the distribution of benefits from development partner-funded trade-related interventions. Issues of ethnic representation and knowledge of the local context are extremely important for the successful implementation of such projects. In addition, anecdotal evidence suggests that sometimes development partners are limited from working in some areas by government or EAG restrictions. Such restrictions imply that projects may not reach the most remote and impoverished areas, which would negatively impact the distribution of benefits.¹⁵ How development partners implement projects in ceasefire areas, not just what they implement, can determine the success or failure of a project.

¹⁵ One group of interviewees noted that the government limits the areas in which development partners can work, and places some restrictions on work in remote areas. (Interview 127 with civil society, Shan State, January 25, 2015).

TOWARDS AN EFFECTIVE SPS/QUALITY INFRASTRUCTURE

In order to compete successfully on export markets, Myanmar could consider adapting its quality infrastructure to meet the demands of buyers with various levels of demand in terms of quality and SPS certification. This will require both a legislative/regulatory modernization effort and a capacity-building effort in ministries involved in setting and enforcing standards. However, to support export development, the development of a quality infrastructure could be driven by commercial demand and, in areas where the health and safety of domestic consumers are at stake, also by the need from regulators enforcing legislation to protect consumer health and safety. It will be important for Myanmar to avoid rushing to build quality infrastructure disproportionate with its enforcement capabilities. The regulatory regime could also be carefully designed to avoid conflicts of interest and rent-seeking by the ministries involved.





CHANGING MARKET REQUIREMENTS

One garments exporter, interviewed for this study, explained how her international buyers now send a team of inspectors from an independent company every year to verify how she complies with the buyers' codes for corporate social responsibility.

Such verification has become increasingly demanded over the past decade, and today, following a string of factory fires and a building collapse in garment factories in neighboring Bangladesh, this demand is a condition for supplying global brands. Her buyers never asked about this back in the 1990s.

Another exporter, of seafood products, described how his association, the Myanmar Fishery Products Processor and Exporters, had purchased testing equipment and installed it within the Department of Fisheries. They did this to gain access to the EU market. The EU demands that the Department of Fisheries monitors seafood quality, and the association found that it had to finance the testing equipment to allow the Department of Fisheries to fulfill its regulatory functions and thus keep markets open for association members. In the 1990s, the EU was not as demanding as it is today.

The garments exporter and the seafood exporter are two examples of Myanmar producers and exporters now meeting stringent quality requirements in foreign markets. How Myanmar may meet quality requirements in its export markets is the topic of this chapter.

5.1 Today's markets require complex and demanding quality infrastructure

5.1.1 Myanmar is opening up to a different world

The opening up of Myanmar's economy after a prolonged period of political and economic isolation is exposing Myanmar's businesses community to a new and rather different world. For example, garment exporters, once successful in the 1990s, are now linking up again with global buyers. But those same buyers now behave rather differently (Box 5.1).

Many markets offer opportunities for Myanmar's exporters, but with new and different demands for quality. Regional markets may sometimes be less demanding in terms of quality management than high-end garment and seafood markets, although this may change with rising incomes. That the demand for quality varies is an advantage for Myanmar, because so does the capacity of Myanmar producers and exporters to manage quality. Thus, it will be important for Myanmar to find a way to balance its export markets' quality demands with its capacity for quality management.

5.1.2 What is a quality infrastructure?

A quality infrastructure includes activities by public institutions, private operators and users that enable a country to achieve objectives of quality and safety. These objectives cover national quality and safety issues and international trade requirements. The activities that constitute quality infrastructure include technical regulation, standardization, testing, inspection, certification, accreditation and metrology. Box 5.2 details these activities its basic components.

To establish trust, governments and private buyers formulate requirements in the form of mandatory technical regulations (including SPS measures), voluntary standards and private quality requirements. To check that products, services, systems and persons comply with such requirements, quality infrastructure

assesses conformity through testing, certification and inspection. Accreditation provides the guarantees that such tests, certificates and inspections are provided by competent service providers. Last but not least, metrology (i.e., the science of measurement) ensures that all the measurements during testing, certification and inspections are accurate.

Three factors are pushing Myanmar's producers towards better quality management and thus the implementation of new measures that satisfy increasing quality requirements. First, Myanmar is reintegrating into global value chains with higher and more exacting quality requirements. Second, Myanmar is integrating into regional markets that have lower quality requirements than global brands, yet the regional requirements are rising. China, for example, is tightening its SPS management and Myanmar is a member of ASEAN, which has a program for the regional harmonization of standards. Third, as Myanmar's own consumers see their incomes grow they will become more aware of quality. Thus consumers will put pressure on goods and services targeting the domestic market. A broad overview of the quality/ SPS issues facing Myanmar's exporters is offered in Table 5.1.

Building capacity to manage quality requires a step-wise approach. It will be important for producers, exporters and the government and development partners that support them to be aware of export markets' quality demands and the challenges that production of the right quality pose. For Myanmar, these demands will vary tremendously. Rice, for example, is exported to both markets demanding only basic parameters like size and markets demanding absence of banned pesticides requiring high tech testing. The awareness of basic hygiene is still lacking in Myanmar and without this awareness, for example, the importance of hand washing and the risk of contamination, the application of advanced technologies to measure microbiological contamination would be in vain. Thus, awareness of market demands and basic quality features is the first step in quality management. Second, basic institutions can be established and simple technologies applied before more advanced concepts could be implemented. Hand-washing campaigns come before microbiological testing, for example. Third, advanced methods such as internationally accredited laboratory testing are the final step.

It will be beneficial if capacity-building efforts within a quality infrastructure recognize that quality infrastructure is only one piece in the puzzle. Successful

WHAT IS A QUALITY INFRASTRUCTURE?

Investing in a quality infrastructure to promote exports could be recognized as an advanced method of quality management. When considering how to do this, the following questions can be asked:

- Is the absence of a quality infrastructure a constraining factor for quality export production, or do other factors, such as poor equipment, also play a role?
- Does investing in a quality infrastructure carry risks of promoting rent-seeking? How efficient is the government bureaucracy? Does the legal framework follow international best practice? Do conflicts of interest exist within the existing quality infrastructure?
- Can capacity-building take place relatively easily, or is absorption capacity a constraint?
- Does capacity-building follow a step-wise approach or attempt to jump to too advanced methods and technologies too soon?
- What is the level of quality management demanded? Assess demand for specific services. Is capacity-building commercially viable? Does quality infrastructure capacity satisfy the need for government regulation?
- How to configure the future quality infrastructure? Which services should the government provide? What is the rationale for government intervention? Which services should be provided by the private sector? Which services should be produced domestically? Which services may be supplied most efficiently through imports?

WHAT IS A QUALITY INFRASTRUCTURE?

QUALITY REQUIREMENTS

Quality requirements are specifications of the nature of the product, including its production methods as demanded by buyers or regulated by regulatory agencies both of which may be either domestic or foreign depending on the end market of the product. Quality requirements may be expressed as purely private requirements determined by a single or a group of buyers, as formal standards, or as technical regulations. Some private quality requirements may operate in a fashion similar to standards in the market place due to their market dominance.

STANDARDS

Standards are documents, established by consensus and approved by a recognized body, that provide for common and repeated use, rules, guidelines or characteristics or their results, aimed at the achievement of the optimum degree of order in a given context. Standards set quality requirements providing the basis for the evaluation of compliance with the demands of buyers and regulatory agencies. Standards may be set by a variety of actors, including national, regional and international bodies. National standardization bodies bring together public and private stakeholders to develop a formal consensus national standards. Such standards may become international standards if adopted by international standardization bodies following certain procedural rules about the development of standards.¹ Following the definition of the WTO TBT Agreement, compliance with a standard is voluntary.

TECHNICAL REGULATIONS

Technical regulations are documents that lay down product characteristics or their related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory. They may also include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method. A range of government departments may adopt technical regulations. Technical regulations are highly variable in formulation, ranging from being highly prescriptive to setting out only the end goal of regulation, thereby leaving the choice of how to comply up to the private sector. Often technical regulations refer to standards as the technical basis of regulation. This approach ensures that a consensus exists between public and private sector actors on the most efficient ways to comply with regulation.

TESTING AND INSPECTION

Testing means the determination of one or more characteristics of any particular material, product, service or process according to a procedure. Inspection means the examination of a product design, product, process or installation and determination of its conformity with specific requirements or, on the basis of professional judgement, with general requirements. Testing and inspection may be done by first parties (in-house), second parties (buyers or regulatory agencies) or third parties (bodies independent from both transaction parties). For many needs, testing and inspection services are tradable. Small and large service providers supply testing and inspection services across borders, in developing countries typically to exporters.

¹ In 2002, the WTO TBT Committee adopted a decision outlining procedural requirements necessary for the development of international standards (i.e., transparency, openness, impartiality and consensus, effectiveness and relevance, coherence and developmental dimension). This implies that no particular institution is authorized to produce international standards, but an international standards may be issued by any institution that respect the TBT Committee's decision (WTO, Document G/TBT/1/Rev.8 of May 23, 2002).

CERTIFICATION

Certification is the assurance by an independent body that a product, services, system or process conforms to quality requirements, standards or technical regulation. The certification bodies are often private but may also be public, especially in markets for which conformity assessment services are little developed. As with testing and inspection, certification services are tradable and a large number of global firms provide such services across borders.

ACCREDITATION

Accreditation is a third-party attestation related to a conformity assessment body conveying formal demonstration of its competence to carry out specific conformity assessment tasks. Conformity assessment bodies undertaking testing, inspection and certification can seek accreditation on a voluntary basis as proof of competence in a given area. The accreditation may be a domestic or a foreign entity. More developed countries often has a single national accreditation body responsible for all areas of accreditation.

CALIBRATION

Calibration is the set of operations that establish, under specified conditions, the relationship between values of quantities indicated by a measurement instrument or measurement system, or values represented by a material measure or a reference material and the corresponding values realized by standards. Firms often use calibration laboratories to calibrate their measurement equipment, although some calibration takes place in-house. Calibration services may be provided by private or public service providers and they may be produced domestically or imported.

METROLOGY

Metrology is the science of measurement. More developed countries have established a national measurement system designed to maintain, develop and diffuse measurement standards. This system provides calibration services to independent calibration laboratories and other institutions involved in measurement. Calibration laboratories in turn provide services to firms and public sector agencies using measurement equipment. Measurements are traceable through a chain of comparisons back to the national system and eventually to global measurement standards, thereby guaranteeing the accuracy of the primary users of measurement equipment.

TABLE 5.1: ILLUSTRATIVE QUALITY AND SAFETY ISSUES FOR MYANMAR'S EXPORTS

PRODUCT GROUP	MARKET	DRIVER & QUALITY AWARENESS	QUALITY PARAMETERS	
Oil & gas	Global	Large corporations with high awareness, Insurance needs Equipm. rental	Standards, Quality infrastructure services	
Copper	China		Quality management, e.g. ISO 9001 certificate	
Rice	China	Regulatory authorities	Varieties	
	EU	Regulatory authorities	Varieties	
	Regional	Underdeveloped for regional buyers	Varieties	
Dried peas, beans and lentils	China	Underdeveloped for regional buyers	Traditional parameters, e.g. size, taste	
	Regional			
Oilseeds	Regional, Asian	Underdeveloped for regional, higher for overseas	Variety Cleanliness	
Fruits and vegetables	Regional	Underdeveloped for regional buyers	Traditional parameters, e.g. size, taste, color	
Rubber	China, South East Asia	International buyers, low awareness due to many small farmers	Cleanliness Proper post-harvest techniques	
Seafood		EU regulatory authorities, very high awareness	Size, Species ,Taste , Color	
Forestry products	China, regional			
Garments and footwear	High income countries	Global production networks with exacting and high standards	Design Durability	
Tourism	China, regional, Western		Possibly high/ diff. from local parameters	

STANDARDS, PRIVATE PROTOCOLS AND TECHNICAL REGULATIONS RELATING TO:				
CONSUMER SAFETY STANDARDS	FOOD SAFETY	PLANT AND ANIMAL HEALTH	ENVIRONMENTAL & SOCIAL ISSUES	
				Potentially some
				Labor & environmental standards, (e.g. OHSAS 18001, ISO 14001) Sustainability reporting
		Pesticide residues	Pests Weeds	
		Pesticide residues	Pests Weeds	
		Little awareness		
		Chemical residues Benzopyrene	Pests Weeds	
		Pesticide residue limits yet rarely enforced regionally	Phytosanitary certification yet rarely enforced regionally	
		Hygiene requirements Antibiotics residue limits HACCP2		
			Pests, but questions about enforcement	Certification but may not be taken into account by market
	Azo dyes Heavy metals EU REACH1 chemical control program			Private labor standards, codes of practice, Private environmental codes of practice, Wastewater treat.
		Demand for safety food for hotels and restaurants		For some markets, pressure for ensuring local benefits

1 European Union's REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) chemical control program.

2 Hazard Analysis and Critical Control Points.

Sources: www.myanmaryangtse.com.mm/en/certifications.html;

QUESTIONS TO ASK BEFORE INVESTING IN A QUALITY INFRASTRUCTURE TO PROMOTE EXPORTS

Investing in a quality infrastructure to promote exports could be recognized as an advanced method of quality management. When considering how to do this, the following questions can be asked:

- Is the absence of a quality infrastructure a constraining factor for quality export production, or do other factors, such as poor equipment, also play a role?
- Does investing in a quality infrastructure carry risks of promoting rent-seeking? How efficient is the government bureaucracy? Does the legal framework follow international best practice? Do conflicts of interest exist within the existing quality infrastructure?
- Can capacity-building take place relatively easily, or is absorption capacity a constraint?
- Does capacity-building follow a step-wise approach or attempt to jump to too advanced methods and technologies too soon?
- What is the level of quality management demanded? Assess demand for specific services. Is capacity-building commercially viable? Does quality infrastructure capacity satisfy the need for government regulation?
- How to configure the future quality infrastructure? Which services should the government provide? What is the rationale for government intervention? Which services should be provided by the private sector? Which services should be produced domestically? Which services may be supplied most efficiently through imports?

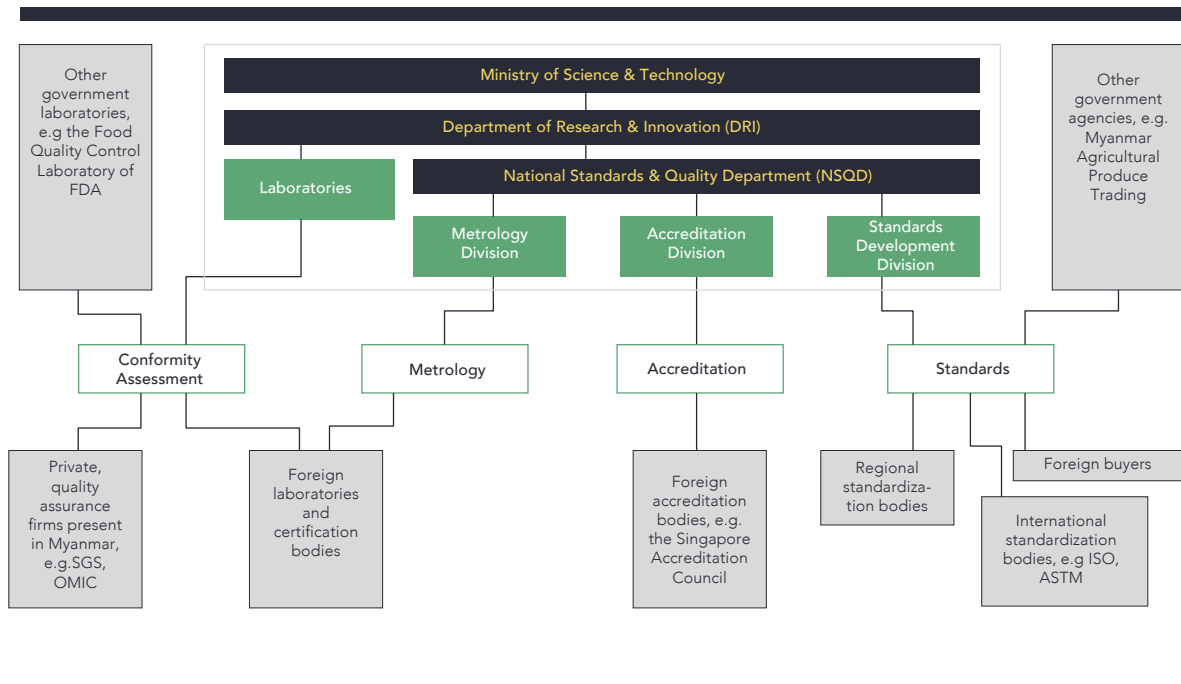
export production requires much more. First, products of sufficient quality can be produced before it is worth considering how to manage quality by the use of quality infrastructure services, such as testing and certification. It is no use setting up certification schemes or investing in laboratories if we suspect already that there will be few certifiable products or that most products will fail the tests. Many problems in quality management cannot be solved by investing exclusively in quality infrastructure. A recent World Bank report on Myanmar's rice industry, for example, points out that managing rice varieties better and investing in modern milling equipment would increase the quality of Myanmar rice.

Often, the measures needed to create the product quality and quality infrastructure services reinforce each other. Garments producers in Myanmar, for instance, mainly produce "cut, make and trim" (CMT) garments. CMT garments are produced when the producer receives all the materials (fabric, buttons, thread, etc.) and patterns from the buyer, produces according to the patterns and finally packs the garments for export. The tight control over the inputs that this mode of production allows the buyer simplifies the producer's compliance with garment requirements. For example, there will be no need to test whether the producer uses buttons containing heavy metals, because the buyer already knows the chemical composition of the buttons supplied.

5.1.4 Avoiding the rent-seeking trap

It is useful for the proponents of quality infrastructure capacity-building to also be aware that a quality infrastructure can be misused (and often is in developing countries) for rent-seeking purposes. Technical regulations can be set simply to generate revenue for a particular public agency. Government testing, inspection and certification "services" may serve only to ensure the financial viability of an agency. Government-controlled accreditation may serve as a means to keep private conformity-assessment providers out of the market.

Thus, capacity-building in the area of a quality infrastructure could target two objectives: service provision and trade facilitation. Both Myanmar's private sector and its government regulators, seeking to safeguard consumer health and safety, demand services such as testing, certification and inspection to ensure buyers and citizens that goods, services, systems and persons comply with the requirements established to guarantee the safety and quality of

Figure 5.1: Organization of the NSQD within Myanmar's quality infrastructure

Myanmar production. Service provision is about building the capacity to deliver these services at a level commensurate with Myanmar's needs.

The regulatory part of a quality infrastructure may, however, hinder trade if regulations are poorly designed. In many countries, in particular low-income ones, regulations suffer from overlap and duplication of work because inter-ministerial coordination structures are weak or non-existent, or in some cases because regulations are imposed just to extract rents. Thus, trade facilitation demands that the government and the development partners that support it build capacity that is both effective in meeting the demand for services and does not interfere unnecessarily with business. The way to ensure that Myanmar's future quality infrastructure meets both service provision and trade facilitation needs is to draw from international best practice in establishing a quality infrastructure free from conflicts of interest and to assess demand for services and calibrate the future quality infrastructure carefully to meet this demand (see Box 5.3 below for question list).

5.2. A regulatory framework in need of modernization

5.2.1 Technical regulation and SPS regulatory framework

186. The legal framework for technical regulation, including the regulatory framework for SPS management in Myanmar, needs to be updated and in comparison with international best practice, incomplete. Myanmar has no general law on technical regulation. However, the recently adopted Law on Standardization covers issues beyond standardization proper, including technical regulation. It is the aim of the Law on Standardization to ensure that Myanmar follows the Code of Good Practice for the Preparation, Adoption and Application of Standards of the WTO TBT Agreement. Historically, Myanmar has enacted a series of laws adopted without coordination and over a long time span to regulate selected issues. On March 19, 2014, Myanmar passed its first Consumer Protection Law. Myanmar also adopted a National Food Law in 2007, a National Drug Law amended

in 2014, a Traditional Drug Law amended in 2014 and an Electricity Law in 1984. SPS management is governed by a string of laws including the National Food Law of 1997, the Pesticide Law of 1990, the Animal Health and Development Law of 1993, and a Plant Pest Quarantine Law of 1993 (Republic of the Union of Myanmar, 2014). The Plant Protection Division, under the Ministry of Agriculture and Irrigation (reorganized as the Ministry of Agriculture, Livestock and Irrigation on April 1st, 2016) , is currently working with the Attorney General's Office to revise the Plant Pest Quarantine Law.

There is a lack of coordination in the process of developing technical regulations and rules for SPS management. This effort is typically led by individual ministries without sufficient consultation with other branches of government, with the private sector, or with civil society. This uncoordinated approach to regulation leads to overlaps between government ministries and low awareness among the private sector of the legal framework. Overlaps risk wasting scarce resources in implementing the regulations. Low awareness leads to piecemeal implementation of laws, with the degree of implementation depending more on the relationships between the regulator and the agents it is supposed to regulate than on the actual purpose and content of the law.

This ineffective and inefficient regulatory system naturally makes it difficult for the government to reach the legitimate objectives¹ of technical regulation and SPS management, such as the protection of the life and health of its citizens.² From a trade perspective, such an overlapping and poorly coordinated regulatory system that is designed without private sector consultation risks becoming a burden. This potential burden is exemplified by a requirement by the National Food Law that demands all imported food to be certified by the Food and Drug Authority (FDA) (Lin and

Yamao, 2012). In theory, the FDA checks documents from manufacturing plants and inspect imports. But in practice the law cannot be implemented due to the volume of food imports, Myanmar's long and porous borders, and the FDA's limited staff and facilities. Trade is burdened unnecessarily if the FDA, in an attempt to fulfill its overreaching mandate, resorts to document-checking and piecemeal implementation with no value for food safety. A better way to regulate food safety hazards originating from imports would be to introduce international best practice, for example risk-profiling, by identifying the major risks and carefully calibrating regulation with implementation capacity.

In the future, Myanmar faces a high risk of burdening trade unnecessarily if it does not reform its system of technical regulation and SPS management. Today, much of the regulatory framework is out of date and out of line with international best practice, and remains unimplemented. None of the trading firms interviewed for this paper cited technical regulations as a major concern. But for two reasons technical regulation could become a burden in the future:

1. The government and development partners that support it plan to build regulatory capacity. If the capacity were increased without reforming the underlying regulatory system, Myanmar's regulators would soon begin to implement numerous outdated regulations that are not in compliance with international best practice. Thus, it is crucial that deep reform predates implementation capacity-building.
2. Such regulation may become the preferred outlet for protectionist pressures. In the past, protectionist interests used more direct means, such as licensing, but as Myanmar liberalizes less obvious means will become the protectionist instrument of choice. Technical regulation is one such a less obvious means. To minimize the risk of technical regulation being used for protectionist purposes, Myanmar could consider reforming its regulatory framework. It will be important that the new regulatory framework complies with international best practice in order to avoid conflicts of interest.

Today, Myanmar abides fairly well with international best practice with the separation of technical regulation and conformity assessment, and with the separation of conformity assessment and accreditation. It is crucial that Myanmar continues to respect such best practice as it builds capacity. Myanmar could also carefully

1 Under WTO law, the legitimate regulatory objectives of regulation are broad and numerous. The TBT Agreement explicitly mentions that, among others, national security requirements, the prevention of deceptive practices, the protection of human health and safety, animal or plant life or health or the environment constitute legitimate and thus permissible objectives. The SPS Agreement echoes the TBT Agreement by stipulating that governments have the right to use sanitary and phytosanitary measures to protect human, animal or plant life or health.

2 The difficulties of regulating is compounded by the severe lack of knowledge of the status of the issues targeted by legitimate regulatory objectives. For example, the evidence of food safety hazards or product safety hazards is very scarce. Naturally, Myanmar's regulators cannot regulate effectively when they do not know which problems are big and which are small.

assign regulatory responsibilities to relevant ministries and departments without overlaps and wasteful duplication of work, something Myanmar does not do today and for which the costs will rise as capacity increases.

It is also important to keep in mind that, from an export perspective, most of Myanmar's own technical regulation is likely to be irrelevant. More relevant for exporters is the technical regulation of the importing country. Naturally, exporters need to listen to their customers, in this case a foreign state. EU fisheries regulations typify the significance of importing market regulations. The EU sets stringent and exacting requirements for countries and manufacturers wishing to export fisheries products to the EU. Myanmar has responded by adopting EU regulations on fisheries products. In practice, Myanmar only enforces EU regulations for the manufacturers targeting the EU market. Thus Myanmar operates with a two-tier system providing a high degree of food safety at high cost for EU-bound exports, and a lower degree of food safety at low cost for its own citizens and much of its regional exports. How to operate such a two-tier system is a future challenge for Myanmar, as the country targets markets with a high ability to pay and a higher safety awareness. It is an unavoidable challenge as Myanmar needs to supply exports of high quality to high-income markets and products of sufficient quality at affordable costs to its own citizens and less affluent export markets.

Focusing on exports can help to drive capacity-building and generate positive spillovers for the management of domestic safety and quality issues. In seafood exports, for example, the implementation of stringent food safety management to comply with EU import demands may be used to increase the awareness of food safety issues, such as the use of antibiotics in shrimp farming and to manage such issues through the use of a quality infrastructure originally established to comply with export market requirements. In this example, satisfying the commercial demand for a quality infrastructure helps to satisfy the demand from regulators to manage domestic food safety problems. Through exporting processes, the government can increase public awareness on the importance of product safety, basic hygiene, better quality of inputs, in protecting Myanmar's consumers against potential abuse of product competition. Such action can also help to strengthen reputational base of Myanmar's products that can be exported.

5.2.2 Standards

Myanmar is only just now beginning to establish a domestic system for standardization. The national standards body is the Department of National Standards and Quality (NSQD) under the Department of Research and Innovation (DRI), which itself is a part of the Ministry of Science and Technology. The NSQD is the central department in quality infrastructure. Its organization and how it relates to other providers of quality infrastructure is depicted in Figure 5.1. It is organized around the four central services of quality infrastructure, namely the green boxes representing standards, conformity assessment, accreditation and metrology. The NSQD is a central but not the only provider of these four services. The upper dark blue boxes represent government providers, while the lower lighter blue boxes describe private providers.

The NSQD is organized in three divisions responsible for, respectively, standardization, accreditation and metrology, as depicted in Figure 5.1. While much needed capacity-building is still to start, activities within standardization have already resulted in 77 national standards being under development. Line ministries such as the Ministry of Commerce through the Myanmar Agricultural Produce Trading are involved in standardization activities outside the NSQD.

Previously, the NSQD was a rather out of date library of international standards. Until now, the NSQD has merely kept a library of international standards, most of which are outdated, and is only now starting to become involved in standardization proper (Republic of the Union of Myanmar, 2014). Since August 2015, with support from USAID, the Standards Development Division has had access to the ISO standards library, allowing free consultation and on-site printing on a cost-recovery basis. The Standards Development Division facilitates 20 technical committees with representatives from government, academia, the private sector and NGOs. In November 2015, the Standards Development Division notified the WTO that Myanmar had achieved compliance with the Code of Good Practice for the Preparation, Adoption and Application of Standards of the WTO TBT Agreement. Myanmar will also comply with the ASEAN Policy Guideline on Standards and Conformance. Currently, the NSQD is a corresponding member of ISO and IEC.

Moves to establish an NSB risk being overly dominated by the government, with insufficient focus on the need for services from the private sector. The current efforts to establish a Myanmar National Standards Board (NSB) suffer from an overly strong focus on aligning it with the formal structure of NSBs in much higher income countries and a weak focus on the demand for the services that a future Myanmar NSB could realistically offer. The international model is to establish an NSB developing national standards through a system of technical committees. Stakeholders from across society—business representatives, NGOs, academics, government officials, etc.—join such technical committees that develop standards using a consensus approach.³ The problem is that the capable stakeholders in Myanmar who are supposed to sit in such committees are very few and the government, which has few insights into the demand for standards originating in national or global business operations, is likely to effectively run the standardization process. Small firms dominate the private sector and these firms do not have the time, resources or technical ability to participate in standard-setting. Similarly, academia is little developed, and the same goes for NGOs.

In other developing countries, NSBs have suffered from severe conflicts of interest because of their involvement in setting standards, technical regulation, and the supply of conformity assessments, such as testing, inspection and certification. The problem arises when an NSB develops standards that it makes mandatory through its influence over technical regulation, and subsequently supplies testing, inspection and certification services against these mandatory standards that it itself has developed. While such practice is contrary to best practice outlined in the WTO SPS Agreement, it is still common in some developing countries, for example in Bangladesh. In other developing countries, such NSBs are often much influenced by rent-seeking motives. This rent-seeking may be caused both by the private motives of officials to generate income through the conformity assessment services and by the institutional need to ensure the financial viability of the NSB in question. NSBs' main source of income in developing countries tends to be government subsidies, which is always scarce. Thus the NSB faces strong pressure to develop its own sources of income through the sale of such conformity assessment "services" that have no

3 Myanmar officials from the NSQD outlined such a future system during field research for this report undertaken in May 2015, much like the system that Myanmar officials sketched to the author in May 2015.

commercial value and add unnecessary costs to the private sector.

Currently, in Myanmar the institutions involved in quality infrastructure do not suffer from the same grave conflicts of interest as in the other developing countries. The avoidance of conflicts of interest is key to keeping things that way. Currently, the NSQD is not involved in technical regulations or in conformity assessment. However, officials interviewed during fieldwork for the DTIS revealed a lack of familiarity with the distinction between technical regulations and standards. Such a lack of familiarity is common in countries that have historically experienced a high degree of state control. It is crucial that the NSQD only develops voluntary standards and does not acquire the authority to make such standards mandatory in the form of technical regulations.

As a result of Myanmar's recent isolation, the country continues in some instances to apply outdated standards. In rice, a colonial standard, the Beale classification system, is still in use. This system is ill suited to today's global rice market. It mixes different rice varieties, including some with different cooking characteristics, and makes it difficult for producers of high-quality rice to achieve the price premium that their rice deserves and which would send a market signal of what is in demand in the newly opened global market.⁴ The Standards Development Division of the NSQD has established a technical committee for the agro-based sector that has drafted new rice standards for Myanmar based on Codex Alimentarius standards. These new rice standards are currently at the stage of public consultation.

Buyers can have a strong influence on Myanmar producers to apply international standards. Myanmar producers occasionally adhere to international standards, such as the standards developed by the International Standardization Organization (ISO), the American Society for Testing of Materials (ASTM), and other bodies developing international standards. The NSQD maintains a library containing some of these international standards. But normally when a Myanmar company applies an international standard, it is on the recommendation of a foreign buyer, or because it works for a foreign entity that specifies in detail the use of an international standard prior to project implementation. It should be emphasized that

4 The rice case study below discusses further the Beale classification system. The World Bank (2014b) analyzes the Beale classification in depth.

Myanmar's exporters will need to comply with the standards and requirements of their buyers and their importing markets. Thus in most cases exporters do not need national Myanmar standards as evidence of what foreign markets require.

5.2.3 Conformity assessment

As Myanmar reintegrates into the global economy, suppliers will seek to increase the availability of services as they respond to the growing and diversifying economy. Private firms will increase the supply both through Myanmar-produced services and through trade. The government and development partners that support it will also seek to increase capacity as evidenced by the recent or planned beginning of a string of projects implemented by, among others, USAID, UNIDO, GIZ, PTB and ADB.

Myanmar has a small industry of private firms that supply conformity assessment services. These services are provided on a for-profit basis serving clients in the voluntary part of the market. There is an even smaller set of public bodies engaged in conformity assessment against mandatory Myanmar regulations. This private industry includes Myanmar representation of global services firms such as SGS, OMIC, and Bureau Veritas. The industry is much smaller than it is in neighboring countries such as Bangladesh and Thailand. SGS is the firm with the longest presence in Myanmar, dating from colonial times. It services the oil and gas industry, the mineral industry and the garments industry with testing, inspection and certification, including product testing and certification, and systems certification such as ISO 9000. The industry only supplies a limited share of the economy, because the low volumes traded of most products do not warrant investment in expensive infrastructure such as laboratories. The low volumes of seafood exports, for instance, have prevented private firms from investing in seafood testing against EU regulations.

Private sector associations have also started providing services for their members. The Myanmar Agro-based Food Processors and Exporters Association (MAFPEA) has established the Food Industries Development Supporting Laboratory funded through Japanese support. This laboratory employs 11 staff members

and undertakes chemical and microbiological analyses. A new laboratory building is currently under construction.

Whenever international buyers demand proof of conformity of the exported products, they rely on the services of the private industry. When a service such as a test or a certification is not available in Myanmar, the private service industry will often rely on its network of laboratories and accredited certifiers in other countries in the region.

The government-run conformity assessment activities are numerous but often of low quality and limited capacity. Various ministry-run government-funded laboratories. The only laboratory with internationally recognized accreditation to the international laboratory standard ISO 17025 is the fisheries laboratory of the Department of Fisheries.⁵ That laboratory has been accredited to six parameters, a subset of the necessary analysis needed for exports to the EU, the most demanding market. The fisheries laboratory may be considered a special case because of the stringent EU regulations requiring the existence of a capable laboratory. The EU regulations represent a clear and precisely articulated demand and have promoted public-private collaboration where the private fisheries exporters have financed laboratory equipment that has been installed in the Department of Fisheries.

Two other institutions also have laboratories, but these only have old and basic equipment. Other laboratories include the National Analytical Laboratory of the Ministry of Science and Technology (under DRI supervision since May 2015) and the Analysis Department of the Department of Research and Innovation (DRI), which together have six testing laboratories in the areas of ores and minerals, food, (waste) water, general inorganics and organics, and an instrumental laboratory. These laboratories are old and only have basic equipment. Historically, DRI is a research organization and the shift towards offering demand-based conformity assessment services will be challenging. The National Analytical Laboratory has spent a considerable amount on advanced equipment, but has only a small staff, and it is not clear who the clients will be for the services to be supplied. The Food and Drug Administration (FDA) has three laboratories in Yangon, Mandalay and Nay Pyi Taw, with the Nay

5 The NES contains a quick evaluation of these laboratories and concludes that only the Department of Fisheries laboratory is accredited to ISO 17025 (Republic of the Union of Myanmar, 2014a).

Pyi Taw laboratory being the main one. The FDA laboratories employ 100 staff.

Another institution is the Myanmar Inspection and Testing Services (MITS). MITS is a company recognized by the Ministry of Commerce to provide certification services against technical regulations only, and thus operates exclusively in the mandatory area. It is mandated to inspect imported and exported agricultural and industrial products. MITS uses various government laboratories for its testing needs.

The current proposal to invest extensively in building the capacity of a government laboratory could be reviewed. The National Export Strategy (NES) recommends an extensive investment program in laboratory capacity (Republic of the Union of Myanmar, 2014). The NES has developed an action plan at a total cost of US\$25 million, of which two-thirds or about US\$17 million has been set aside for laboratory capacity-building. It is important to first clarify who the clients will be for this extensive expansive of services. Likewise, the timing and sequence of such future investment needs to be carefully examined. Likewise, the timing and sequence of such future investment needs to be carefully examined.

5.2.4 Accreditation

There is no national accreditation body within Myanmar. The Accreditation Division of the NSQD will in the future serve as Myanmar's accreditation body. However, the Accreditation Division employs only six staff and is still to begin its activities. The few laboratories and certification bodies in Myanmar accredited to an international standard are accredited by foreign bodies. Even a technically competent future Myanmar accreditation body will find few laboratories and certification bodies to accredit given the low demand for services. Thus a Myanmar accreditation body will be nearly 100 percent dependent on government funding.

The Accreditation Division is working with PTB and UNIDO. The roadmap for accreditation, jointly agreed between the Accreditation Division, the

German National Metrology Institute (PTB) and the United Nations Industrial Development Organization (UNIDO), plans to establish the Accreditation Division as Myanmar's future accreditation body. The Singapore Accreditation Council has been selected as a partner for the Accreditation Division and the latter will eventually, as it builds capacity and gains experience, develop into a fully independent national accreditation body.

The Accreditation Division is under the MNSQ, which is itself under the DRI. The DRI runs testing laboratories as discussed in the preceding section. The nesting of the functions of both accreditation and testing under the DRI constitutes a potential conflict of interest, as there is a risk that the DRI may have the incentive to influence the Accreditation Division when it accredits either the DRI's own laboratories or some of the competitors to these laboratories. Whether the Accreditation Division will gain international recognition when it is under the authority of a body also running laboratories is an open question. It is possible that the organizations responsible for international recognition of accreditation bodies, the International Organization for Laboratory Accreditation (ILAC) and the International Accreditation Forum (IAF), will deem that the Accreditation Division has sufficient independence, if it is granted an autonomous status. Gaining international recognition as quickly as possible will, however, be easiest if the Accreditation Division is separated from the DRI and put under another arm of government with no authority over conformity assessment bodies.

5.2.5 Metrology

Metrology has only just started to develop in Myanmar. The DRI lacks appropriate buildings and equipment and its staff lacks training. Thus, until recently, there were no significant industrial, scientific, or legal metrology activities in Myanmar, and the DRI was unable to calibrate equipment in line with international best practice. Since 2015, with the support of UNIDO and the PTB, the DRI has begun to upgrade laboratories and train staff. The Metrology Division plans to offer commercial calibration services for electrical instruments, mass and temperature in mid-2016. Manufacturers and laboratories needing calibration in other areas can continue to seek such services from foreign suppliers.

Future development-partner support, in particular from PTB, is likely to build metrology capacity. The Metrology Law foresees the establishment of a National

RICE QUALITY PARAMETERS

Metrology Institute. However, the previously allocated funding for the construction of a building meant to house metrology laboratories has been cancelled. Furthermore, the Myanmar Engineering Society plans to establish a mass calibration laboratory with support from an internationally well-known equipment manufacturer.

5.3 Case studies

This section now presents selected case studies of major Myanmar exports sensitive to quality and SPS management. The case studies illustrate the very different quality requirements that exporters need to meet and discuss Myanmar’s capacity to respond to such requirements.

5.3.1 Garments

Myanmar’s garments industry has considerable potential but remains dwarfed by other Asian producers. With its large population and proximity to other successful exporting countries, Myanmar could become a major new sourcing hub for the global brands that dominate the mid- to high-end of global garments markets. The industry has grown rapidly, doubling in size over just three years (MGMA, 2015). Today, Myanmar exports garments worth about US\$1.5 billion a year. However, Myanmar remains a globally small exporter. Cambodia is about three times larger, Vietnam and Bangladesh 10-15 times larger, and China more than 100 times larger.

To continue growing, the industry is looking towards global brands. The German sportswear brand Adidas has begun sourcing Myanmar garments and San Francisco-based GAP has announced that it will buy from a Rep. of Korea firm owning factories in Myanmar. Whether more international brands will come to Myanmar depends not only on traditional sources of competitiveness, such as wage levels and logistics, but also on compliance with buyer requirements. Prominent among the requirements are CSR issues. Adidas has been at pains to explain that it only decided to source from Myanmar after two years of discussions with Myanmar stakeholders. Assisted by the EU-funded SMART program, these stakeholders

PHYSICAL AND CHEMICAL PARAMETERS	
Paddy rice:	Milled rice:
Moisture content	Milling degree
Degree of purity	Broken rice
Varietal purity	Whiteness
Grain dimensions	Chalkiness
Cracked grains	Myanmar Small
Immature grains	Loan Enterprise
Damaged grains	Amylose content
Yellowing	Gel consistency
Food safety and phytosanitary parameters	
Pesticide Residues	
Heavy metal contamination	
Phytosanitary status	

have now launched a code of conduct for the garments industry.

Compliance with buyer requirements necessitates the availability of services from a quality infrastructure. The quality infrastructure supporting compliance with garment requirements is exclusively supplied by private providers. Myanmar's exporters obtain services through three channels. First, the foreign buyers may provide testing services and advice and training on quality production. Second, private providers based in Myanmar may provide testing, certification and inspection services, typically acting as independent or third-party providers, often at the request of the buyer. Such providers can supply services against many quality parameters, including inspection of CSR issues. Third, testing, certification and inspection services are imported. Myanmar is close to larger services industries, such as those in Vietnam, Thailand and Bangladesh, and services may even be imported from much further away, for instance from Europe or Japan.

Myanmar still has very few private services providers. In major garment exporting countries, such as Bangladesh and Vietnam, the private quality services providing industry are large, with multitudes of competing providers, many of which will be affiliated with global quality assurance firms. However, in Myanmar there are still very few private services providers. One is the Swiss-based multinational SGS, present in Myanmar since 1948. As garments exports grow the market for services will grow with them, and both foreign and local firms will find it worthwhile to expand the local offer of services.

The government could consider using the potential of the private services providing industry. Ideas to establish the DRI as a testing and certifying body for garment quality have been considered in the National Export Strategy (Republic of the Union of Myanmar, 2014b). But, the DRI does not support these ideas and thus has no plans to establish such bodies. To promote growth in garments, the government could instead exploit the potential of the private services providing industry to assist exporters with compliance by ensuring this services industry's freedom to operate.

Other countries in the region have seen unsuccessful attempts to establish government-run laboratories that compete with the private sector. In Bangladesh, the textile laboratory of the Bangladesh Standards and Testing Institution (BSTI) offers tests for azo dyes, formaldehyde and a few other parameters. However, this government laboratory has been received with

suspicion by Bangladesh's foreign buyers, who have continued to mandate their suppliers to use services from recognized laboratories, many of them run by multinational quality assurance firms (EIF, 2013).

Why government garment laboratories may face difficulties competing with private ones is illustrated by the experiences of a garment testing laboratory in Sri Lanka. The Textile Training and Support Centre (TTSC), a government body, failed to convert the capacity it built, having received international development partner assistance, to new customers. A project evaluation concluded that Sri Lankan exporters preferred privately provided services (UNIDO, 2010). While the TTDC had obtained accreditation against ISO 17025, foreign buyers often request services from laboratories that they themselves have nominated and foreign governments may also require that to prove compliance with specific regulations, testing has to be done at laboratories that the foreign government itself approves.⁶ Furthermore, exporters found that the TTSC laboratory was slow to conduct the testing, had weak diligence, and had no supporting services such as packaging, house-to-house delivery, or mailing.

UNIDO evaluated the Sri Lankan experience to learn usual lessons. UNIDO (2010) evaluates the Sri Lankan experience and recommends how future projects to support the garments industry might be designed. The report recommends that in the future "interventions should explore ways of further increasing the benefits for private laboratories while watching very closely the thin borderline between making markets for SMTQ services work but not distorting them" (UNIDO, 2010: 38-39). UNIDO (2010) identifies two ways in which capacity-building had supported private laboratories. First, the TTSC became a source of technical knowledge for exporters setting up its own in-house laboratories. Second, capacity-building at the Sri Lankan calibration laboratory provided calibration services in demand from the private garments laboratories.

6 One example is the US Consumer Product Safety Improvement Act (CPSIA) adopted in 2008. This Act authorized a series of new regulations and associated testing requirements for children's products and some other products too. To demonstrate compliance with CPSIA regulations, a producer must use the testing laboratories approved by the US for this particular purpose. In Sri Lanka, the only approved laboratories are the private laboratories of Bureau Veritas, Intertek and SGS, despite the availability of other ISO 17025 accredited laboratories. The list of approved laboratories is available at <http://www.cpsc.gov/cgi-bin/labsearch/default.aspx>

5.3.2 Fisheries products

The fisheries industry in Myanmar is a major employer and source of exports. The fisheries sector constitutes a major source of livelihoods and exports in Myanmar, with about 3.5 million people working in the industry, and nearly everybody consuming fisheries products regularly. There is a strong tradition for the extensive cultivation of fish and shrimp by small farmers, and an equally strong tradition for capture fisheries mainly in inland waters and close to shore, although recently marine fishermen have begun to operate across the whole of Myanmar's ocean territory. But foreign vessels continue to catch most of Myanmar's most valuable open water species, such as tuna (Republic of the Union of Myanmar, 2014).

The fisheries sector accounted for US\$279 million in exports in 2012. The NES for the fisheries sector reports that of the total recorded exports of US\$279 million in 2012,⁷ 26 percent went to Japan, 21 percent to China, 16 percent to Thailand and 14 percent to Malaysia. The major products are frozen fish, whole fish, fish fillets and crustaceans. In the same year, Myanmar exported US\$156 million worth of crustaceans, 80 percent of which went to Japan, China and Malaysia.

There is a wide variation of quality requirements in fisheries products. Quality requirements in the export trade of fisheries products vary tremendously, from simple organoleptic requirements such as taste and odor mainly reflecting species and freshness, to chemical residues such as antibiotic residues and stringent specifications for the organization of national food safety management systems.

The EU is the most demanding market targeted by Myanmar. The general requirement is that the exporting country introduces a food safety system for those fisheries exports destined for the EU that is equivalent with the EU system. To oversee this system, the exporting country has to establish a competent authority that approves individual plants for export, oversees fisheries food safety and runs monitoring and testing programs targeting issues, such as microbiological safety and testing for contaminants. In Myanmar, the competent authority is the Fish

Inspection and Quality Control Division (FIQCD) under the Department of Fisheries.

Myanmar has encountered severe market access problems for its capture and culture fisheries products to the EU in the past. In 2003, the EU banned Myanmar fisheries products because of hygiene problems in the supply chain (CBI, 2012). In 2007, the EU allowed exports of capture fisheries products. A team from the Food and Veterinary Office (FVO) of the EU inspected Myanmar's fisheries industry in 2009. In anticipation of the FVO inspection, the FIQCD had reduced the number of Myanmar processing plants approved for export to the EU from 43 to just eight. The FVO inspected these parameters of the Myanmar system:

- Registration and approval
- Control of fishing vessels
- Control of landing sites, auction halls, wholesale markets and ice machines
- Control of establishments handling fisheries products
- Control of fisheries products
- Official certifications
- Laboratories
- Follow-up of Rapid Alerts System for Food and Feed notification

Highlighting various deficiencies, the FVO forced Myanmar to upgrade its fisheries food safety system. The FVO concluded that a "system of public health controls for fish and FP is in place in Myanmar. The system's effectiveness is compromised by some deficiencies in its implementation, in particular, by weaknesses in official controls of water/ice and FP, state of hygiene of the vessels and landing sites and traceability" (FVO, 2009). The existence of numerous deficiencies and deviations from the relevant EU regulations forced the FIQCD to submit an action plan on how to upgrade Myanmar's system. The EU did not allow the import of Myanmar fisheries products before a new inspection had taken place in 2010 (CBI, 2012). Today, 20 Myanmar plants are approved for exports to the EU, although industry sources say that in practice only about five actually do export. Only products from capture fisheries are approved, while Myanmar cannot export aquaculture products to the EU, although some shrimp exports from western Myanmar are reported to enter the EU through Bangladesh.

⁷ As always in Myanmar, there is considerable uncertainty about trade figures. While international trade data recorded around US\$300 million of exports in 2012, the Department of Fisheries published a total of exports of US\$653 million. CBI (2012) speculates that the differences is caused by the Department of Fisheries not reporting the border trade with Bangladesh, India, China and Thailand to the international trade statistics.

Processors financially supported the Department of Fisheries to install the necessary testing equipment. A visit to a processing plant and a roundtable discussion with processors conducted during May 2015 for this DTIS revealed that processors approved for EU exports thought the Myanmar public health system worked satisfactorily. Myanmar has adopted EU regulations, although it only enforces them strictly for EU-approved factories. The association of processors has supported the Department of Fisheries by financing testing equipment installed on Department of Fisheries' premises. Most parameters can now be tested in Myanmar, although some still require testing abroad. Dioxin is tested in Malaysia due to the high costs of the necessary equipment.

Some firms have to meet certification that goes beyond that of the EU. One firm interviewed was currently working to be certified by the British Retail Consortium (BRC). This is a private certification program going beyond EU requirements. Even apparently minor issues required significant work. For example, the BRC code bans nuts from the processing plant. But Myanmar workers traditionally eat nuts for lunch and cook in peanut oil. This traditional practice risks introducing nuts to the plant.

In general, Myanmar processors meet very varying quality requirements. Processing firms thought the EU had the most demanding requirements, although the Japanese market also had very exacting standards but these were not set by the Japanese authorities but by buyers. These requirements would be different in nature from the EU ones, less focused on food safety and more on appearance and taste. Japanese buyers regularly visit processing plants and provide quality training. Regional buyers such as Vietnam have import requirements that on the surface look like EU requirements but are enforced far less vigorously. One firm found that the Chinese market did not care much for quality.

5.3.3 Rice

Rice dominates the rural economy of Myanmar and tremendously influences its culture. Myanmar is a rice-surplus country and prior to the Second World War, it was the world's largest rice exporter. After the war exports never recovered but continued to fall following the country's independence when the government created a state monopoly in the rice trade. Myanmar settled as a supplier of low quality rice, most of which was sold in Africa. In later decades, Myanmar has exported around one quarter to half a million tons

annually. That is less than one-fifth of the level in the 1930s (World Bank, 2014c).

Just recently, exports have rebounded and in both 2012 and 2013, Myanmar exported around 1.3 million tons. However, 95 percent of Myanmar's rice exports are of low quality rice (World Bank, 2014c). This focus on low quality puts the country in jeopardy, because the global consumer demands higher quality rice. Europeans are now buying Myanmar rice because Myanmar can offer its rice cheaper under the "Everything-But-Arms" agreement, but they are not interested in the lowest qualities. Even the market segments that historically have bought the lowest quality rice, most notably in Africa, have also started to demand higher quality rice.

Rice quality is many things, as shown in Box 5.4. One of the most important parameters is the percentage of broken rice, because the price of broken rice is only about half that of whole grain rice. Myanmar's rice has a high percentage of broken rice. While EU-bound rice typically contains maximum 5 percent broken rice, Myanmar's most common export is 25 percent broken rice. The variety of rice matters too. Myanmar has more than 1,000 varieties and unfortunately mixes them up.

Mixing rice varieties causes several problems. Different varieties cook differently, while rice millers operate best with homogenous rice. Consumers prefer certain varieties of what is known as "fragrant rice" and Myanmar has one of the best. Myanmar's Paw San rice was selected as the world's best rice at the World Rice Conference in 2011.

Rice's phytosanitary status is becoming a matter of great concern, in particular in trade with China. Since China became a rice deficit country in 2011, it has quickly become an important destination for Myanmar rice. That rice passes the land border at Muse, and China officially considers this trade illegal due to phytosanitary concerns, despite the fact that in practice China appears to tolerate it. In January 2015, Myanmar and China agreed on a Memorandum of Understanding on the rice trade that will be followed with an SPS protocol detailing China's conditions for importing rice.⁸ Mimicking a similar protocol with Cambodia, the agreement foresees that rice exported to China will be certified by an authorized Chinese company based in Myanmar. The protocol will determine a list of pests unwanted in rice and the measures for managing them. It is the hope that the

8 Cambodia and Lao PDR have already agreed on SPS protocols on rice with China.

SPS protocol will allow for high volumes of sea trade with China that will be facilitated by Myanmar's sound management of the phytosanitary risks.

Improving quality will require building capacity in a quality infrastructure and in phytosanitary management. In order to improve the quality of its rice, Myanmar could intervene in the value chain and build capacity in its quality infrastructure and phytosanitary management. A recent World Bank report on the Myanmar rice industry discusses at length the need to upgrade quality (World Bank, 2014c) and that discussion, alongside interviews during May 2015, is the basis of the analysis here.

Myanmar needs new investment in order to upgrade its old rice mills. Technologically, the milling industry needs to change because outdated milling equipment results in low quality, including a high percentage of broken rice. The need to upgrade equipment is an example of how increasing product quality is a larger question than simply upgrading the quality infrastructure. New investment will need support in the form of access to electricity, and better rice distribution and management. The current legal clause for government approval for a joint venture with a foreign investor in the rice milling sector could be relaxed (World Bank, 2014c). v

Better extension services and provision of seed would also help farmers to improve quality. Other examples of supply chain interventions outside quality infrastructure investment that could improve quality are better extension to farmers and provision of seed. Today, farmers mostly use their own seed from last year's harvests. Thus varieties become mixed. There is a role to be played by quality control of the seeds and the support of seed multiplication. The number of varieties available could be reduced and the fragrant varieties could be promoted. World Bank (2014b) advocates that such promotion could take place within a public-private effort that identifies both fragrant and non-fragrant varieties with particular potential. The Myanmar Rice Federation has already started this work by identifying eight varieties that could provide a starting point.

Most relevant for investment in the quality infrastructure and SPS management is reforming the rice classification and improving phytosanitary management. Currently, Myanmar applies the colonial-era Beale classification system, which is only used in Myanmar and not understood abroad. The Beale system groups rice varieties according to paddy length and the

ration length and breadth. Given that varieties with different cooking characteristics are grouped together, this procedure reduces value compared with selling rice internationally by variety. It will be important for Myanmar to abandon the Beale system and replace it with an internationally recognized system that allows its rice to be sold by variety. The Department of National Standards and Quality has begun the development of new rice standards for Myanmar based on Codex Alimentarius standards. This work should be supported by development partners to ensure that abandoning the outdated Beale classification system allows for rice to be sold by variety.

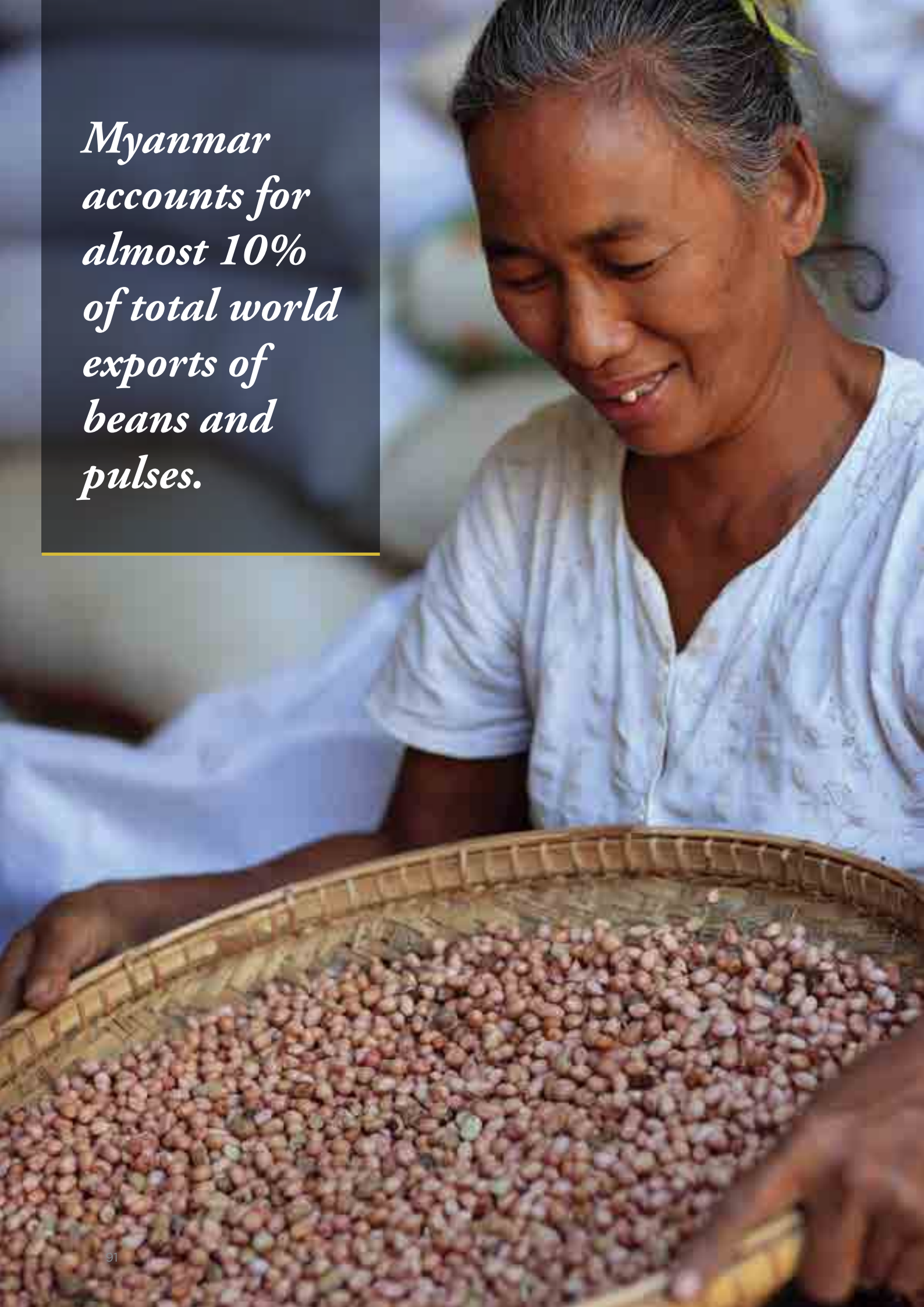
It will be important for phytosanitary management to be improved and the SPS protocol with China to be finalized and properly implemented. This is a precondition to keep developing its rice trade with China. Investment in laboratories needed for surveillance may be warranted.

5.3.4 Beans and pulses

Myanmar accounts for almost 10 percent of total world exports of beans and pulses. Beans and pulses are a category of crops that includes peas and lentils. Myanmar is a major exporter, and exported beans and pulses worth US\$804 million in 2012, equivalent to nearly 10 percent of total world exports. Three-quarters of Myanmar's exports go to India (Republic of the Union of Myanmar, 2014).

Local inspections are conducted by the more stringent foreign buyers. An interview with an exporter of beans conducted for the DTIS revealed that, even for a sophisticated market such as Japan, quality requirements are relatively easy to comply with and the export procedures straightforward. The exporter sells dried beans to Japan, as well as Indonesia, Malaysia and Thailand. Of these four markets, the Japanese buyer is the most demanding. This buyer imports butter beans that are then processed into bean paste. Key quality requirements include a low percentage of foreign matter, pesticide residues, and aflatoxins, together with phytosanitary requirements, and especially for the Japanese market's corporate social responsibility. The major quality problem for the exporter is to minimize the percentage of foreign matter in the beans. Farmers tend to mix the beans with stones and sticks to increase the weight, and the exporter is therefore required to clean the beans, first by machine and then by hand. The Japanese buyer inspects the exporter's facilities annually and requires that the exporter uses services from a Japanese service provider, OMIC, to supply

*Myanmar
accounts for
almost 10%
of total world
exports of
beans and
pulses.*



fumigation to meet the phytosanitary requirements and for testing for pesticide residues and aflatoxins. For other markets, the exporter uses the fumigation services offered by the Swiss company, SGS.

A greater challenge for Myanmar's exporters is poor logistics. The exporter stated that compliance with quality requirements was a minor issue in the beans export business compared with the logistics difficulties of coordinating purchasing operations from a multitude of small farmers. The exporter has a stable decade-long relationship with an agent responsible for the purchasing operation. In the past, export procedures were burdensome, but dealing with the government has improved in recent years. However, the problems of export procedures experienced earlier were mainly bureaucratic, such as slow handling of applications for permits, and were not related to quality issues.

The NES calls for advanced quality management measures, although no market demand for such measures is apparent. The newly published NES for beans and pulses appears to contradict the views of the exporter interviewed. While the beans exporter views quality management as a minor issue, the NES recommends implementing advanced quality management measures (Republic of the Union of Myanmar, 2014d). The NES recommends implementing the Good Agricultural Practices scheme developed by ASEAN, to implement HACCP and Good Management Practices, and to promote the development of organic production to niche markets. Advanced measures like HACCP would work if the market is aware of their benefits and opportunities thus generating sustainable demand for such measures.

5.3.5 Timber

A ban of the export of raw logs since 2014 has impacted this major industry. An estimated 500,000 people depend on the production of forestry products. The government banned the export of logs on April 1, 2014, causing a drastic change in the industry, which now needs to fulfill minimal processing requirements in order to be allowed to continue its dominant export business. The export of forestry products constitutes about 10 percent of total official exports from Myanmar. Logging is an important source of income for ethnic minorities, especially in Kachin State along the Chinese border and in Kayin State along the Thai border (Woods and Canby, 2011).

There are controversies surrounding forestry because of the high rates of unsustainable and illegal logging, and the high level of activities in ethnic-minority

areas marked by civil conflict. In an assessment of forestry management conducted for the EU Forest Law Enforcement, Governance and Trade (FLEGT) program, Woods and Canby (2011) state that current logging quotas are higher than the scientifically recommended allowable cut. Previous governments set production targets independent of scientific advice. In addition, the government has great difficulty in controlling logging due to rampant illegal logging occurring on top of the already unsustainable production targets. As a result, the teak forests that have made Myanmar's forestry industry famous have become fragmented and greatly reduced in both quantity and quality. However, the current government is making efforts to ensure that timber harvesting is in accordance with the Annual Allowable Cut (AAC).

The main export markets are India and China, while buyers in high paying markets such as the US and the EU are deeply concerned about unsustainable forestry practices. Some of Myanmar's exporters sell their forestry products to the US and the EU through Malaysia, where certificates of origin can be falsified (Woods and Canby, 2011). The introduction of forestry certification schemes could instill confidence in Myanmar's forestry management and attract new buyers. Myanmar currently has no internationally recognized certification system (Republic of the Union of Myanmar, 2014c).

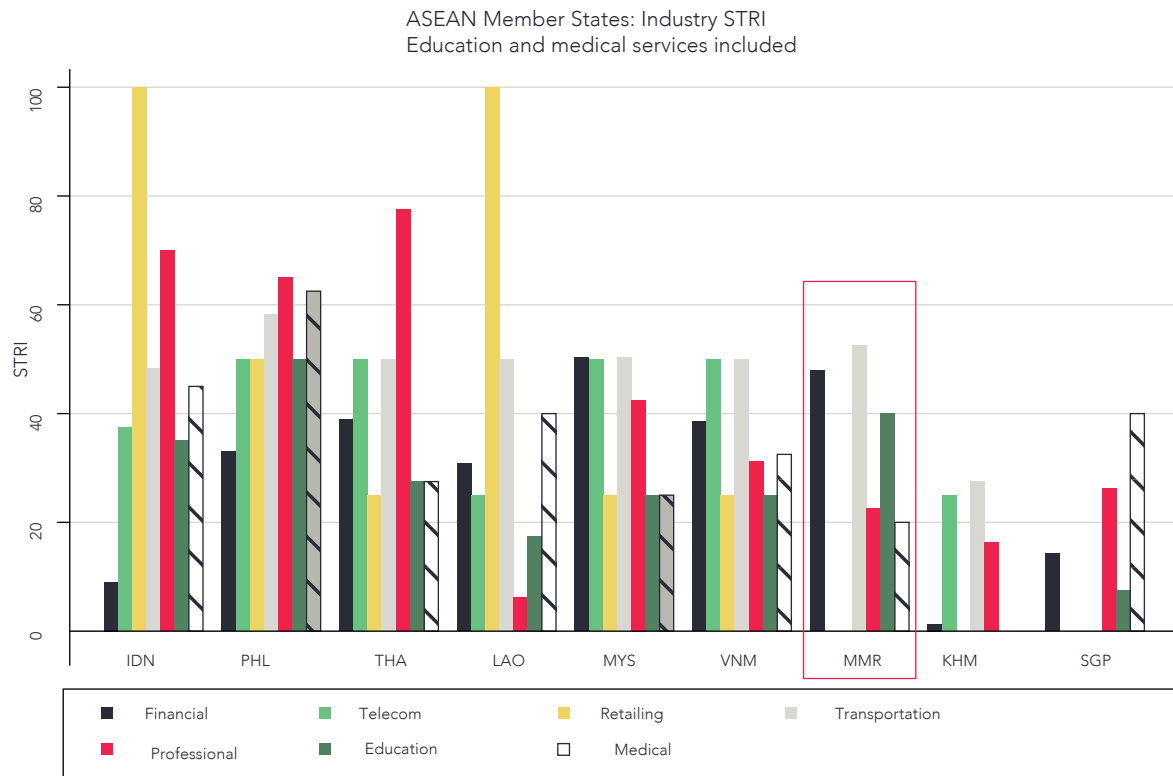
The Ministry of Natural Resources and Environmental Conservation has established the Myanmar Forestry Certification Committee and tasked it with developing an internationally recognized certification scheme. This committee was established in 1998, but progress to date has been modest. Myanmar could choose to opt for a Voluntary Partnership Agreement under the EU FLEGT program. Alternatively, Myanmar could consider putting in place independent third-party monitoring and audit systems to gain credibility (Woods and Canby, 2011).

TRADE IN SERVICES

As part of the country's broad-ranging economic and regulatory reform process, Myanmar has started opening up its services sector to international trade. Nevertheless, lingering restrictions still remain in the governance and administrative framework, as well as in the laws and regulations. These administrative and regulatory barriers introduce uncertainties and additional costs in the operation of services firms in Myanmar, limiting the economy-wide benefits of the market opening of the sector.





Figure 6.1: Myanmar's STRI is broadly in line with comparators (2012)

6.1 A relatively open overall regime...

Overall, Myanmar has a relatively open regime for trade in services, particularly when compared with other ASEAN member states. By and large, ASEAN countries maintain relatively restrictive services sector policies, especially compared with other developing regions, as well as developed countries. While the overall restrictiveness among ASEAN countries is high, the most restrictive policies are applied in particular to transportation and professional services. Figure 6.1 provides individual information for Myanmar and all ASEAN member states. It shows that Myanmar's services policies within the ASEAN context are relatively open. In particular, telecommunications and retail services are formally open to foreign services providers. These indices represent the impact of domestic regulations (services trade policies) on imports of services and services providers.

The relatively high level of restrictiveness on financial services is mainly explained by limitations on cross-border financial transactions (as discussed later in Chapter 8). In the case of banking services, cross-border transactions of deposits and loans are subject to approval by the CBM, while in the case of insurance companies, cross-border provision of car insurance, life insurance, and reinsurance services are not allowed.¹ In the case of air transport services, cargo and passenger, domestic and international, restrictions require establishing a joint venture, with foreign equity participation limited to 49 percent in such entities. Other transport services are allowed, except for rail transport services. In the case of maritime transport

¹ However, non-residents' foreign currency deposits as well as local currency deposits can be allowed by the banks without needing to get CBM's approval.

services, as well as maritime auxiliary services, there are no restrictions, except that the acquisition of an existing entity is not allowed.

Tough restrictions exist also in the area of professional services. Auditing services are not allowed to be provided by foreigners. Similarly, regarding domestic legal services, only nationals from Myanmar can provide these services. Regarding commercial presence, in some professional services entry through direct branches or full partnerships is not allowed (accountancy, architecture and engineering services). In the case of domestic legal services, on the other hand, entry is allowed through branches, separate legal entities and joint ventures.

6.2 ...but a fragmented policymaking framework

Trade in services remains a new area for policymaking for Myanmar's institutions. While Myanmar, as a WTO and ASEAN member, has been involved in various trade negotiations that include trade and investment in the services sector, the government does not currently have a specific agency taking a leading role in formulating a comprehensive policy on trade in services. As a result, Myanmar lacks a clear strategy on trade in services policy, and negotiations are carried out in an ad-hoc manner, often trying to keep pace with more advanced regional partners and without bringing a comprehensive strategic view to the negotiations.

Policy formulation in the trade in services requires a skilled coordinator and efficient procedures, to share information and determine policy directions. Given the breadth of the services sector, and the highly technical regulatory skills that it requires, the role of a policymaker in the trade in services is inherently one of a coordinator. For an effective trade policy, information needs to flow back and forth between the trade ministry and the specialized regulatory agency. Relevant regulatory offices typically include the telecommunications regulator (telecommunications services), the central bank (banking), the transport ministry (transport services), and professional bars and associations (professional services). The ministries responsible for sub-sectoral policies and regulatory offices could first provide the trade ministry with a clear picture of the regulatory status quo on their specific subsector, including current laws and regulations, policy goals and the regulatory plan. The trade

POLICYMAKING BENEFITS FROM EFFECTIVE INTRA-GOVERNMENTAL COORDINATION

Given the regulatory intensity of many services activities and the range of subsectors involved, proper coordination across various government agencies is critical. Promoting an effective process of intra-governmental coordination is likely to generate a number of positive policymaking externalities. These include the following:

Crafting unified government positions. Coordination is essential to develop negotiating positions based on complete assessment of key national priorities and to ensure that negotiators are informed of the full range of factors influencing the domestic services market.

Generating information based on measures affecting trade in services. Policymakers need accurate information on the domestic regulatory environment affecting trade in services. Trading partners require this information during trade negotiations. Creating and updating a central inventory or focal point (such as a database) of regulatory measures can help to meet such transparency obligations.

Identifying and analyzing the effects of measures on achieving economic or social policy objectives. It is important for governments at all levels to periodically review the effectiveness of domestic policies and regulations in achieving economic and social policy objectives. Doing so may involve analyzing the trade or investment effects of regulatory measures.

Avoiding duplicating consultations with other agencies and domestic stakeholders. Given the multitude of subsectors and measures arising from the trade in services, it will be important for officials to achieve a balance between engaging intra-governmental partners on issues of mutual concern and avoiding inundating key departments and agencies with too much information or too many requests for input. Good regular lines of communication between individuals can assist in quickly addressing issues without creating unnecessary processes.

Contributing to an ongoing assessment of the impact of liberalizing trade in services. In most countries, data for impact analysis are the responsibility of the national statistical agency. However, collecting such data is challenging for several reasons. Recourse to anecdotal information can be useful.

Source: Adapted from Marconini and Sauve (2010) and OECD (2002), *Managing the Request-Offer Process*, Paris: OECD.

ministry would then articulate a services trade policy, including guidelines on potential international obligations, as part of a broader national trade policy in close consultation with competent authorities and the private sector. The policy can be enacted through the adoption of necessary changes in the regulations under the orbit of each relevant body. The trade ministry and other relevant ministries would have access to proposed new regulations at conception and at the drafting stage to assess the impact on trade and their compliance with international trade agreements.

In Myanmar, multiple government ministries share overlapping mandates on trade in services, often in a conflicting and inefficient manner. In recent years, coordinating roles between different ministries have shifted, but the institution remains unclear and inefficient. Figure 6.2 highlights the main ministries involved in trade policy formulation with current or past broad mandates in trade in services coordination, and it summarizes their main roles and services sector expertise. In addition to sector-specific regulatory bodies, which may be engaged or consulted regarding their sectoral expertise, at least four institutions are relevant to trade policy formulation in Myanmar:

- **Ministry of Commerce (MoC):** Currently, the focal point for WTO negotiations, including goods and services matters, the MoC is formally mandated with coordinating multilateral

negotiations in trade in services. While the MoC has been the leading ministry on negotiations in trade in goods, it has not been actively involved in trade in services discussions. In fact, despite its substantial mandate for trade in services, the MoC is currently constrained by limited resources from devoting dedicated staff in this field.

- **Ministry of Transport (MoT) (Reorganized as the Ministry of Transport and Communications on April 1st, 2016):** Assigned in 2012 as the focal point for ASEAN trade in services negotiations, the MoT is currently the main ministry involved in services trade policy. The MoT coordinates AFAS rounds, as well as ASEAN+ negotiations, seeking guidance from other line ministries and departments in specific sectoral discussions. Importantly, the AFAS focal point role means that de facto the MoT monitors the implementation of trade services commitments in all services subsectors covered by AFAS, including those related to the ASEAN Economic Community (AEC). Nevertheless, trade in services coordination remains a secondary role that has to be balanced with its transport policymaking and regulatory functions. As a result, the MoT has little capacity or understanding of trade policy beyond its sectoral expertise, and currently features no dedicated team to deal with such matters.

Figure 6.2: Several ministries involved

Ministry of Commerce	Ministry of Transport	Ministry of Planning	Ministry of Tourism
<p>Mandate</p> <p>Services policy Formulation</p> <p>Services negotiating body at WTO</p> <p>WTO focal point</p>	<p>Mandate</p> <p>Monitoring of AFAS commitments implementation</p> <p>Services negotiating body at ASEAN & regional bodies</p> <p>ASEAN focal point</p>	<p>Mandate</p> <p>No current services-specific mandate</p> <p>De facto support to other ministries</p> <p>Representation at ASEOM meetings</p> <p>Monitoring of AEC implementation</p>	<p>Mandate</p> <p>No current mandate</p> <p>Former services negotiating body at WTO</p>
<p>Services expertise</p> <p>No dedicated services team</p>	<p>Services expertise</p> <p>No dedicated services team beyond transport services</p>	<p>Services expertise</p> <p>3 dedicated staff members</p>	<p>Services expertise</p> <p>Some legacy expertise on services negotiations</p>

- **Ministry of Planning and Economic Development (MNPED) (Reorganized as the Ministry of Planning and Finance (MoPF) on April 1st, 2016:** Assigned as the ASEAN AFAS focal point prior to the appointment of the MoT, the MNPED currently holds the representation of Myanmar at ASEAN Senior Economic Ministry (ASEOM) meetings, which oversee, among other areas, negotiations on services trade. In addition, the MNPED is responsible for the implementation of AEC goals. Despite the limited direct engagement with trade in services negotiations, the MPED is the only agency with specific expertise and some minimal staff specifically devoted to trade in services negotiations, as a legacy of its broader role until 2012. This staff supports de facto other ministries in conducting services negotiations.
- **Ministry of Hotel and Tourism (MoHT):** The initial, de facto, services trade coordinator and negotiator before the WTO due to the strong focus of Myanmar GATS commitments in the services sector, the MoHT currently holds no formal role beyond its sectoral scope. Nevertheless, a limited extent of broad understanding of services trade negotiations and policy remains within the ministry, as a legacy of its broader role.

This institutional framework brings about substantial challenges regarding services trade policymaking. First, the absence of one specific agency clearly responsible for trade in services coordination leads to overlapping coordination responsibilities and inefficient use of resources. More importantly, it also means that no agency is currently capable of aggregating interests, demands and regulatory concerns from different services subsectors and formulating these into a comprehensive policy. The position of the appointing broad coordination roles to a sectoral ministry also puts the agency before conflicting interests, as it will be important for it to support policy and regulatory positions from its own services subsector, while impartially negotiating commitments on a wide range of subsectors based on broader economic and trade policy goals.

6.3 A relatively open regime but with lingering restrictions

6.3.1 Regulatory regimes have been modernized

Investment regime

Since 2011, Myanmar has taken major steps to increase private investment in its economy, including by foreign services providers. One of the main instruments to crystalize this market opening was the introduction of the new Foreign Investment Law in 2012, opening a number of sectors to foreign participation and incorporating important guarantees to foreign investors. As a result of this broad process, the conditions for establishment of foreign services suppliers have greatly improved.

The introduction of the new Foreign Investment Law (FIL) was one of Myanmar's central actions for removing barriers to foreign capital and for signaling the new economic model. The main measures contained in the law include: relaxing restrictions on foreign investment in terms of sectors and equity participation, facilitating land-lease by foreign-invested entities, and widening tax and other investment incentives as a tool to attract foreign investment.

The new FIL provides options for carrying out investment in Myanmar. An investment may take any of the following forms: (i) carrying out an investment by a foreigner with 100 percent foreign capital in a business approved by the Myanmar Investment Commission (MIC); (ii) a joint venture between a foreigner and a citizen or the relevant government department and organization; and (iii) a contract that has been approved by both parties.

- **The FIL and its implementing legislation set out a number of services subsectors that remain limited to domestic investment,** as well as others where foreign participation is only permissible in the form of joint ventures. The services subsectors reserved for Myanmar citizens listed in Foreign Investment Rule of 2013 issued by the Ministry of National Planning and Economic Development are:

- Private traditional hospitals;
- Trading of traditional herbal raw materials;
- Research and laboratory for traditional medicines;
- Ambulance transportation services;
- Establishment of health care centers for the aged;
- Contracts for restaurants, cargo transport, and the cleaning and maintenance of railcars;
- Agency;
- Generation of electricity under 10 megawatts; and
- Publishing and publication of periodicals in ethnic languages, including the Myanmar language.

In other activities, foreign investment proposals are considered on a case-by-case basis by the MIC. The MIC issued Notification No. 1/2013 dated January 31, 2013, offering further guidance on the FIL, including details on subsectors in which foreign participation is prohibited and those subject to joint-venture requirements. The notification lists 21 activities in which no foreign participation is allowed, including printing and broadcasting, navigation services and air control management. Forty-two other activities are subject to joint ventures with Myanmar citizens, in accordance with MIC guidance on the level of domestic participation required in each activity, including in the following services subsectors:

Table 6.1: SOEs in the services sector

Ministry	SOE	Services Sector
Ministry of Information	Printing and Publishing Enterprise	Publishing services
	News and Periodicals Enterprise	News distributions
Ministry of Finance	Myanmar Economic Bank	Banking
	Myanmar Investment and Commercial Bank	Banking
	Myanmar Foreign Trade Bank	Banking
	Myanmar Insurance Enterprise	Insurance
	Myanmar Small Loan Enterprise	Microfinance
Ministry of Construction	Department of Human Settlement and Housing Development	Construction
Ministry of Livestock, Fisheries and Rural Development	Livestock, Feedstuff, and Dairy Products Enterprise	Distribution
Ministry of Communications and Information Technology	Myanmar Telecommunications, Myanmar Posts	Telecommunications, Postal services
Ministry of Cooperatives	Cooperative Export Import Enterprise	Trading, Distribution
Ministry of Hotels and Tourism	Myanmar Hotels and Tourism Services	Hotel
Ministry of Rail Transportation	Myanmar Railways	Rail transport
	Road Transport Enterprise	Road transport
Ministry of Energy	Myanmar Petroleum Products Enterprise	Fuel distribution

Source: WTO Secretariat, 2012.

- Distribution of some food products;
- Packaging;
- Air transport services, maritime transport and freight forwarding services;
- Building and repairing of new ships at dockyard;
- Inland port services through container terminal and warehouse services;
- Private special hospitals/private special indigenous hospitals; and
- Tourism services.

For investment in any of the above restricted or prohibited activities, permission from the MIC may be granted with the approval of the government.

However, in the case of approval, foreign equity must not be more than 80 percent in any of these reserved activities, if the investment is considered to be beneficial to the citizens and particularly to ethnic minorities. For those large foreign investment projects that are seen as bringing substantial benefits to public security, improving surrounding areas and improving the living conditions of citizens, the MIC can submit the application to *Pyidaungsu Hluttaw* (Parliament) through the Union Government for approval.

State-owned enterprises

The government is directly involved in a number of key services subsectors through the presence of state-owned enterprises (SOEs). The State-owned Economic Enterprise Law of 1989 set out the general framework for SOEs, and lists the areas that are de jure reserved for the state, and thereby excluded from foreign or domestic investment. Table 6.1 lists the main SOE activities in the services sector, and the relevant regulator.

According to the SOE Law, several key infrastructure services subsectors are reserved for the state and are therefore excluded from private (either foreign or domestic) participation. These services subsectors are:

- Banking services
- Postal services
- Telecommunications
- Air and railway transport
- Broadcasting and television services

However, as shown in banking, telecommunication and air transport, the government may decide to allow the private sector to operate in these sectors.

Cross-border services

In general, Myanmar's regulation does not limit the provision of cross-border trade in services or the ability of its consumers to acquire services from abroad. This reflects not only Myanmar's openness to trade in services but also the fact that regulating these modes of supply, where the provider is located outside the country's jurisdiction, is technically challenging. No modern economy maintains across-the-board restrictions on cross-border trade. A typical restriction on this mode of supply is a requirement that the provider has representation in the country in order to be able to provide the service ("local presence requirements"), but this is usually found only in relation to a handful of specific services. This is also true for Myanmar.

Presence of individual services providers

While the temporary presence of individual services providers is not restricted as such in Myanmar, strict visa requirements are still a burden for foreign services providers. The government is taking steps to relax the visa requirements, including the issuance of on-arrival visas at the major entry points. Foreign services providers can obtain business visas for up to 70 consecutive days' stay with an invitation letter.

A number of additional limitations apply to the services provided by foreign experts and the intra-corporate transfer of employees. Although foreign firms registered with the MIC are allowed to hire foreign experts and technicians, preference is given to Myanmar citizens (MIC, 2014) and employment in positions that do not require a particular skill is reserved for Myanmar citizens (PwC, 2014).

Foreign services providers wishing to employ foreign workers for longer than 70 consecutive days have to fulfill additional procedures in the registration. The following procedures have to be completed in order to employ foreign experts and technicians (PwC, 2014):

- The investor has to mention the number of foreign experts/technicians to be employed in the investment application form submitted to the MIC.
- After obtaining the MIC permit, a company has to apply for an appointment and work permit.
- With the endorsement of the MIC, a company has to apply for a work permit to the Directorate of Labor under the Ministry of Labor, and for a stay permit and visa to the Immigration and National Registration Department under the Ministry of Immigration and Population.

Services companies not registered with the MIC, however, face greater difficulties, as they need to obtain an endorsement of the relevant ministry for their activity. There are no standard rules and requirements for each for the ministries to provide this endorsement. In practice, foreigners employed or providing services for longer periods of time generally skip the registration procedures altogether and simply operate under 70-day business visas. These employment requirements create important additional costs for businesses. They also weigh more heavily on domestic and foreign SMEs that are not registered with the MIC, as these firms do not receive the benefits of advocacy by any major government ministries.

6.3.2 But gaps remain between rules and reality

Governance is still underdeveloped

General (or horizontal) laws and regulations refer to those measures that affect multiple services subsectors, or the services sector as a whole. The regulatory framework for services includes not only laws and regulations governing a particular subsector, but also includes measures that affect a wide range of subsectors (“horizontal” measures). Regulations on tourism, for example, obviously affect services providers in that subsector, but so do other laws and regulations, such as regulations on buying and selling of foreign currency, laws on entry and length of stay of foreigners, and procedures related to the establishment of firms. Typically, horizontal policies are not necessarily meant to regulate services industries, but focus on general policies, or regulate a mode of supply that cuts across different services subsectors. Measures at the horizontal level are hence those affecting all services industries. Examples of horizontal measures not directly aimed at regulating international trade, but that imply horizontal restrictions on a mode of services supply, include the following:

- Cross-border trade: measures on the transfer of funds, restrictions on access to foreign currency.
- Commercial presence: limitations on land ownership, restrictions on establishment of juridical persons, and domestic employment requirements for foreign companies.
- Presence of individual services suppliers: visa requirements for foreigners, limitations on lengths of stay.

Regulatory quality, the rule of law and general governance all play key roles in defining the general business environment. While Myanmar’s broader

policies for private investment have greatly improved in recent years, the broader regulatory framework and business environment still have room for improvement. Regulatory quality, understood as the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development, saw some improvement during 2005-10. This coincided with the adoption of policies on the business environment at that time, but since then regulatory quality has stagnated (Figure 6.3b). The perceptions on the rule of law, related to the obedience to rules relating to the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence, have also declined over the past few years (Figure 6.3a). Similarly, perceptions on the quality of public services, the civil service and its degree of independence from political pressure in policy formulation, as captured by government effectiveness measures (Figure 6.3c), have also remained relatively unchanged. This is contrary to the progress achieved in other relevant dimensions, such as investment liberalization and business simplification procedures.

The main restrictions on trade and investment in services stem from administrative practices that result in unclear and unpredictable business regulations. As is common in least-developed countries that have removed trade barriers to services, the existing governance framework does not only act as a barrier to trade and investment in services, but also increases the risks for existing companies and limits their competitiveness. This reduces the interest to invest and sometimes also affects the quality of services. Furthermore, some services subsectors, such as telecommunications, professional services and distribution, suffer from the lack of an adequate regulatory framework, which brings about an informal subsector with low quality services.

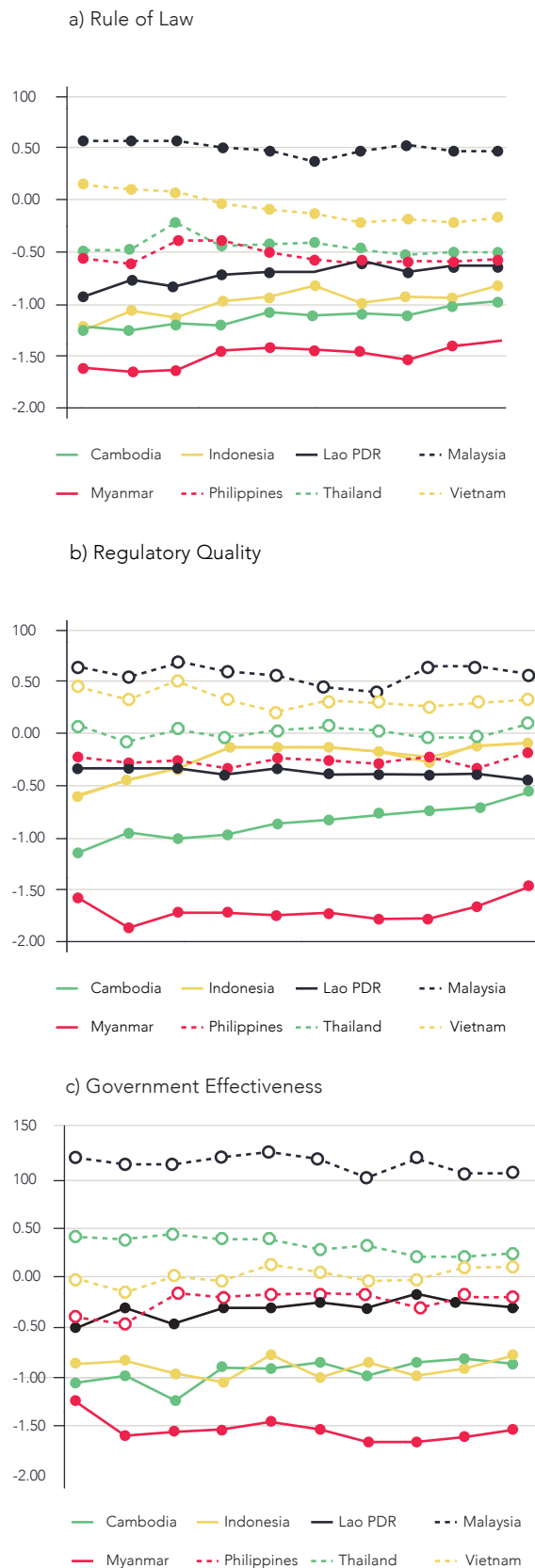
Administrative practices differ from de jure regimes

The actual regime for investment in the services sector has important differences with the framework established in the legal instruments. In many cases, actual practices are more liberal than the legal regime, as some ministries and government bodies attempt to advance in the market-opening policy, even when older laws still apply. In other cases, administrative practices embody restrictive policies that are well-established, but that lack any clear legal sources. Despite the formal ban stated in the SOE Law, in recent years the government has been taking steps to open key



*Regulatory
quality, the rule
of law & general
governance all
play key roles
in defining the
general business
environment.*

Figure 6.3: Myanmar's governance indicators are lagging its peers



Source: World Governance Indicators.

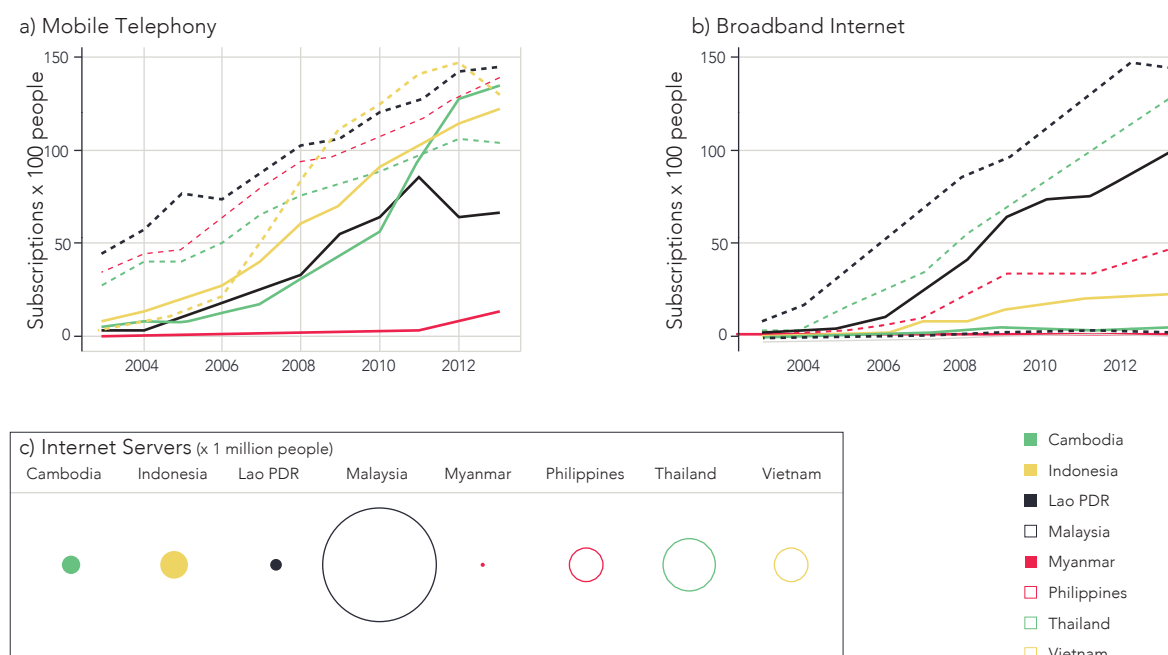
subsectors such as banking and telecommunications to private participation, including foreign investment. These exceptional authorizations have taken the form of ad-hoc licenses. The distribution subsector, however, remains de facto reserved for domestic firms, despite the fact that it is not listed as such in the FIL or other legal instruments.

The gap between formal laws and actual practices fails to provide a transparent and objective regulatory framework, which results in higher costs of entry.

To a large extent, this regulatory gap is the result of the intense reform process undertaken by the authorities, together with the capacity constraints of the Myanmar administration. It may even be a necessary part of the policy experimentation needed in broad regulatory reform. However, a number of administrative practices directly oppose the market-opening policy, such as the ban on foreign firms operating in the distribution subsector. More importantly, overall, the lack of consistency between the legal regime and actual administrative practices adds a layer of opaqueness and uncertainty to the system, weakening the market-opening policy and diminishing its potential benefits.

In addition, Myanmar's general regulatory investment framework remains complex and unpredictable.

The numerous laws that regulate the entry of investors depending on the sector and the location, and depending on whether the investor is local or foreign, add to the confusion, which affects not only applicant investors but also government officials, who both face contradictory rules. The OECD has noted that this complexity is one of the most pressing problems of the current regulatory framework, with foreign investors sometimes requiring overlapping approvals, and facing detailed and often opaque criteria for scrutinizing individual projects (OECD, 2014). In addition, investors have also noted that the increase of foreign investor scrutiny of the country, and the increase of investment proposals, have overburdened the government, creating a bottleneck when it comes to investment approvals (US Commercial Service).

Figure 6.4: Myanmar's telecom sector has been booming

Source: WDI.

6.4 Sectoral policies

In terms of specific services subsectors, Myanmar's next challenge is to consolidate the market-opening achieved so far, and to complement that liberalization effort with adequate subsector-specific regulatory and institutional frameworks that foster transparency, protect consumers and ensure competition. Priority services subsectors in this agenda include: (i) telecommunications, (ii) banking and insurance, (iii) retail and distribution services, and (iv) professional services, including accounting, auditing and legal services. In some key subsectors, the government is already taking steps to improve the institutional and regulatory conditions. In particular, with support from development partners including the World Bank Group, the government is implementing programs to enhance capacity and improve prudential regulations for banking services, as well as setting up an independent regulatory agency for telecommunication services. However, the government has yet to make similar progress in other important services subsectors, such as professional services, distribution and insurance services.

6.4.1 Telecommunications services

The market for telecommunications services in Myanmar is still small. Similar to financial services, the market for telecommunications services in Myanmar is still in its infancy. The existence of competitive telecommunications markets, especially for broadband services, and the skills of employees, are among the main determinants of services exports. The government is making great strides in modernizing the country's telecommunications infrastructure and services by reducing barriers to foreign investment, and improving the institutional and regulatory framework. Decades of isolation have impacted heavily on Myanmar's telecommunications infrastructure. Mobile and broadband penetration are among the lowest in the world, and substantially below the level of its neighbors, including those at a similar level of development (Figure 6.4). Inadequate telecommunications infrastructure, particularly in business-oriented services such as broadband or the availability of internet servers, generates high costs for modern industries.

In 2013, the government enacted a new Telecommunications Law, meant to revamp the institutional and legal framework for the operation of telecommunications services. Importantly, the new law allowed for domestic or foreign companies to apply for telecom licenses, recognizing the importance of attracting investment into this subsector. The law also mandated the establishment of an independent regulatory body for the telecom market, the Myanmar Telecommunications Commission, by 2015, currently still under development.

Capacity-building of human resources in the subsector are also critical, both in government and the private sector. These legal and institutional improvements are, with the support of development partners, being complemented with technical assistance and capacity-building in the relevant ministries within government. Given the novelty and technical complexity of regulatory and monitoring functions in the telecom market, the government is giving priority to the human resources involved. This entails not only continuing training programs for government officials, but also linking with technical schools and engineering universities to ensure that technical capacity is being developed not only in government but also for the telecommunications subsector as a whole.

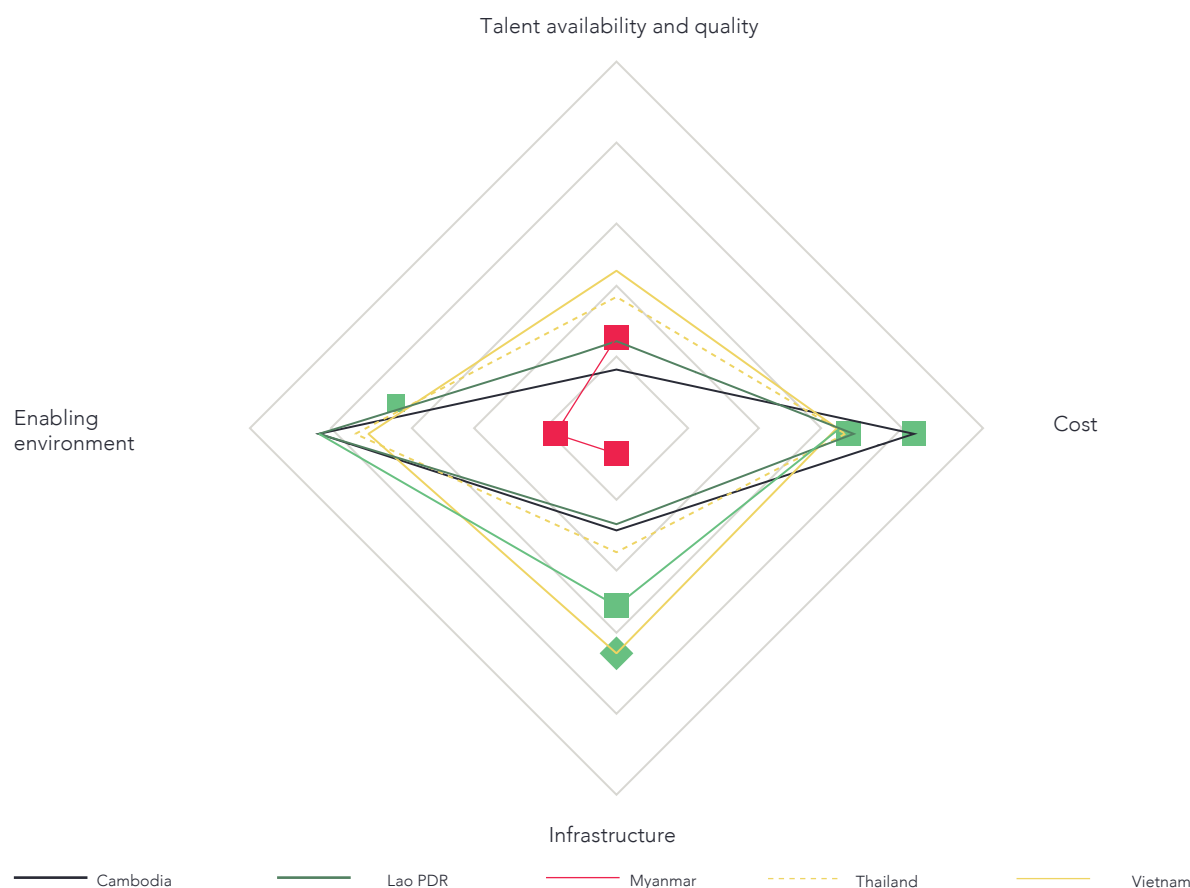
Professional services

Despite their importance, professional services in Myanmar are still underdeveloped and capacity is limited. While a number of restrictions apply to professional services in Myanmar, especially in the accounting and auditing subsector, the major challenges in Myanmar remain establishing an adequate governance and regulatory framework that ensures quality and promotes capacity development.

Myanmar has made important progress in upgrading accounting and auditing services, but formal restrictions on foreign providers remain in place. Under the Myanmar Companies Law, companies must maintain proper books of accounts, which are required to be kept at the registered office of the company, and have to appoint one or more auditors. The law also mandates an annual audit, which must be performed by Myanmar auditors or firms owned by Myanmar CPAs. The Myanmar Accountancy Council (MAC) is Myanmar's main accounting body, responsible for setting the accounting standards and registering auditors and accountants able to practice in Myanmar. In order to qualify as an auditor or an accountant, an applicant must be either CPA-certified by the Myanmar Institute of Certified Accountants (MICPA), or hold an accountancy certificate or degree conferred by any foreign country recognized by the MAC. In addition, auditors have to be citizens of Myanmar and registered

Table 6.2: Myanmar's MRAs on professional services

MRA	Signing date	Implementation through
Engineering Services	December 9, 2005 ASEAN registration (ACPECC)	
Nursing Services	December 8, 2006	Bilateral registration
Architectural Services	November 19, 2007	ASEAN registration (AAC)
Framework Arrangement on Surveying Qualifications	November 19, 2007	MRA
Medical Practitioners	February 26, 2009	Bilateral registration
Dental Practitioners	February 26, 2009	Bilateral registration
Accountancy Services	August 28, 2014	Bilateral registration

Figure 6.5: IT-enabled services suffer lagging infrastructure

Source: World Bank / Rockefeller Foundation Online Outsourcing Competitiveness Tool. Note: there are no data on cost variables for Myanmar.

with the MAC to obtain a Certificate of Practice. Accounting standards in Myanmar are set out by the MAC, based closely on the International Financial Reporting Standards (IFRS), with the following exceptions: (PwC, 2014):

- IFRS 9: Financial Instruments
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interests in Other Entities
- IFRS 13: Fair Value Measurement
- Similarly, the MAC has also prescribed the Myanmar Financial Reporting Standards for SMEs that are adopted from IFRS for SMEs.

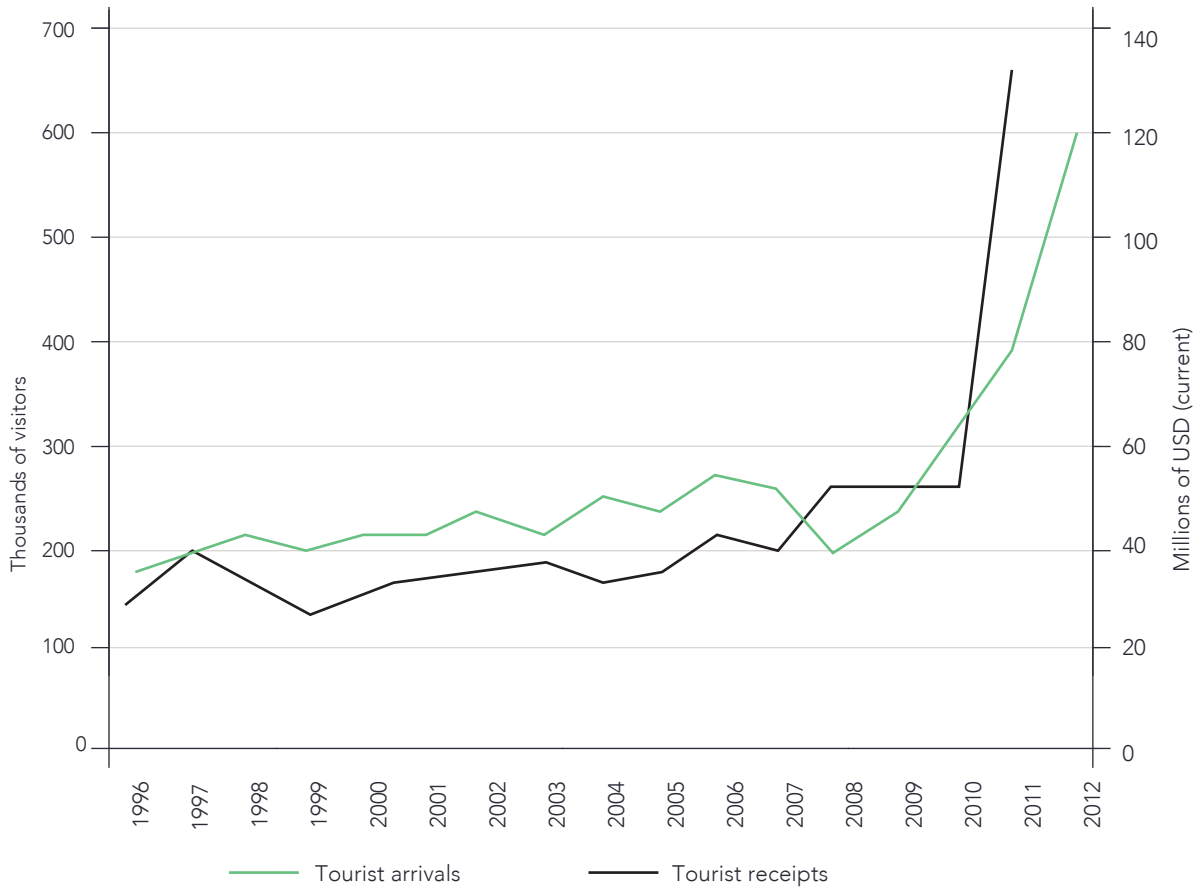
Legal services currently do not have a regulatory framework similar to accounting and remain largely unrestricted to foreign participation. While the Ministry of Justice is recognized as the regulatory body for legal services, the profession currently lacks a regulatory framework or actual monitoring body. The only restrictions on the subsector are set out in

the terms of the licenses granted to foreign-owned law firms, which allow foreign lawyers to practice in association with a Myanmar lawyer, except for litigation before Myanmar courts, which is reserved for Myanmar citizens. The openness to foreign legal services, together with the flexible use of business visas, has allowed the subsector to grow by attracting foreign expertise. However, providing adequate training and a standard curriculum for education institutions, as well as a sound monitoring and regulatory body, would be invaluable in promoting the development of domestic capacity in legal services. As an ASEAN member, Myanmar is party to seven mutual recognition arrangements on professional services concluded in the region (Table 6.2).

The level of implementation of these arrangements in Myanmar is unclear. In general, it appears that the low capacity in Myanmar's professional regulatory bodies for professional services is a hurdle in the implementation of these arrangements. In accounting services, despite the progress in the subsector and the technical assistance projects maintained with

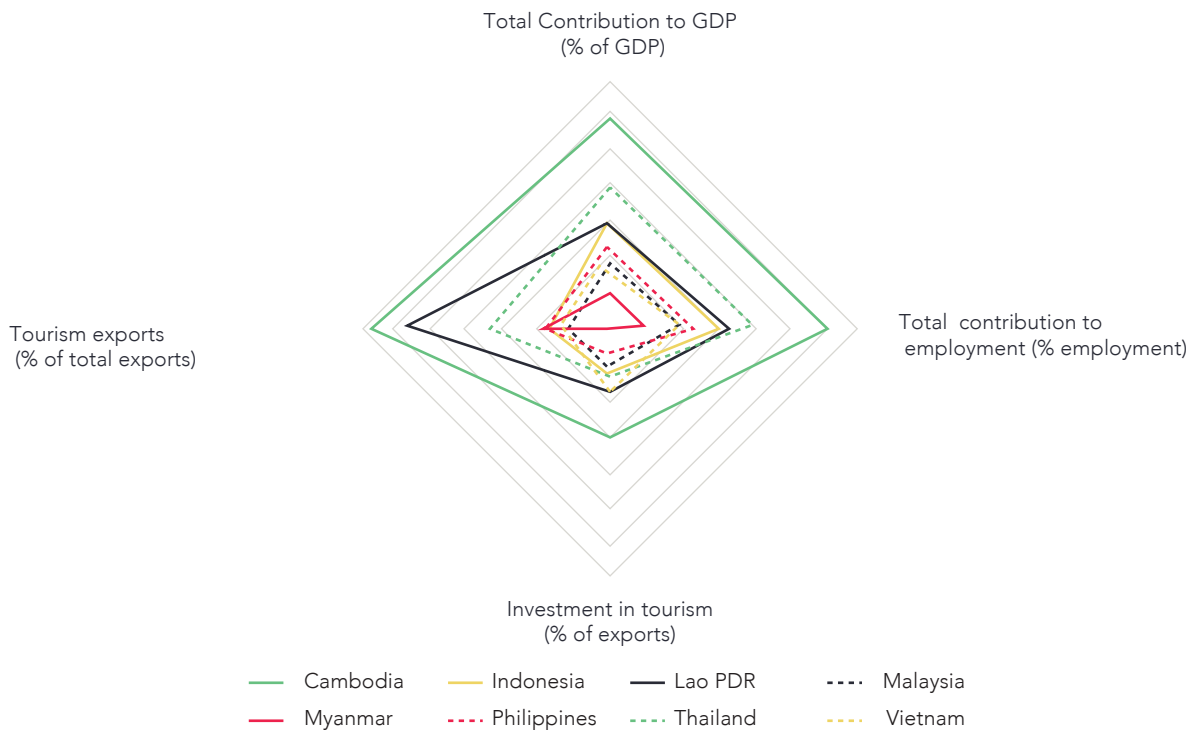
Figure 6.6: Dynamic tourism indicators highlight Myanmar's potential

(a) Tourism is rapidly expanding in Myanmar...



Source: World Development Indicators.

(b) ...but a large potential for growth remains



Source: World Development Indicators. Data values for 2014.

Figure 6.7: Despite a lack of infrastructure, tourism has great potential



Source: WEF, 2015.

the regulatory bodies, there has been no major step to date towards implementation of the MRA. A comprehensive evaluation of the conditions and needs for implementation of the ASEAN MRAs would be beneficial to increase capacity and promote the development of professional services in Myanmar.

Business and IT-enabled services

“Business services” encompasses a wide range of activities that, save for professional services, are generally open and only lightly regulated. In addition to professional services, activities covered include computer services, real estate services, research and development, and services that encompass activities as diverse as “services related to energy distribution” and “convention services.” As a result of the rapid technological progress in IT, information technology-enabled services are an increasingly important area of business services. Information technology-enabled services (ITES) include services directly related to information technology, including software development, system integration and webpage design. They also include business services that use IT to, for example, process insurance claims, perform desktop publishing, conduct audits, complete tax returns and transcribe medical records. Trade in ITES still represents a small share of total exports of most developing countries and only a handful have developed sizable, export-oriented IT and ITES subsectors.

Myanmar’s large, dynamic and talented youth offers a solid starting point for IT services within the region. Anecdotal evidence suggests that a number of IT products, such as mobile apps and computer software developed in Singapore, are in fact developed by Myanmar-owned businesses. These businesses are established or conduct operations through Singapore due to limitations in infrastructure, the regulatory environment, or difficulties in processing international payments in Myanmar. These challenges are reflected in Figure 6.5, which portrays the indicator for Online Outsourcing Readiness. The indicator points to a comparatively strong position for Myanmar within the region in terms of quality and availability of talent. While the whole region faces important challenges in this area, Myanmar is still ranked above countries such as Cambodia and Lao PDR, both of which now have small domestic IT services industries. However, poor telecommunications infrastructure and a weak regulatory environment are holding back the subsector’s overall competitiveness.

Challenges for capital transfers are particularly harmful for IT-related businesses. While part of this is the results of international sanctions, the current regime adds regulatory barriers that make the process more cumbersome. As mentioned in the section on cross-border payments and transfer of funds above, the current regime provides that banks check the capacity for business to engage in international transfers, depending on the terms of their license. Whereas MIC-registered businesses have broad terms that allow for most international transfers, DICA-registered companies typically require ad-hoc permits for each transfer. Myanmar’s IT companies are typically SMEs that are domestically owned, for which they are registered at DICA. However, even small start-ups in the IT subsector are often reliant on international transfers, as these services typically do not require the physical proximity between providers and consumers. As a result, Myanmar’s IT services providers, including SMEs, often prefer to locate in Singapore or Thailand, which offer easier channels for international transfers, in addition to good infrastructure and more conducive regulatory requirements.

Tourism

Tourism stands out as Myanmar’s main candidate for services exports in the short and medium terms.

The economic opening of Myanmar has led to a boom in foreign arrivals and revenue from tourism, doubling the number of visitors and more than tripling tourism receipts between 2007 and 2012 (Figure 6.6a). In fact,

while tourism in Myanmar is among the lowest in the region, it is the one with the highest annual growth rate (Ministry of Hotels and Tourism, 2013).

Despite this growth, the contribution of tourism to Myanmar's economy is still relatively low compared with its neighbors. Although the contribution of Myanmar's tourism to total exports is substantial, the total contribution of tourism to GDP and employment is the lowest in the region, as well as the investment in the subsector. This suggests that there is still substantial potential that remains untapped. In fact, the World Travel and Tourism Council (WTTC) estimates that an annual growth rate of over 8 percent is possible in the tourism subsector in Myanmar over the next decade, which would result in a contribution of almost 15 percent to Myanmar's total exports by 2025

The government has a master plan for tourism with six strategic focal points. The government has recognized the potential of tourism services in its Tourism Master Plan 2013-2020, developed by the Ministry of Hotels and Tourism, and has identified a number of conducive actions. The master plan points to six main strategic pillars (Ministry of Hotels and Tourism):

- Strengthen the institutional environment
- Build human resource capacity
- Strengthen procedures for destination planning
- Develop quality product and services
- Improve connectivity and tourism-related infrastructure
- Build the image and brand of tourism in Myanmar

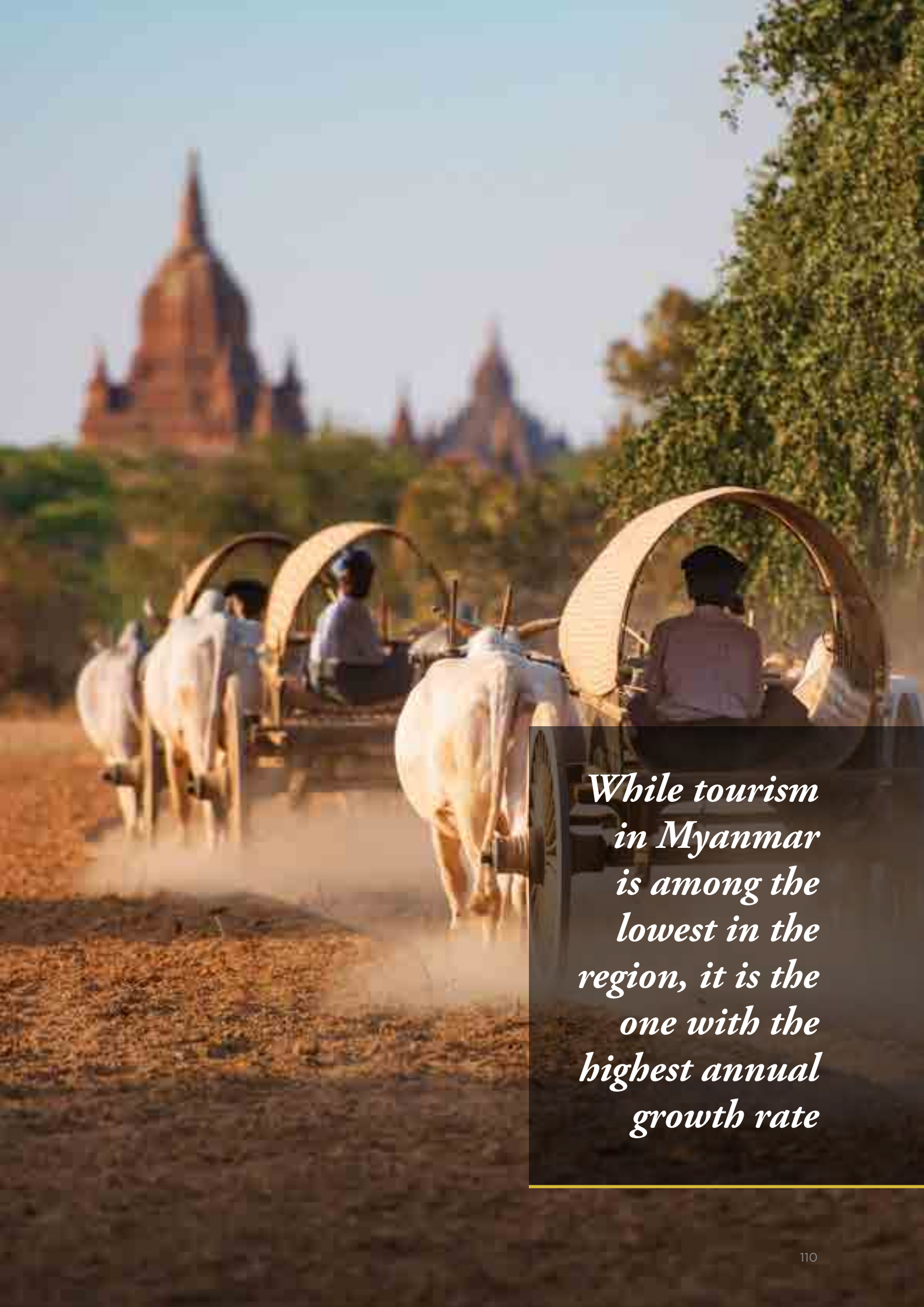
Myanmar's tourism subsector is facing important challenges that require strong inter-ministerial support. The World Economic Forum Travel and Tourism Competitiveness Index ranks Myanmar 134th out of 141 economies. The main challenges to tourism services relate to infrastructure, both in terms of air and ground transport, as well as in ICT availability. In addition, the current limited options in terms of entertainment, convention centers and other business-oriented tourism also appear to be a limiting factor (Figure 6.7). These are all important challenges that will take time to address. Therefore, Myanmar could consider focusing its effort on addressing challenges in certain areas using "Destination Management". This is a platform that can help the tourism subsector to benefit from better inter-ministerial coordination to manage cultural sites, the zoning of hotels, programs to raise workers' skills, and the provision of key infrastructure.

The licensing regime for hotels and restrictions on homestays could also be reviewed. Operating a hotel business or lodging-house business requires prior permission from the Ministry of Hotels and Tourism. After obtaining ministerial permission and completing the hotel construction, the enterprise must apply for a license. Licenses are not transferable without the permission of the authorities (WTO Secretariat, 2014). In addition, Myanmar could also review options to relax restrictions on homestays, which could provide opportunities for local communities in remote areas to host adventure tourism

Distribution

Myanmar might also consider opening up distribution services for foreign investment.

Distribution services are not listed among those services subsectors reserved for Myanmar citizens under the Foreign Investment Law, or included in the sectors reserved for SOEs. Stakeholders' accounts confirm the impossibility of a foreign investment firm being licensed for the distribution of goods. In order to overcome this limitation, foreign firms need to engage in contractual arrangements with domestic companies, which are able to import and distribute products following the international company's guidance. This mechanism, however, affects the quality of services to consumers. In November 2015, the MoC issued Minister's Office Decree No. 96/2015 allowing joint-venture companies registered under the MIC to import agriculture inputs (fertilizers, seeds), pesticides and medical/hospital equipment. While this is certainly an important step, Myanmar might consider further gradual opening of distribution services to foreign participation in order to improve the quality of logistics in Myanmar.



While tourism in Myanmar is among the lowest in the region, it is the one with the highest annual growth rate

IMPROVING MYANMAR'S MAIN TRADE CORRIDORS

Located on the ancient Silk Road, Myanmar holds a strategic location to facilitate trade, which is key to further unlocking of its economic potential. It shares overland borders with China, India, Lao PDR and Thailand, which together account for about US\$15 trillion in GDP, or one-fifth of the world's total GDP. Myanmar is also located in the growing Indian Ocean Rim, with proximity to dynamic markets in Bangladesh, India and East African countries. But the challenge is not only to connect Myanmar to those markets but also to connect remote areas within Myanmar to trade corridors. While the government is keen to link up industrial areas with foreign markets through trade, it will be important to make a coherent effort to link local and remote areas with industrial agglomerations and nearby international markets. This requires a coherent approach to reduce hard and soft bottlenecks in logistics infrastructure, but could generate huge competitive gains.

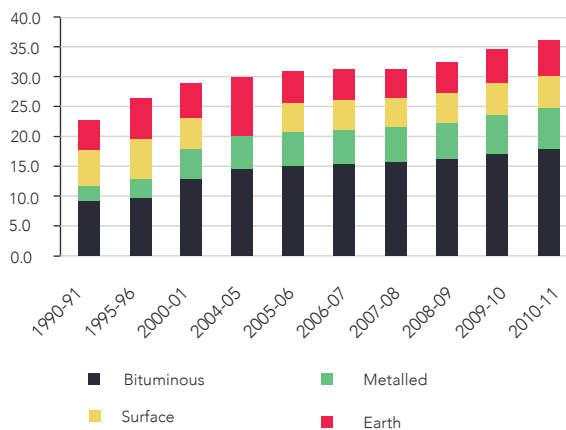




7.1 Myanmar's key trade corridors need upgrading

All of Myanmar's main corridors need massive investments for the upgrading of capacity if it is to keep up with predicted traffic increases. Failing to invest now could hold back development, not just of trade but also of manufacturing, while keeping important segments of the population out of reach of market opportunities.

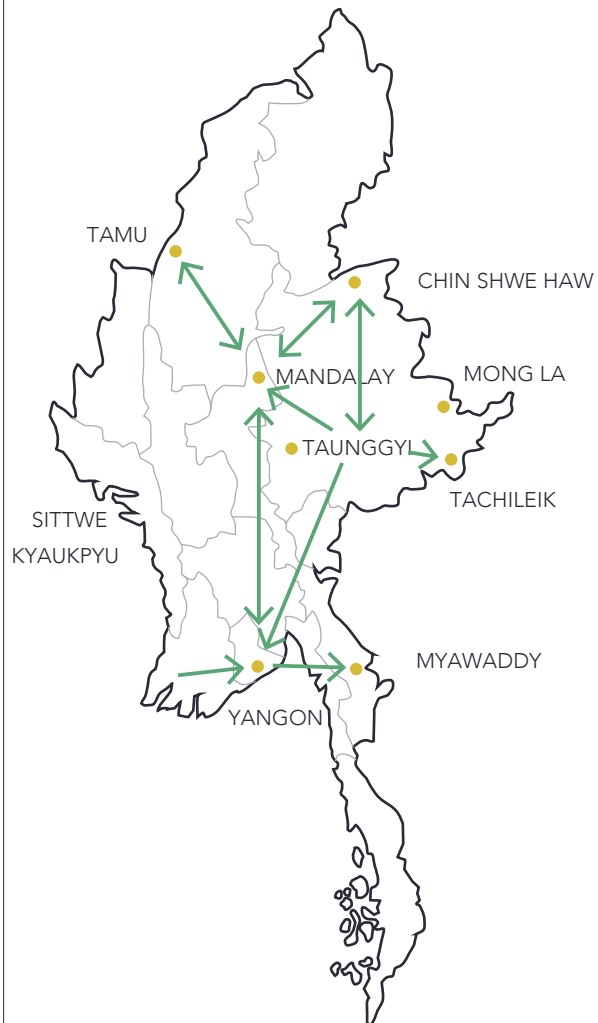
Figure 7.1: Myanmar's highway network ('000 km)



Source: Central Statistical Office Statistical Yearbook, 2009.

Many roads have poor quality surfaces and are too narrow. The highway network in Myanmar has grown from around 23,000 km (in 1990) to 36,000 km in 2010/11, based on available official figures (Figure 7.1). Around two-thirds of the highways are paved, but conditions of the various transport routes in Myanmar vary (Central Statistical Office Statistical Yearbook, 2009). Many road sections still suffer from poor quality surfaces and/or restricted width. The shoulders are often unpaved and the road width permits only one vehicle. This situation contributes to safety issues and accident rates that are particularly high in Myanmar (especially between trucks and motorbikes). For example, the high price per kilometer from Yangon to Myawaddy is because of the dangerous roads (road safety, the security situation, and road conditions) between Hpa'an and Myawaddy. Container trucks are reluctant to accept cargo from Yangon to Myawaddy and therefore the daily container truck volume is very low. With the ongoing upgrade of some road

Figure 7.2: Myanmar's major trade corridors



sections (i.e., between Myawaddy and Hpa'an), some routes will then also be accessible for container trucks, and will contribute significantly towards lower road transportation costs and lead times.

Ten priority trade corridors have been identified.

In 2014, a National Transport Development Master Plan (NTDP), developed by Japan's International Cooperation Agency (JICA) in cooperation with the Ministry of Transport (Oriental Consultants Co. Ltd., 2014), identified a total of 10 priority corridors based on passenger and freight demand from 2014 to 2030, as well as on a national spatial development framework. The spatial development approach focuses on connectivity between national and regional growth centers, agro-industrial centers and areas that have a special-function, such as border towns and markets.

The DTIS has built on this work, focusing on the critical corridors for trade expansion over the next five years (Figure 7.2). Based on JICA's work and the World Bank Group mission on the ground, four major trade and transport arteries in Myanmar appear critical to Myanmar's medium-term development and to unlock latent trade (Figure 7.2):

- Yangon-Nay Pyi Taw-Mandalay (AH1) / Yangon-Pyay-Magway-Mandalay;
- Mandalay-Lashio-Muse (AH14);
- Mandalay-Kalay-Tamu (AH1) and
- Mandalay-Monywa-Kalay-Htotla-Tiddim-Rih (two branches of the same corridor; and
- Yangon-Bago-Hpa'an-Myawaddy (AH1)

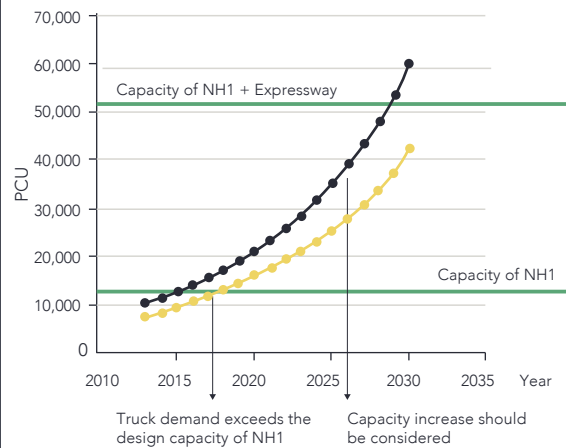
7.1.1 Yangon-Mandalay: Myanmar's backbone

Developing this corridor will play a pivotal role in Myanmar's domestic and international trade because Yangon and Mandalay are both prime cargo generators, as well as acting as gateways to domestic and international destinations. Already today, the Yangon-Nay Pyi Taw-Mandalay corridor is Myanmar's most frequented cargo route, with an estimated freight volume of 57 percent of the total traffic in four corridors (45 percent on AH1, another 12 percent using the Yangon-Pyay-Magway-Mandalay corridor). The corridor also connects export-oriented industries with Yangon port, from where goods can be shipped.

Yangon and Mandalay are also important markets for agricultural products and a transit route to Tamu, Muse and Myawaddy, and international destinations worldwide via Yangon port and airport. Goods traveling along the route include all kinds of agricultural and fisheries goods for final consumption (i.e., fruit and vegetables, staple fruit, fresh/chilled/frozen fish, shrimps, prawns, etc.), semi-finished products (i.e., rubber, fruit and vegetables, fisheries products, etc.), or goods for export via land borders (i.e., seafood, agricultural products), and the port and airport (agricultural products, seafood, consumer goods, manufacturing goods).

Traffic projections suggest that in 2017 heavy traffic along the AH1 will surpass the road capacity. This can be alleviated by permitting trucks to use the National Expressway between Yangon and Mandalay, before the combined road capacity also becomes insufficient in around 2028 (Figure 7.3). Based on the projections, opening the National Expressway

Figure 7.3: Capacity and traffic along the Yangon-NPT axis



Source: JICA, 2014.

to heavy traffic seems to be inevitable. However, in order to control road damage from trucks and other heavy vehicles, the axle weight of vehicles could be limited in a first stage (rather than limiting gross truck weight).¹ Simultaneously, the highway needs upgrading, as it will deteriorate within a few years once heavy traffic is permitted. The upgrading will require the total reconstruction of the highway, including the foundation and widening of the road. Widening the road should be no problem as the sides are cleared already. It will be important for reconstruction of the National Expressway to commence as soon as possible, because the current lower traffic is easier to divert onto the AH14, with less congestion than the increased traffic that will be using the road in few years' time.

Improvements in the Yangon-Mandalay artery will also impact the performance of cargos of other corridors because of the transit/access to gateway function. It will further facilitate the development of export-oriented industrial areas outside the Yangon metropolitan area, because an efficient transport corridor decreases the relative distance to market. This is particularly important for highly perishable goods (e.g., mangos) or in industries with short order cycles (e.g., fast-fashion garments manufacturing). Facilitating access to an export gateway reduces lead times and cuts costs to import raw materials and export semi-finished and finished goods, especially if Customs

¹ This would prolong the life of the road as the damage is not caused by the gross weight of the truck but by heavy axles. In order to determine the maximum permitted axle weight, further investigation into the road design and foundation could be undertaken.

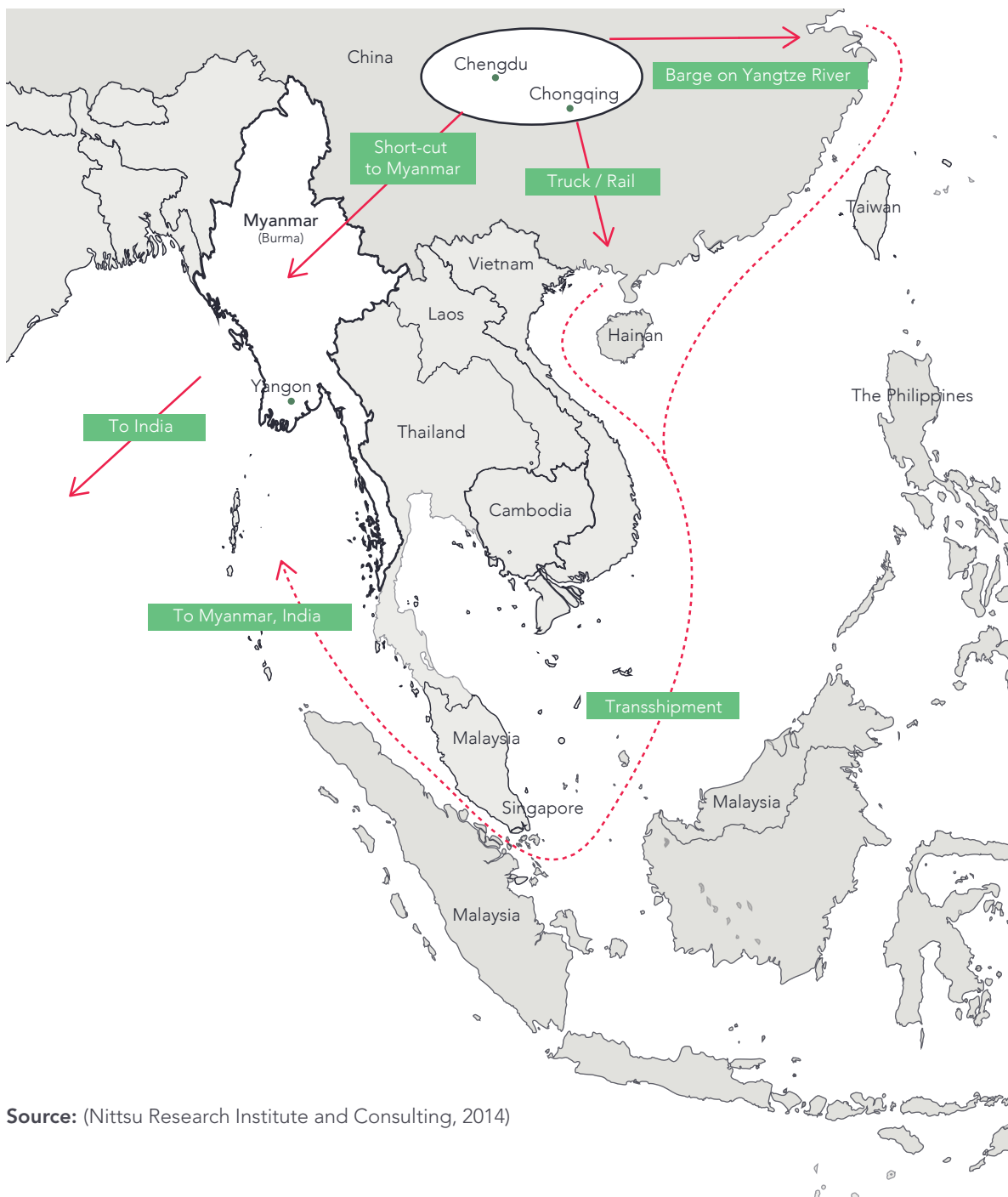
clearance can be completed at inland locations such as a bonded Inland Container Depot (ICD).

7.1.2 Mandalay-Lashio-Muse/Chin Shwe Haw corridor: China's overland gateway

Eighty-six percent of Myanmar's border trade takes place between Myanmar and China, with most of that trade using the road link from Mandalay via Lashio to Muse. In recent years, Chin Shwe Haw

has established itself as a secondary border crossing. Border trade from Myanmar to China is dominated by agricultural products (i.e., rice, fruit, pulses & beans, etc.), seafood (frozen shrimps and fish, live eels, etc.) and natural resources (i.e., jade, rubies, etc.) and from China to Myanmar by consumer goods for daily use, automobiles and motorbikes, machinery, medicine, fertilizers and construction materials. Traffic volumes of heavy trucks crossing the border amount to about 1,000 trucks per day (total both directions).

Figure 7.4: Transport options between Central China and Myanmar/India



Source: (Nittsu Research Institute and Consulting, 2014)

It is expected that this corridor will continue to increase in volumes of traffic over the next few years, fueled by economic growth of the two countries and as China develops its hinterland. Yunnan province in China, with its 4,000 km of borders with Myanmar, Lao PDR and Vietnam, could play an even more important role in the future as the main land gateway for Chinese goods to Southeast Asia. There is already a discernible trend of Chinese manufacturing firms starting to locate inland (away from eastern/coastal China) to Chengdu and Chongqing in order to escape rising land prices and labor costs in the coastal areas. With distances to the ports of Shanghai or Guangzhou of 1,400-2,000 km are similar to distances by road to the Myanmar-Chinese border (1,400-1,700 km), and for Chinese manufacturers eyeing the Myanmar and Indian markets, the road link via Myanmar may become a viable and attractive transport route (Figure 7.4). Using the land connection via Ruili/Muse, lead transport times could be cut significantly as distance by road to the border (1,400-1,700 km plus another 460 km to Mandalay) is comparable to distances to the ports. But the overland route saves the time of the ship from China to Myanmar/India, port handling and transshipment costs, and sea freight (Nittsu Research Institute and Consulting, 2014).

Although Myanmar's road infrastructure along this corridor is usable throughout the year, it does not yet meet the necessary conditions for freight logistics purposes. Instead of tunnels and bridges, Myanmar has winding roads that slow traffic down to only 20-25 km/h and below. The condition of the corridor is worsening with every truck passing, and the ongoing road maintenance is insufficient and provides only a temporary fix.

The current exchange of traffic rights between Myanmar and China is currently limited and regulated by a municipal agreement between Muse and Ruili. According to this agreement, Chinese trucks may cross into Myanmar (up to the Mile 105 Logistics Center, 12 km from the border) and Myanmar trucks may cross into China (up to the city of Ruili, 8 km from the border). The greater exchange of traffic rights could be accompanied by harmonization of axle loads and other transport regulations so that Chinese trucks can fully utilize their truck capacity and provide the basis to make such an expansion economically and commercially viable. For this, the road between the border and the Mile 105 Logistics Center could be upgraded, otherwise the heavier traffic from China will destroy the road over time.

Pursuing exchange of traffic rights beyond the municipal level could be explored. Although the municipal agreement is not yet fully utilized because Chinese long-haul trucks do not cross into Myanmar, pursuing this would help to: (i) eliminate barriers to transport; and (ii) allow both Chinese and Myanmar truckers to base their decisions on whether to cross the border on purely commercial/business grounds, and not on regulations, fears, or prejudices.

7.1.3 Yangon-Myawaddy: Myanmar's gateway to ASEAN

Myawaddy is the main trade gateway to Thailand for central and southeastern Myanmar. Export goods carried along the corridor are currently dominated by agricultural produce, such as maize, peanuts, dried chilies and onions, as well as frozen seafood. The seafood comes from processing firms located around Yangon. Import products from Thailand are mainly motorcycles, vehicles, heavy machinery, petroleum, mobile phones and medical products.

The Yangon - Bago - Hpa'an - Myawaddy corridor connects major agricultural areas with markets in Thailand and Yangon. For example, Mon State, Kayin State and the Bago region are traditional rubber-planting areas and are connected by the corridor. In 2011/2012, these three states/regions had a planted area of combined 755,345 acres (305,677 ha), 56 percent of the total planted area in Myanmar. Combined output of the three regions was more than 115,000 tons, 77 percent of the national output in that same year with Mon and Kayin states being the most dominant (FAO, 2010). With demand likely to increase in manufacturing centers such as Yangon, Mandalay, and possibly around the Myawaddy area, the corridor will be central for bringing products from farm to buyer. According to 2010 trade statistics, the largest export markets for rubber were China, Thailand, India, Rep. of Korea, and Indonesia (UN Comtrade, 2014).² Currently, all production in Mon and neighboring states uses at least parts of this corridor to transport the rubber to market (i.e., to Yangon for domestic consumption and exports via sea freight or via Bago to Muse for export to China by land). Of the 80,000 tons of rubber currently exported, around 70 percent is transported to China via Muse.

² The export value in 2010 amounted to US\$66 million. The largest shares were recorded for China (US\$36.6 million), Thailand (US\$6.6 million), India (US\$4.8 million), Rep. of Korea (US\$3.8 million), Indonesia (US\$3.7 million) and 19 others. It should be noted that the export values are likely to be underestimated due to the large informal trade of rubber.

The corridor also leads through one of Myanmar's largest rice growing areas. The regions of Yangon, East Bago, Mon and Kayin are home to a total rice cultivation area of around 4.9 million acres (1.98 million ha), similar to production in the Ayeyarwaddy/delta region (FAO, 2010). While much rice is consumed locally rice is also exported.

There is also growing potential from Thailand to import maize from Myanmar, which is grown along this corridor. Already today, trade in maize across the Myanmar/Thai border is larger than official statistics suggest, as much of it is traded informally. While the Thai markets for rice, rubber, maize and other products is likely served directly via the corridor, for exports via Yangon port (i.e., to the Rep. of Korea, Indonesia, and possibly China and India) the corridor has at least a supporting role in bringing the products to market.

However, constraints in logistics infrastructure and services hamper trade development in areas along and around this corridor. With no refrigerated trucks available in Myanmar, frozen seafood is transported from the factory to the border in open trucks with ice blocks around it and covered by a tarpaulin, until it is received by Thai trucks with proper cooling equipment. There is already a dedicated facility for a cold chain warehouse at the border but the private sector is to date reluctant to invest. These practices present a significant health risk and prevent Myanmar's products from reaching higher market segments.

Closing of some of the bridges along the corridor during night time creates unnecessary delays in logistics. The closing of these bridges occurs despite the active ceasefire agreement in place. This may be a remnant of security precautions from past conflicts between ethnic armed groups and Myanmar's military. Other road sections of the corridor may need to be eventually upgraded too, but this is not a priority at present. So far, the road is passable independent of the season, but there seem to be sensitivities among the local communities despite the ceasefire agreements in place.

During the time of the field visit in January 2015, there were major infrastructure upgrades already ongoing. The new road linking Mai Sot district with Umphang district is by far the most important one. On the Myanmar side, the new road section will cut the travel time from 4 hours to less than 1 hour. However, the possible impact (in time savings) will be much larger because the old road allowed for only one-way traffic (with the traffic direction alternating every day).

In addition, the road provides greater flexibility in when goods can be carried to the border.

At the border, there is a significant risk of cargo disappearing without proper Customs clearance.

Customs clearance takes place at the customs facilities a few kilometers away from the border. Between the border and the customs clearance point is a so-called "free-zone". The city of Myawaddy is located in that free zone, as well as several warehouses (not under Customs control) where traders can store their cargos if they do not want to clear them immediately (i.e., if the receiving truck is not available). Since goods arrive in open trucks, there is a serious risk of cargo disappearing in the free zone and then being carried out by normal vehicles without clearance from Customs. Hence, a stricter monitoring system can be considered.

Customs inspection processes can also be more efficient. Physical inspection is done (on imports) after the goods have been reloaded on a Myanmar lorry, which implies unloading them again. It would be more productive to perform the examination as the goods are being trans-loaded. Declaration control appears weak, but it is likely that officials posted in Myawaddy have a good knowledge of the trader population, and adequate sources of intelligence. However, with the traffic increase likely to occur when AH1 is completed, the current approach and procedures may prove insufficient.

7.1.4 Mandalay-Kalay-Tamu/Rih corridor: Huge long-term potential

Tamu is the principal land gateway for trade with India in addition to via the ports of Sittwe and Yangon. Trade by land also happens at a second border crossing point just south of Tamu at Htotla/Rih on the border with Mizoram, India. While growth in cross-border trade between Myanmar and India has been robust over the past 6 years, from US\$15 million in 2006/2007 to more than US\$60 million in 2014/2015 (Ministry of Commerce, 2015). The Government of India has recently upgraded the road to become an all-weather road. Goods traded across the border to India are mainly betel nut, beans and pulses, wheat flour, cigarettes, shoes and clothing items. Imported goods are mainly lentil seeds, motorcycles and spare parts, bicycles and spare parts, cotton and traditional Indian dresses. The route is also used for the transit trade in skin care products from India to China via Mandalay and Muse and for inexpensive consumer goods from China to India.

PROTOCOL FOR MYANMAR-INDIA BORDER TRADE

For communities in northwestern Myanmar, the corridor is an important lifeline both to access relatively cheap consumer goods from India and also to sell agricultural produce domestically via collectors. Products originating from the greater Tamu area are solely agricultural produce such as paddy, beans, oil seeds and sugarcane. These are transported to local and regional markets such as Kalay and Monywa, or directly to Mandalay. Upgrading the corridor, and thereby reducing transport costs, will be an important element in bringing communities in Sagaing region and Chin State relatively closer to market, as they are among the poorest in Myanmar. This will enhance both access to public services, as well as better access to regional markets. At the same time, India is a large consumer and processor of pulses and beans. This also opens up further possibilities to develop food-processing capabilities for pulses and beans in Mandalay and Sagaing.

Trade along this corridor is expected to grow especially if issues related to conflict along the Indian border, balancing payments for the barter trade, exchange rate arrangements, and transshipment of cargos can be resolved (Box 7.1). Trade via land also offers much shorter lead times than sea transport. For example, it takes roughly one week to transport goods by road from New Delhi to Tamu, but it takes one month to send the same goods by ship via Yangon. With Chinese manufacturing firms increasingly locating inland, trade overland to Myanmar and India becomes more feasible. Therefore, providing connectivity to markets will be essential for further economic development of this region. Nevertheless, materializing higher cross-border trade with India will take time.

In order for this corridor to unleash its full potential, some upgrades of the two main transport links are necessary. First, given the preference of transporters for using a combination of AH1 and the national road between Monywa and Kalaymyo despite the very bad condition of the road, priority could be given to this national road connection. At present, the AH1 is usable throughout the year. It is not the preferred route for transporters between Mandalay/Monywa to Kalay/Tamu because it is 70 miles (110 km) longer, fuel consumption is higher, and the driving time is 3 to 4 hours longer. However, upgrading is needed in the medium to long term. Although many of the bridges along the corridor have been upgraded by the Indian government, many are severely overloaded. Many of the bridges are declared 13-ton bridges but are used on a daily basis by trucks with a gross weight in excess of 27 tons. The bridge at the Tamu border also appears

Protocol for border trade between Myanmar and India is set the 1994 Indo-Myanmar Border Trade Agreement, which recognizes three types of trade:

1. Normal trade through Letters of Credit (L/C);
2. Exchange of locally produced items between indigenous people residing up to 40 km from the border and up to US\$1,000 value using simplified documentation; and
3. Barter trade of 62 commodities of up to US\$20,000 in value per transaction

Given problems with Myanmar's financial sector in expanding L/C based trade (see Chapter II), the absence of exchange in traffic rights between Myanmar and India (even at the municipal level), border trade between India and Myanmar has likely been reduced to barter trade, or exchanges between people living near the border of locally produced items.

Myanmar and India have agreed to pursue a MOU on exchange rate arrangements that will open the possibility for banks in both countries, especially in border areas, to facilitate exchange of Myanmar's kyat for Indian rupee, and vice-versa. This would allow traders in the two countries to use their local currencies instead of first obtaining US dollars.

too small for even existing traffic and needs to be upgraded. The road links between Rih and Tiddim are also in urgent need of rehabilitation.

Better trade facilitation and border operations are needed to facilitate transshipment and more border trade. With the current restrictions in place, the traffic volumes are still relatively limited at only 10-20 trucks per day during the low season and can get up to 200 trucks per days in the peak agricultural season. The Government of India is currently building a new border facility that may eventually resolve some of the trade impediments surrounding transshipments. Currently, land disputes and a lack of traffic rights exchange (even on a municipal basis) result in an inefficient transshipment process, where goods are carried with carts over distances of more than 500 meters of dirt road. Eventually, non-stop traffic may bring additional benefits such as cheaper and more reliable transport and greater cargo security by reducing transshipment operations. Establishing an exchange rate arrangement including for border trade can help traders to settle imbalance in barter trade financially, instead of using goods, paving the way for increased trade. Other essential reforms to increase trade between India and Myanmar include: establishing local cross-border traffic rights and identifying options to ease border trade restrictions without compromising security issues. Training may be needed to inform border officials and private sector users (Customs brokers, transporters, traders, laborers) on the current trade policy between the two countries and associated processes.³ Improved infrastructure is needed to facilitate trade clearance transactions and to provide improved logistics services such as a cold chain, truck parking facility and warehousing.

The Government of Myanmar may want to consider discussing with the Government of India the possibility of piloting Myanmar officials working out of the new modern facilities on the Indian side of the border (e.g., to pre-clear imports). This may be explored as a transitional arrangement prior to eventually considering a co-located or jointly-managed border post, when political conditions allow. Formalizing trade is also important as the open practice of smuggling and informal trade (especially of electronic goods coming from China/East Asia) partly explains why the Indian authorities: (i) limit

the opening of the border gate to three hours daily; (ii) treat it as an informal facility; and (iii) frequently close the access when the level of smuggling becomes too obvious. Eventually non-stop traffic may bring additional benefits such as cheaper and more reliable transport and greater cargo security. Similarly, Indian officials could be accommodated in a refurbished Trade Zone on the Myanmar side, when this becomes politically feasible.

Myanmar may want to look into the possibility of linking this corridor to leverage development potential at the sub-national level. For example, Chin State and Rakhine State have untapped potential for agriculture and fisheries products that could be further developed to meet export demand, particularly from the Bangladesh and Indian markets. Currently, there is also a plan to develop SEZs in Kyaukpyu. Facilities and access roads in the ports of Sittwe or Kyaukpyu could also be considered for upgrading, in order to make the ports an additional gateway for Myanmar, particularly for firms in Rakhine State, to access markets in the “Indian Ocean Rim”. Linking either of these ports through better road infrastructure with the Mandalay-Kalay-Tamu corridor could potentially attract transshipment for trade with China’s Yunnan province.

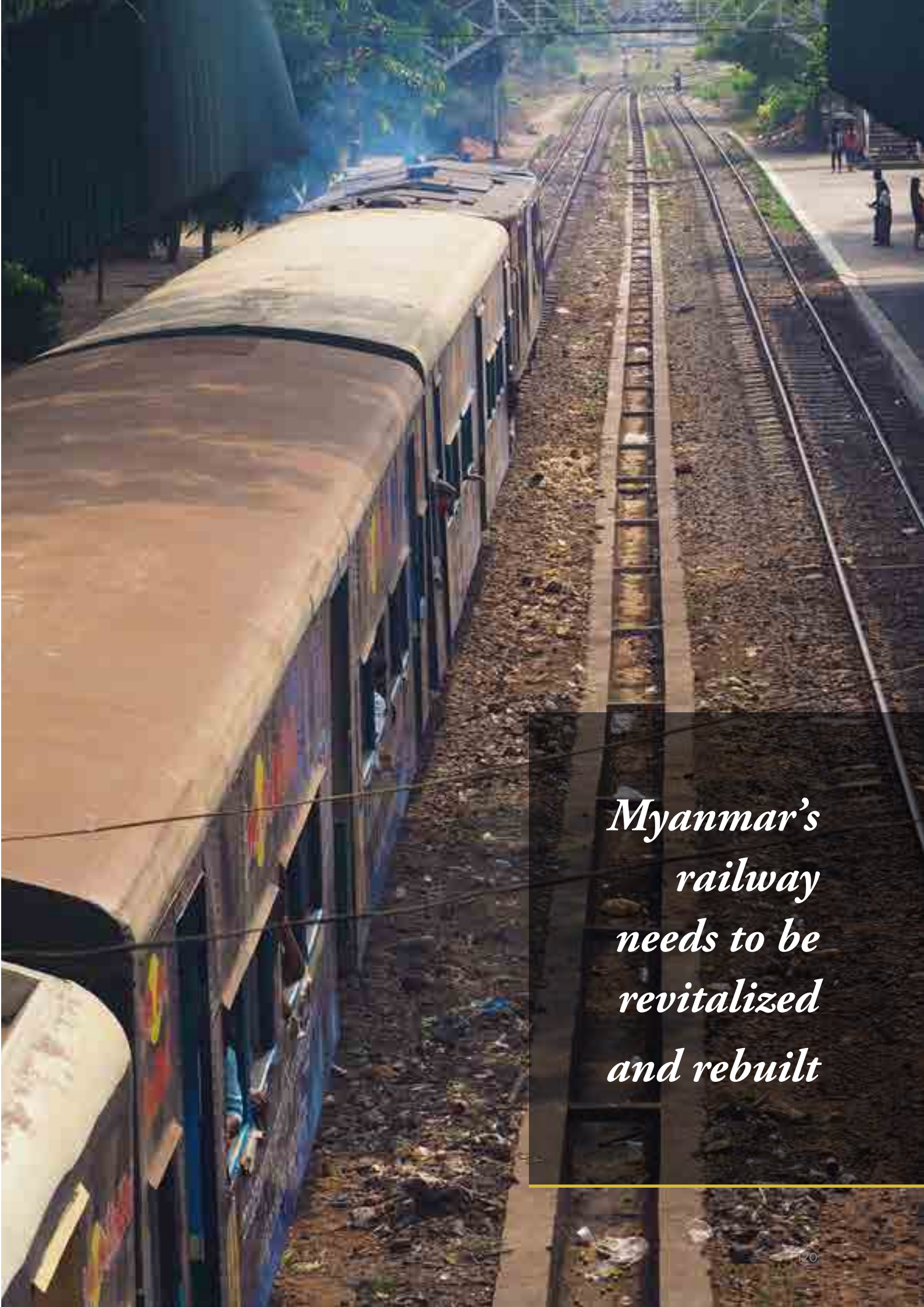
7.1.5 Other than roads, other logistics infrastructure also needs to be developed and upgraded

Myanmar’s railway needs to be revitalized and rebuilt

Despite Myanmar’s long tradition of railway operations dating back 137 years, rail transport in the country remains underdeveloped. The rail network has 6,110 km, of which only 705 km are double-track. In total, 960 stations are connected via rail. The tracks are one meter gauge and un-electrified. Myanma Railway, an SOE, is the only operator providing transport services for passengers and freight and managing the railway system.

Unreliable services are likely behind the limited demand for freight railway services in Myanmar, and mainly used for transporting low value per ton or non-time-sensitive products. MR offers dedicated freight train services and parcel services (freight wagons coupled with passenger trains). So far, railway transport only accommodates 3.5 million tons, 4 percent, of total volume of freight transport in Myanmar. In Yangon and Mandalay, road transport makes up around 93

³ The World Bank Group team found a lack of understanding of the current policies—e.g. the exchange rate regime—which leads to misinterpretation and suspicions of malicious intent by the trading partner, and missed opportunities for increased trade.



*Myanmar's
railway
needs to be
revitalized
and rebuilt*

percent of all freight traffic. The remaining 7 percent is carried by rail and inland waterways. On the Mandalay-Lashio-Muse/Chin Shwe Haw corridor, road transport is the principle mode with rail accounting for a meager 2 percent of freight traffic demand. Although the prices for rail transport are extremely competitive, the low share of rail transport in total traffic demand can be explained by the unreliability of rail transport. MR has relatively old rolling stock (with ages of over 30 years). Problems with the quality of the track also limit the speed of the locomotives and cause higher risks of damage due to vibration during transport. These issues limit the use of railway services to transporting heavy and non-time sensitive goods (e.g., cement, wood products). Lead times are unpredictable, passengers are given priority over cargo, and the locomotives are too weak to pull more than a couple of wagons.

Identifying market feasibility for an internal container depot (ICD) in Mandalay with access to multi-modal transport could be considered.

The main objective is to facilitate transportation of inbound containers to Mandalay and attract exports of containerized cargo from Mandalay and the surrounding regions. Mandalay is the second-largest consumer market in Myanmar, attracting both international and domestic freight. It is also a natural transportation hub for the Upper Myanmar region that produces agricultural crops for both domestic consumption and international export. Connecting an ICD in Mandalay from Yangon via railway (about 760 km equivalent by road), which currently takes 20 hours, could work if the following basic circumstances are met: (i) direct access of container trains to the port areas in Yangon; (ii) Customs regulations that allow the establishment of in-land bonded ICD; (iii) availability of warehousing facilities near the ICD to reduce the cost of cargo handling and (iv) establishment of a commercial container railway services, possibly through a joint-venture of stakeholders, for example, Myanma Railway, the ICD operator, shipping liners, freight forwarders, and the trucking industry.

Inland waterways: potential less costly alternative for freight transport

Myanmar has 6,650 km of passable waterways along its major rivers, and inland waterways are an important means of freight transport within Myanmar after trucking.⁴ The longest inland waterway is the Ayeyarwaddy River, spanning over 2,170 km and cutting across the country from the southern coast to the middle of Myanmar. Unlike the situation for railway freight transport, both private and state-owned companies offer freight services via inland waterways transport (IWT).

However, fleets in IWT are mixed and may affect demand for IWT freight transport. Most passenger-cargo ships serving Myanmar's inland waterways are aging vessels over 20 years old. They are complemented by self-propelled barges and tugboats. Estimates suggest that the freight volume transported through IWT is about 10,200 tons/day, or 3.7 million tons/year (higher than freight railway).⁵ This number is likely to reflect sub-optimal demand for IWT given the lack of proper docking and cargo-handling facilities.

Given the longer travel times but lower costs per ton/km, IWT has the potential to carry more bulk and non-time sensitive cargo (e.g., petroleum drum-cans, construction materials, wood/wood products). Connecting IWT through road to ICDs and bonded warehouses can strengthen trade linkages between the hinterland and Yangon. But to attract more users, there needs to be an improvement in: (i) ports for inland waterways to handle freight and proper cargo terminals for IWT;⁶ (ii) connections between ports and roads, and safety in navigation; and (iii) improved river navigation for vessels through proper river management.

Strengthening regulatory institutions on IWT is also important for revitalizing IWT freight transport in Myanmar. The Ministry of Transport has decided to turn the Department of Inland Water Transport into merely a service provider in IWT competing with private operators. Currently, Myanmar's IWT accounts for about 10 percent of market share in freight and passenger transport in Myanmar but suffers from an old and inefficient fleet. Myanmar may want to consider

4 JICA (2014), Myanmar Transport Masterplan

5 Ibid.

6 http://www.jterc.or.jp/koku/koku_semina/pdf/140307_presentation-04.pdf

establishing a regulator for IWT with similar status to the Myanmar Port Authority, in order to ensure safety, the provision of navigational devices, dredging and the provision of IWT infrastructure (docking facilities), either directly by IWT or through private operators.

Facilitating linkages between corridors and the economic activities of local communities

Communities residing along border areas on the Myanmar side need support to increase their productive capacity. They are typically among the poorest and most isolated communities in the country, and several of them have been affected by armed conflicts. Naturally, many people in these areas have migrated out of the towns in search of jobs elsewhere, but would prefer to remain in their home towns if more economic opportunities could be made available. Interviews revealed that community members are open to integration with the main economic centers of Myanmar, as well as with neighboring countries. However, they lack not only adequate connectivity infrastructure (local roads, access to railways) but also limited access to electricity and telecommunications infrastructure.

Local communities also cite a lack of irrigation services, trade finance, agricultural extension services and skills development as key impediments to increasing their capacity for production and trade. Agricultural machinery, access to finance, better seed, and inputs and technology to improve yields and quality, as well as better market intelligence and marketing skills, are all cited as key support needed to improve agricultural output. There is significant demand for agricultural products from both India and China, including for rice, pulses and beans, and high-value fruit, herbs and spices. Skills development is also needed to support local entrepreneurs, workers and potential manufacturing ventures, including for food processing.

Reviewing lessons learned from Special Economic Zones (SEZs)

Many developing countries are using SEZs to promote export-led industrialization, but their success tends to be mixed. Developing countries often declare a specific location as a SEZ to attract export-oriented investment, pilot policy reforms that would otherwise be difficult to implement nationwide, or develop lagging regions. SEZs are often associated with successes in facilitating industrialization in the

Rep. of Korea, Singapore and Taiwan in the 1970s and 1980s. In China, they are associated with export-led growth by concentrating infrastructure development and piloting policy reforms in selected areas. Successful SEZs are typically those that can leverage comparative advantages sought by investors, such as location, labor cost advantages, skills capabilities and infrastructure. China's experience also suggests the need for the capability to manage SEZs that can adapt to the needs of industries. However, SEZs in some countries have become "white elephant" projects, attracting firms seeking tax-benefits, but failing to produce substantial employment or struggling to sustain competitively as labor costs continue to increase.

Experience from Thilawa could be useful in designing and developing other SEZs. Although typically the activities in an SEZ take time to develop, Myanmar may want to consider identifying areas to strengthen the governance and management of SEZs to make them work better should they need to be developed elsewhere. For instance, issues that may be outside the mandates of the SEZs could include the provision of infrastructure to the nearest port, road access to a major economic corridor and improvements in workers' skills. Such issues could be crucial for the sustainability of Thilawa or other SEZs. Environmental and social safeguards with local communities can also be very sensitive and, hence, it may be useful to draw on the experience of Thilawa (or Dawei) on how best to address these issues.

FACILITATING TRADE THROUGH SMOOTH LOGISTICS

Growing international trade and export-oriented investments in Myanmar are expected to increase demand for more sophisticated logistics services. The demand for logistics services is likely to shift from simple freight transport or customs brokerage towards planning and scheduling of shipments, tracing and tracking of cargo, and inventory and warehouse management. It will be important for Myanmar's authorities to accompany this transition with reforms to allow operators to increase their efficiency and service quality. Improving trade facilitation practices and procedures can be considered a priority agenda for Myanmar, as it affects overall logistics efficiency and competitiveness for producing goods in Myanmar.





THE MANGO EXPORT SUPPLY CHAIN

Myanmar mangos are highly regarded among Singaporean consumers for their freshness, fragrance and texture (no fiber in the flesh). Since 2012, Myanmar mangos have been exported to Singapore using air freight from Yangon to Singapore's Changi airport (Mandalay airport cannot be used for air freight).

During peak season (May-June), volumes amount to 2-3 tons per week and less in July because mangos are only available in Shan State. The supply chain can be divided into two parts: the first from the farm to Yangon airport, which is organized by a Myanmar trader, and the second from the Singapore airport to the supermarkets, which is organized by the Singaporean importer.

The average shipment size is around 500-600 kg with an approximate value of US\$6,000-7,200 (around US\$12.00 per kg). The selling price is a seasonal price and is fixed already in April. Orders are made by the Singaporean buyers depending on demand.

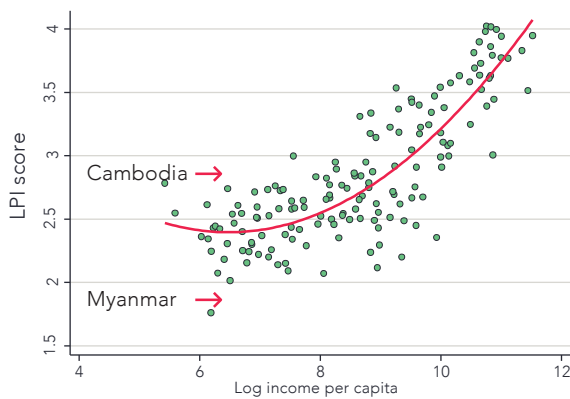
The lead time from placing the order until the goods are shipped is roughly 1-2 days. Whereas air transport from Yangon to Singapore is only 3.5 hours, the majority of time is used to organize the shipment: selecting the fruit, conducting hot water treatment, packaging in boxes, transporting the cargo from Mandalay to Yangon using express buses, completing all export formalities, and loading the cargo onto the plane.

Transport from the farm to Yangon is arranged by the Myanmar trader and the international segment by using a freight forwarder, because freight forwarders are better able to obtain volume discounts. The average transport price is around US\$0.50 per kg, or US\$250-300.

The contract between the Myanmar exporter and the Singaporean importer is on a free-on-board (FOB) basis although the actual shipment is on a cargo, insurance, freight (CIF) basis. Damage and losses during transport are minimal (close to 0 percent). Because the contract currency is in Singapore dollars, the Myanmar trader carries the exchange rate risk. The fixed purchase price can go both to the advantage or disadvantage of the Myanmar trader depending on the development of the mango price.

There are two principal difficulties in the export of mangos: (i) Obtaining the export license from the Ministry of Commerce because it requires to submit an SPS certificate. But due to the short order cycles, SPS certificates cannot be obtained in time for the cargo to be shipped. To circumvent this obstacle, the exporter submits the SPS certificate of comparable mangos while the actual export mangos are still on the tree at the time of application. (ii) Logistics challenges such as costs, transport time and the lack of temperature control.

Figure 8.1: The need to improve logistics and trade facilitation in Myanmar



Notes: LPI score is adjusted for population to control for the effect of country size. Source: staff calculation from WDI using 2014 LPI and 2013 GDP figure.

8.1 Leveraging Myanmar's location through powerful logistics

At present, Myanmar's logistics lags behind other countries in East and South Asia. Myanmar's Logistics Performance Index (LPI) is lower than other countries around the same level of income per capita, such as Cambodia (Figure 8.1). While customs procedures weigh down the score, low performances in all areas of the LPI, international shipments and logistics quality and competence, are also causing the overall low LPI score for Myanmar. All of these mean that, in general, organizing supply chains in Myanmar is relatively more costly and time consuming than in most neighboring countries.

Logistics is about managing supply chains, the efficiency and reliability of which are determined by to what extent transport infrastructure, border agencies and transport regulators, and services providers interact in a predictable and efficient manner. In this regard, its LPI score suggests that Myanmar needs to close the gap in the quality of logistics and trade facilitation with neighboring countries if it hopes to maximize the opportunities

from trade openness. Very soon the outdated processes and procedures in border clearances are likely to become binding constraints for trade and investment in Myanmar. In addition, requirements for advance income tax payments for exports is unnecessary and having a negative impact on Myanmar's trade competitiveness. Box 8.1 below presents an example of the supply chain for mango exports.

8.1.1 The demand for logistics services will grow

Along with greater trade potential in Myanmar, there is also higher potential demand for modern logistics service providers (freight forwarding, customs brokers, and third-party logistics). But expansion and logistics service providers in Myanmar are limited by the lack of a clear regulatory framework, underdeveloped cargo insurance, and gaps in technological know-how.

The logistics services industry in Myanmar is still at an early stage of development. The industry is generally still focused on traditional services, such as trucking, warehousing and customs brokerage. This is a normal situation, as previously demand for logistics services in Myanmar has been largely for domestic purposes. The use of containerized cargo for domestic distribution in Myanmar is still very limited and domestic cargos are generally transported in break-bulk, through trucks, rail or inland-waterways (Banomyong and Ishida). Most handling and shipping of freight in Myanmar is still done traditionally, without a unit load system (e.g., pallets), which makes cargo handling in Myanmar more costly and time-consuming (Myint, 2014). The lack of proper infrastructure for docking (such as in inland waterways) limits the use of more effective ways for cargo-handling and increases operational costs for logistics service providers. While producers have found the use of airfreight to transport high-value and time-sensitive products, the lack of air cargo facilities beyond Yangon airport is causing lost opportunities for Myanmar producers in other cities to fulfill market demand.

An underdeveloped legal framework inhibits the development of domestic logistics services. A cargo insurance market in Myanmar for partial damage or total loss does not exist, as the general insurance market only really started in 2013 (KPMG, 2013). But equally important are the underdeveloped rules for freight forwarding businesses, implying that the duties and responsibilities of freight forwarders are not yet formally specified. This severely limits the extent to which consumers are willing to accept risk from services

offered by logistics providers in Myanmar. While FDI logistics services are expected to have a positive impact on manufacturing and development of services industry, the lack of clarity in the regulatory framework in freight-forwarding services is limiting foreign interest in acquisitions or green-field investments in logistics services companies, which would otherwise lead to more jobs and technological transfer. Instead, the current situation may preserve the status quo of separation, where foreign logistics companies focus only on handling international logistics, while the domestic logistics industry is limited to handling only local deliveries.

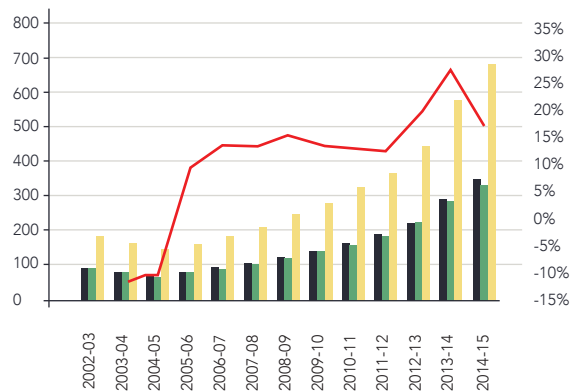
8.1.2 Port congestion will need to be addressed

The Port of Yangon is an important gateway for logistics infrastructure in Myanmar and the overall logistics chain can benefit from improved efficiency in cargo-handling at the port. Port management and infrastructure are insufficient for handling the increases in traffic that can be expected.

With the surge in trade volumes in recent years, upgrading port facilities and logistics infrastructure will soon be required if ports in Myanmar are to avoid hitting their capacity limits. Around 80 percent of Myanmar's trade is handled by the Port of Yangon, a river port situated 32 km in-land, which includes four terminals, namely Asia World, Htitan, Bo Aung Kyaw and Myanmar Industry. Cargo throughput (measured in TEU) grew from 155,000 TEU in 2004/05 to more than 617,000 in 2013/14, an increase of about 400 percent (Figure 8.2). General cargo grew at a slower pace of 140 percent over the same period, despite the global trend away from general cargo towards containerized goods. The number of vessels has doubled, indicating that the average size of the vessels calling the port of Yangon has also increased.

With increasing traffic, port congestion has become more prevalent. Port congestion has also been exacerbated by long dwell times (the time to release a container from the port after a vessel arrives) at the Port of Yangon. According to a 2014 Time Release Study conducted with the support of the ADB, the average cargo clearance (from arrival of the container to its removal from the port) takes around 6.5 days in the Asia World Port Terminal. However, clearance times of 10 days have also been reported as being common by logistics service providers. No single actor can be singled out as being the main culprit behind long dwell-times. Instead, a combination of limited port

Figure 8.2: Container throughput at the Port of Yangon



Source: Myanmar Port Authority.

capacity, inadequate equipment, and long processing for pre-customs clearance (obtaining the necessary permits and compliance) are all contributing to long dwell times.

Importers also often use the port as a warehouse, which increases the space constraints. This is either because importers do not have the space to store the cargo at their own facilities, or because they face financial constraints to pay the duty payable before the goods are sold. For example, cars are often not cleared by Customs until they have been sold onwards. The port's generous demurrage policy of 7 days may also incentivize importers to keep cargo at the port for as long as possible.

Another driver of port congestion is the lack of ability to handle less-than-a-container-load (LCL) shipments. At present, importers that share a container with multiple shipments can clear their cargo at any time (although Customs agents are encouraged to clear several shipments at once). To clear the cargo, the port fetches the container from its terminal location to a dedicated area (container freight station) where the importer can take out the shipment. The container is then closed again by the port operator with an ordinary lock (not a Customs seal) and brought back to its original location. This is not only highly inefficient, but also accumulates handling costs and breaches Customs integrity (after the first shipment has been cleared, there is no recourse if cargo is removed without clearance). In addition, the cost of cargo clearance for LCL shipments is high by international standards, as all fees are based on FCL shipment (rather than LCL shipment).

The port's main access road is the "New Strand Road", dedicated for heavy traffic near the port area. However, at present, the road cuts the port area (Asia World Port) in two, which may lead to challenges in managing the port space. Furthermore, in order to access the dedicated truck road, including from some of Yangon's industrial zones, trucks have to pass through heavily congested city traffic, which impedes traffic flows in and out of the port.

The Port Authority has not fully implemented electronic document processing. The Port Authority currently uses different systems and is still developing an electronic data interchange (EDI), an automated system for the exchange of trade documents. Currently, the Port Authority's document clearance system is only partially (electronically) connected to Customs, and only facilitates documents related to movements in/out. Moreover, there is no direct connection with freight forwarders to allow for more efficient scheduling of cargo pick-up and transfer. At least for the time being, weak telecommunications are also preventing the full implementation of port EDI.

Facilitating more investment in private bonded warehouses inland could help export-oriented manufacturers to develop further in Myanmar. Myanmar's Customs provides provisions for bonded warehouses and such facilities already exist in Yangon and Mandalay for both cargo passing through the Port of Yangon and the land borders of Muse.^{1, 2} Consultations have revealed significant demand for such facilities by garments manufacturers, many of which are not located in SEZs and aspire to move away from "cut-and-trim" businesses towards "FOB" businesses. Access to a private bonded warehouse would help garments manufacturers to stock inventory of intermediate inputs (fabric, buttons, accessories, etc.) and diversify their products and designs to meet buyers' needs.

There is a case for exploring the utilization of the railway for freight transport between Yangon and Mandalay, and in developing an inland container

1 A bonded warehouse is a secured warehouse facility that is covered by Customs rules. Goods stored in a bonded warehouse are temporarily relieved of VAT and import duties until they are distributed domestically, or not subject to VAT and import duties if the goods are exported. For exporters, bonded warehouses are attractive because they can conduct manufacturing, packaging, temporary storing and Customs inspection for exports at minimal administrative costs.

2 <http://www.myanmarcustoms.gov.mm/bondedwarehouse-duty-freeshop.aspx>

WHY A BONDED-WAREHOUSE SYSTEM?

A bonded cargo space outside the port area may also be used to consolidate/de-consolidate cargo and thereby alleviate congestion in the port. Currently, terminal operators do not complain about this practice (as they can charge handling and demurrage fees), but the long-term costs of internal logistics in a space-constrained environment outweigh the benefits.

A bonded facility would unfold its maximum potential if it is shared among all port terminals, as this would reduce transaction costs for importers with LCL cargo from more than one shipping line (and possibly terminal). A facility in the direct vicinity of industrial zones could also be a possible model to explore.

A bonded storage area could also be used to store cargo waiting for import clearance. The cargo could be transferred after a certain period of time from the port facilities to the storage area. Although there would be handling costs involved (these could be partly passed on to the importer and partly borne by the port), the benefits of a de-congested port are far greater than the subsidized handling costs, mainly in the form of greater throughput capacity of the terminals.

Bonded warehouse facilities may also help to attract foreign investors into Myanmar. According to private sector representatives, one leading manufacturer of electronic products has stated that bonded warehouse facilities are one of the pre-conditions for investing in Myanmar. From a logistics perspective, a bonded warehouse is necessary for two main reasons: (i) to act as a buffer to balance supply disruptions from the unreliable logistics, and (ii) to import inputs and re-export.

depot in Mandalay with warehousing facilities nearby. As discussed in the Corridor Chapter, Yangon-Mandalay is the backbone of the trade corridor within Myanmar, connecting the two most important locations of agricultural and industrial producers and connecting them to an international gateway in Yangon. Currently, cargos are mainly carried by truck with low fuel efficiency via the AH1 road, which is a non-expressway road. Current rules require that customs clearance for sea freight can only be done at ports in Yangon or Thilawa. To reduce congestion at the container terminals and to bring import containers as fast as possible and as close as possible to the cargo owner, a change in the Customs regulations could be considered to permit the establishment of inland Customs—bonded ICD facilities with adjacent warehousing facilities for containers and the stuffing/unstuffing of cargo. It is important that rail freight has direct access to the Port of Yangon to avoid additional costs from handling the containers.

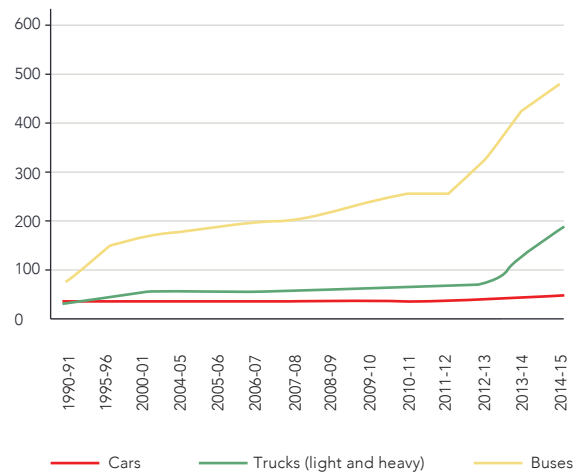
8.1.3 Making Myanmar's trucking industry competitive

Trucking plays an important role in transporting goods from port to hinterland and within Myanmar. Despite increasing numbers of trucks in Myanmar, the industry is hindered by poor efficiency and underdeveloped service quality. A comprehensive strategy could focus on addressing the lack of access to finance, fostering competition and the consolidation of transport operators, and develop logistics infrastructure.

Over the past two decades, the number of registered vehicles in Myanmar has dramatically increased.

The number of registered vehicles in Myanmar rose from 178,500 in 1990/91 to 2,476,672 in June 2012 (Ministry of Commerce, 2013). This number has probably risen far more since then, as the government has lifted restrictions on the import and registration of vehicles. The majority of the new vehicles are passenger cars and 2- and 3-wheelers. The number of trucks, both light and heavy, experienced only a modest increase from 2000/01 to 2010/11, from 54,000 to 64,000 (Figure 8.3). Between 2011/12 and 2014/15, the number of registered cars and trucks in Myanmar increased by 85 percent and 186 percent, respectively, because of an easier import processing for vehicles and greater availability of affordable tractor-trailers from China. The impact of the increased number of vehicles in the country, most notably cars, is mostly visible in larger urban areas such as Yangon and Mandalay, where traffic congestion is prevalent, especially during rush-hours

Figure 8.3: Number of registered vehicles in Myanmar ('000)



Source: Central Statistical Organization, Ministry of National Planning and Economic Development, 2011

The available evidence seems to suggest that most logistics operators in Myanmar rely on old or second-hand vehicles.

Interviews with the Myanmar Trucking Association suggest that the industry is dominated by second-hand Japanese trucks. The mix is complemented by new Chinese trucks, as well as 30+ year-old trucks. While access to used trucks helps transport operators to offer services, operating costs are relatively high because of low fuel efficiency (on average 2.8 km/liter). Myanmar's trucking industry fares relatively poorly on core performance criteria. For example, according to the container truck association, truck utilization (measured in average kilometers per year of a truck in working condition) ranges widely from as low as 15,000 km to 80,000 km.

Although the government has liberalized pricing for trucking services, the industry is still operating a pricing mechanism that encourages less efficient trucks to continue operating.

In a perfectly competitive market of freight transport, inefficient players would have been sidelined, but that is not the case in Myanmar. First, there is still demand for irregular (non-scheduled) and low quality freight transport services from industries that do not require high vehicle standards. These services are typically offered by individual or small trucking companies with second-hand trucks, as there are very few companies with more than 20 trucks (JICA, 2014). Second, the freight transport market in Myanmar is kept artificially alive through the "gate" system, where prices are determined based on the operating costs of the least efficient service providers (Box 8.3). While the cargo volume should be sufficient for higher utilization rates,

the high number of low-efficiency vehicles is causing an over-supply of truck capacity in Myanmar.

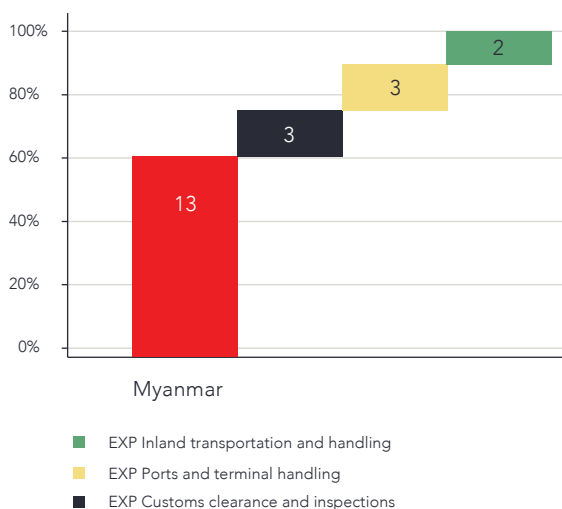
8.2 Streamlining the bureaucracy in trade facilitation

Myanmar's border procedures are onerous and unnecessarily bureaucratic. The length and complexity of the procedures penalize the country in international ratings by slowing down and discouraging formal transactions while encouraging parallel trade. It will be important to address the issues addressed together, including congestion reduction, streamlined procedures and increased reliance on IT.

8.2.1 The burden of onerous procedures penalizes Myanmar's ratings

Myanmar's trade has surged dramatically in recent years, but practices in trade facilitation have not significantly changed. According to the World Bank Group's 2015 Doing Business report, traders in Myanmar can spend up to 60 percent of their time (both in import and export) preparing documents, and undergoing customs clearance and inspections, in order to ensure compliance with trade rules and regulation (Figure 8.4). Therefore, reviewing and

Figure 8.4: Trading across borders – time to trade sub-indicators



THE "GATE" SYSTEM IN MYANMAR'S TRUCKING INDUSTRY

In Myanmar, the trucking industry is organized into so-called "gates". Gates exist in each major city and each gate specializes on one trunk route, for instance, Yangon-Mandalay.

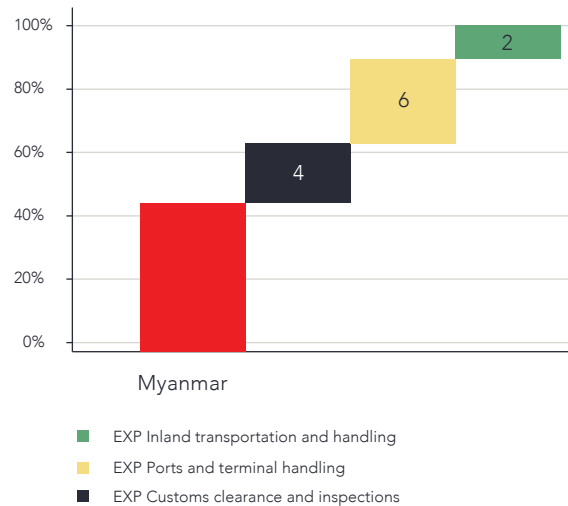
In addition, the container trucking gate is responsible for the container distribution from the port to every destination in the country. Every gate consists of a pool of operators. Membership in the gates is usually not obligatory. Newer and larger operators generally do not participate in the gate system. The gate manager, in cooperation with the members, determines the price of certain routes. The manager is also responsible for consolidating loads (Ksoll & Quarmby, Private Sector Views on Road Transport along the Yangon – Mandalay – Muse/Ruili – Kunming Corridor, 2013). The prices are usually set taking into account the operating costs of all its members and are therefore based on the least-efficient service provider. Competition is usually limited as there are few operators outside the gate system.

THE BUREAUCRATIC BURDEN OF LICENSING

In order to obtain an import or export licenses, a trader must provide the following documentation:

1. Copy of registration and identity cards;
2. Sales contract;
3. Pro-forma invoice;
4. Packing list;
5. Certificates of origins;
6. Depending on products: letter of recommendations from line ministries (e.g., Food and Drug Agency, Ministry of Agriculture, Quarantine, Ministry of Industry, Ministry of Science and Technology); and
7. Recommendation from Myanmar Economic Bank (MEB) for bank balance.

Source: NES (2015) and World Bank interviews.



DB 2015 - Time to export in Myanmar (days)

Source: World Bank, 2015 Doing Business database.

simplifying procedures in trade facilitation are crucial if Myanmar is to be able to meet growing trade volumes and increased demand for timeliness in exports and imports.

Current initiatives to improve port infrastructure facilities are likely to be inadequate in the medium term. Myanmar is moving ahead with improvements in port infrastructure facilities in Thilawa, next to Thilawa SEZ, the construction of which is now being completed. However, the current initiatives are likely to be inadequate in the medium term to meet the growing demand for a more responsive and reliable supply chain, for the following reasons:

- Limited guidelines defining the responsibilities and expected service level of border agencies, and the limited alignment of procedures for document clearances and inspections across relevant ministries;
- Underdeveloped risk management system and overlapping authorities for inspecting cargos in and outside ports are causing inefficiencies;
- Bottlenecks in transport and logistics infrastructure are causing delays, depressing logistics performance and causing business opportunities to be lost; and
- The prevalence of conflicts in border areas (e.g., in Kachin) often disrupts border trade and creates parallel border check-points by local armed ethnic groups, promoting informality in international trade and eroding revenues from import duties.

Moving ahead to address these challenges requires a coordinating platform, with prioritized actions and buy-in from stakeholders. No single ministry alone can solve the cross-cutting and inter-ministerial nature of problems in logistics and trade facilitation. Important stepping-stones would be the establishment of a coordinating mechanism and the development of a clear action plan to improve practices. There is also a need to update the legal framework in logistics and trade facilitation to allow the government and the private sector to close gaps in the current practices with international standards.

Myanmar can use regional and multilateral initiatives to push ahead with domestic reforms in logistics and trade facilitation. Commitments with the ASEAN Economic Community (AEC) and the WTO’s Trade Facilitation Agreement (TFA) require member countries, including Myanmar, to implement domestic reforms that will lead to the establishment of a national single window (NSW) for customs clearance, promoting regional integration in logistics services, and streamlining non-trade measures (NTMs).

Current export and import procedures in Myanmar start with a pre-customs clearance to obtain export and import licenses. The positive side is that the process is centralized at the MoC because by law the MoC has the sole authority to issue export and import licenses in Myanmar.³ While issuance of licenses by the MoC generally takes less than 7 days,

traders often need to obtain paperwork from other ministries (such as letters of recommendations, etc., depending on the products) and demonstrate proof of payment (down payment for imports) (Box 8.4). Items a) through to d) are standard documentation for customs clearance, and item e) is only required if traders are claiming preferential tariff rates. However, processing letters of recommendations and certificates needs to be done in different ministries (depending on the product), requiring separate documents and prerequisites (licenses, lab testing, samples, etc.), all of which can take a long time to process.⁴ For exports and imports through Yangon or Thilawa, traders can apply for these licenses in Yangon or Nay Pyi Taw. But for export and import through inland border posts the procedure is more challenging, as traders have to apply for export and import licenses at border trade offices. Since laboratory and testing facilities are not available in border areas, traders have to process these either in Nay Pyi Taw or Mandalay, while freight waits at the border posts.⁵ For Muse border post between Myanmar and China, high traffic volumes and the time needed to deal with customs pre-clearance are contributing to long queues of freight trucks around Mile 105, increasing costs for traders and depleting the return on

3 Licenses are generally valid for three months with possibility for extension.

4 World Bank Group team interview in Mandalay, January 2015. There was a case where an exporter has waited for 1 year to obtain approval to renew its certificate from Food and Drug Agency.

5 Certain border posts, such as Muse between Myanmar and China, have small laboratory facilities, but these cannot be used to test food products.

Table 8.1: Requirements for export or import processing and verification by Customs

EXPORT DOCUMENT PROCESSING AND VERIFICATION:	IMPORT DOCUMENT PROCESSING AND VERIFICATION:
<ul style="list-style-type: none"> • Original export license from the MoC (depending on products) • Original sales contract or Invoice • Original packing list • Original shipping instruction (or booking note) • Proof of buyer’s advance payment from bank or buyer’s L/C 	<ul style="list-style-type: none"> • Original import license from the MoC • Original seller’s invoice with bank stamp or foreign exchange certificates • Original sales contract • Original packing list • Original Bill of Lading
<p>Source: NES (2015) and World Bank interviews.</p>	

assets for vehicle owners.⁶

After customs pre-clearance, traders proceed through customs clearance processes, which are generally divided into document verification and cargo clearance/inspection. After traders obtain export or import licenses from the MoC, they can start the document verification process by filling a Customs Declaration (CusDec) and submitting this to Customs along with the supporting documents, as presented in Table 8.1. Document processing involves the verification of paperwork, valuation of cargo, and advance payment of income tax.

- **There are several issues in document verification that draw complaints from traders and have larger implications for Myanmar's trade competitiveness.**
- **Current customs valuation practices do not comply with the WTO Agreement on Customs Valuation.** There is high degree of uncertainty as how Customs determine the value of goods. Interviews and anecdotal evidence suggest that Customs either applies a certain mark-up on the value of exports or imports stated in the invoice, or uses an arbitrary higher value from internet searches, which increases the incentive for traders to under-invoice their goods.⁷
- **Requirements to settle advance income tax are severely affecting exporters' cash-flows, especially SMEs, as the tax deduction process can only be done once a year along with the annual declaration of corporate income tax.** For SME exporters, this means that less cash is available for productive investment. The shifting of responsibility to collect income tax through the customs process is highly unusual and could be seriously reconsidered.
- **The requirement for Myanmar exporters to show that foreign buyers are using L/Cs or have made advance payments is eroding the attractiveness of sourcing products from Myanmar.** While the government may be concerned about the risks of non-payment, this is not the proper instrument to address the issue, as it poses serious limitations on the flexibility of buyers and Myanmar's exporters to negotiate

6 World Bank Group team interviews in Mandalay, January 2015.

7 Myanmar Business Forum, public private dialogue on customs clearance issues, March 2015.

payment terms on a standard commercial basis.⁸

Cargo clearance and inspections at seaports and airports suffer from a lack of risk management systems and overlapping authorities to inspect goods. At present, there is no effective risk management system that Customs can use to decide which containers or shipments should be fully inspected. The decision process for Customs to decide whether containers of non-green channel importers should go through the red channel (for full inspection) or the yellow channel (for inspection by X-Ray machine), and the green channel (documents inspection only) is based on a "lucky draw".⁹ However, containers, particularly those in green channel, can still be subjected to inspection outside the port, as mobile teams led by the MoC and consisting of police and Customs have the authority to do this. The MoC established mobile teams to respond to growing concern of under-invoicing, incorrect use of certificates of origin, and smuggling. The teams are active outside the Port of Yangon and the airport, as well as at border posts. The private sector has complained that additional inspections by mobile teams can require a whole day's delay, making shipments late and adding costs for traders.¹⁰ In addition, decisions on which containers should be categorized as destined for the green channel occur after the customs document verification stage, which is not completely "green" compared with modern systems, where immediate release (green channel status) is obtained immediately after importers self-declare whether or not the shipment meets green channel criteria.¹¹

For exports going through seaports, a mandatory requirement to appoint the Shipping Agency Department (SAD) as the sole shipping agent is an unusual practice. The SAD is a department under Myanmar's Port Authority, which is a supervisory body for the operation of seaport terminals. The SAD acts as a state agent for seagoing vessels and it implements cargo loading/unloading operations at ports. In other countries, exporters can decide to hire an agent in order to facilitate the processes at the port, while Myanmar

8 About 60 percent of world trade is done through cash-in-advance or open account. Bank of International Settlements, January 2014, Trade Finance: Development and Issues. CGFS Papers No. 50.

9 Interviews and field visit suggest that the proportion of "lucky draw" is fixed at 60 percent for green channel, 30 percent yellow channel, and 10 percent red channel.

10 Myanmar Business Forum, public private dialogue on customs clearance issue, March 2015.

11 Standard approach in ASYCUDA electronic system.

is one of the very few countries in the world in which contracting the SAD is mandatory, thus imposing a great barrier for exporters.¹² Another bottleneck for exporters is the necessity to obtain signatures and stamps from the SAD, as this requires exporters to physically visit the SAD office.

Cross-border trade going through Myanmar's 15 border posts is subject to similar process and procedures, but coherent statistics are unavailable. Muse, a border town between Myanmar and China, handles the largest volume and value of cross-border trade and from casual observations it appears to be relatively better equipped and staffed than other border posts. However, coherent statistics and figures for freight transport cleared through border posts are not available, as the MoC and Customs tend to have different accounts of the number of freight trucks passing through and the value of goods cleared through border posts. In addition, there are the following issues:

- Lack of proper laboratory facilities to handle testing on food and potentially hazardous substances (such as chemicals). Such tests have to be done in Mandalay or Yangon, while freight trucks remain sealed and waiting at the border;
- Involvement of local ethnic groups in facilitating parallel check points, leading to informal trade and eroding revenue from customs tax or duties; and
- For trade going through Muse, there is a 1.5-hour difference in the operating hours between Myanmar and the Chinese border agencies.

Facilities and procedures for border checkpoints can be improved to facilitate small-scale female traders to engage in border trade. Box 8.5 illustrates some of the difficulties faced by small-scale female traders, highlighted in a World Bank survey. These difficulties have to do with the behavior of Customs officers, unnecessarily harsh enforcement, and being caught between the demands of large-scale tax evaders who use them because of their lack of outside opportunities and the risks involved. Experience in some border posts in East Africa suggests that training aimed at Customs officers on professional conduct towards women (e.g., via educational videos) can be effective, even when up against highly gender-discriminating cultural backgrounds.

12 https://www.bimco.org/-/media/Operations/Tariffs/Myanmar/Agency_fees_1994-01-01.ashx

8.2.2 Building momentum in ongoing Customs modernization

Customs is undergoing modernization that should be implemented by the end of 2016. With the support of JICA, Myanmar's Customs is embarking on an important modernization process that is expected to be implemented by the end of 2016. The Myanmar Automatic Cargo Clearance System (MACCS) is based on the Japanese Nippon Automated Cargo and Port Consolidated System (NACCS) and the Customs Intelligence Database System (CIS).¹³ This program is expected to significantly reduce the amount of manual document checking through an automated document verification process (reviewing information, valuation, and electronic payment of import duties) and the introduction of risk management for cargo inspection and capability to track cargo during the customs clearance and inspection processes. This initiative is crucial in improving efficiency and certainty in the customs clearance process.

But Customs modernization will not solve all the problems. While the ongoing Customs modernization is vital, this alone will not be exhaustive in covering the wide needs and problems in logistics and trade facilitation in Myanmar. Logistics and trade facilitation are key to the efficiency and reliability of the supply chain. Therefore, a comprehensive reform agenda—going beyond just customs automation—could be considered and implemented.

The trade facilitation glass in Myanmar is still only half full. Table 8.2 presents a summary of key challenges and ongoing initiatives in Myanmar's logistics trade facilitation. The table suggests that Myanmar is implementing several key initiatives around “core/traditional” issues related to customs clearance and the development of transport infrastructure. However, the glass is “half full” because the operating environment for logistics and transport operators in Myanmar has still to be improved and the regulatory framework governing policies in logistics and trade facilitation remains to be updated.

Myanmar could leverage its engagement in regional and multilateral fora of economic integration to sustain reform momentum in trade facilitation. Myanmar could use the ASEAN commitment to implement an NSW as an impetus for further simplification of procedures for trade facilitation,

13 The full NACSS also has National Single Window feature.

WOMEN FACE SPECIAL OBSTACLES AT BORDER CHECKPOINTS

In 2015, the World Bank conducted a study at selected check points in Cambodia and Lao PDR with Thailand and Vietnam. The study aimed to fill knowledge gaps on the patterns of small-scale cross-border trade in those countries and the profile of those engaged in it. Qualitative (field observations, stakeholder interviews and focus group discussions), as well as quantitative (sampling frames listing small-scale cross-border trade transactions and in-depth interviews) data, were collected.

The survey focuses on people who dealt with the authorities and were involved in the trade of goods that cross the border in man-powered vehicles or vehicles with fewer than four wheels. The findings show that women face certain types of idiosyncratic treatment at the border, including authorities' insistent questions, either discriminatory or with sexual innuendos. In general, however, no evidence of sexual harassment was found. Certain constraints seem to justify the discrepancy between the share of women in crossings and in the general population of crossers:

Women are charged higher tax rates than men, and are less often able to negotiate taxes and fees;

Women spend on average more time to clear border procedures than men; and

Women face a dissuasive tax wedge when willing to upgrade from brokerage to own-account trading or to scale up business activities.

Despite gender-specific constraints in participation, the report found that this business area may be a worthwhile avenue for income generation and empowerment for women. Evidence is based on comparisons with socioeconomic status in similar jobs and on income distributions, and calls for enhanced inclusiveness and gender-awareness in trade facilitation projects.

The report identified important patterns of small-scale cross border trade in those countries, with an important welfare impact on the population. Some of these findings include:

A high proportion of small cross-border traders report situations where a cash and in-kind bribe was expected of them in the course of their cross-border activities;

Many authorities are present at the border and levy taxes or fees on small cross-border traders beyond their mandates;

In Cambodia, they are often assisted in the collection of tax payments by plain-clothes, unauthorized individuals;

Most taxes are informal in the sense that their amount is not fixed, and payment is not recorded or the record does not match the actual payments made. For the majority of crossings, legitimate taxation and informal rent extraction cannot be disentangled and small cross-border traders often fail to see where the line should be drawn; and

Discretionary and volatile taxes and fees inflict a significant welfare cost on small cross-border traders.

There is evidence of (limited) tax evasion, but confiscations harm vulnerable brokers disproportionately and may have adverse effects on small-scale female traders who do not cross the border themselves. Barely one-fifth of all small cross-border traders report having evaded taxation in the 12 months preceding the survey. Moreover, small cross-border traders confirmed that "large" traders sometimes use them as a front to evade taxes, but they are often unaware of the size of the total shipment. However, confiscations impose a heavy burden on small traders, especially brokers, and solutions to tax evasion less detrimental to vulnerable border users could be investigated.

MOVING TOWARDS MODERN TRADE FACILITATION AND LOGISTICS: INCORPORATING A NEW FOCUS

TABLE 8.2

	KEY PILLARS IN MODERN LOGISTICS AND TRADE FACILITATION	OBSERVABLE GAPS	SAMPLE OF KEY ONGOING INITIATIVES
Core (traditional) focus	Customs modernization	Outdated regulations, largely manual processes, ineffective risk management, and practices that are not yet fully aligned to international norms	Myanmar Automated Cargo Clearance System (MACCS) is expected to run by November 2016 with a focus on automation of processing within DG Customs, risk management, and an electronic payment system Amendment of Customs Law
	Trade and logistics infrastructure	Infrastructure (road and ports) soon will reach capacity limit while transporting freight through rail and in-land waterways are still underutilized Border posts are lacking proper facilities to inspect and test cargo Parallel check points by local ethnic groups Missing links of highway/roads connecting Myanmar with China, India, ASEAN	Transport Masterplan Continuing the completion of SEZ in Thilawa by 2016 Upgrading of ports (e.g., Thilawa, Kaladan)
New Focus	Quality of logistics service providers and fluidity of supply chain	Infrastructure gap, and financial instruments (insurance, financing new freight transport) are constraining modernization of domestic freight forwarders and transport operators No port community platform to schedule and track cargo and insufficient infrastructure is causing long delays and poor reliability	Multi-Modal Transport Operation Law (pending approval)
	Coordination, regulatory reforms, capacity building	Fragmented policies and procedures to obtain recommendations and certificates Limited capacity of border agencies in delivering services (testing, risk management) Absence of formal collaboration of border management agencies No consolidated public listing of trade-related regulations and no National Single Window to allow single submission and synchronous processing of cargo clearance	Physical upgrading of lab facilities

including aligning business processes of separate border agencies, to allow traders to submit electronic forms to relevant border agencies and obtain quick responses. These changes in business procedures within border agencies are required so that they can provide a one-day turnaround in approvals compared with the current eight days. In order to achieve this, Myanmar may want to start working on the following areas:

- Compiling information on rules, regulations and procedures for export, import, customs and port clearance that would lead to a fully operational Trade Portal;
- Preparation of a roadmap for the NSW that will lead to the development of an electronic NSW for port, Customs and other border agencies clearance;
- Review of the business processes to issue licenses and certificates in border agencies that are likely to participate in the NSW: e.g., Quarantine, FDA, the Ministry of Commerce;
- Selection and implementation of an IT-based payment system for the NSW that will support integration with the ASEAN Single Window (ASW);
- Identifying a legal framework and international cooperation for implementing the ASW; and
- Capacity-building on trade facilitation.

A vigorous administration training effort is also needed. The problems created by cumbersome procedures are compounded by a frequent lack of clear knowledge of which rules apply in the administration. In a transition period where many of those rules are bound to evolve and new economic actors appear, mechanisms could be put in place to ensure that the new rules are effectively understood and applied on the ground, while old rules are phased out.

8.3 Improving access to trade finance

Myanmar has a small and undeveloped financial system. The country has some of the lowest levels of penetration of financial services in the world, with a ratio of private sector credit to GDP in 2013 of only 13.6 percent (compared with 97 percent for Vietnam,

154 percent for Thailand). Although financial institutions in Myanmar have grown rapidly over the past four years due to the large demand for credit and increasing confidence in the banking system, the financial system as a whole still contributes only in a modest manner to economic growth and prosperity.

Access to finance for firms and households is extremely low. Only 23 percent of adults had access to financial services in 2014 (FINDEX). Moreover, less than 10 percent of private sector firms borrow from commercial banks. Most commercial transactions in the economy are settled in cash due to the absence of a modern payment system infrastructure to process payments. The salaries of millions of civil servants and private sector employees are still paid in cash.

The formal financial system consists of 19 small-scale, closely held banks, four state-owned banks, and a small number of microfinance institutions (MFIs). There are 17 foreign bank representative office, and nine foreign banks were issued limited licenses in 2015 to conduct corporate banking. The nature of banking services is rudimentary. There is only one state-owned insurance company in Myanmar, which undertakes only very basic insurance business. Twelve new insurance companies have been given conditional licenses by the Myanmar Insurance Business Supervisory Board to start operations. The banking sector dominates the finance sector and accounts for most (95 percent) of the financial sector assets held outside the central bank.

Trade finance products are still underdeveloped in Myanmar. This is largely due to limited capacity in the banking sector, the residual impact of previous sanctions by Western economies, and outdated regulations. There is still a very limited number of banks that can provide documentary based credits (e.g., back-to-back L/C) for exporters. As discussed in later paragraphs, sanctions over certain Myanmar businesses, or the potential risk of money laundering, have contributed to over-cautiousness on the part of foreign banks in dealing with Myanmar's banks and businesses. Myanmar recently relaxed regulations, asking importers to make advance payments on import before delivery. However, other regulations too have counter-productive effects:

- The US\$1,500 cap on fees for letters of credit is potentially limiting the supply of L/Cs of larger value. It will be important for prices and fees for L/Cs to be based on risk and liberalized.
- The prohibition of trade credit insurance is

limiting the expansion of open account financing, which is necessary in industries with a short payment cycle, such as the garments and textiles industry.

- Collateral requirements for L/Cs could be further relaxed. While the 100 percent collateral requirement has been relaxed by the CBM recently, current recommendations by the CBM require that they be set at “reasonable levels”. While collateral of movable assets is prohibited, cash and land collateral are allowed. Nonetheless, banks continue to require collateral at anywhere between 30 and 100 percent of the value of a L/C, thereby making it unaffordable for cash-constrained or landless business operations.

Other trade finance products are in principle not prohibited. Local banking institutions can discount, buy, sell, and exchange bills of exchange, bills of lading, promissory notes and other traditional trade bills, although these products are hardly used or carry prohibitive cost (such as the acceptance of bills of lading by local banks). However, the capacity of local banks to handle these instruments is very limited, and clients are not necessarily aware of their existence. Supply depends on the availability of bank staff able to handle them. Such staff is scarce and has a rapid turnover. The same goes for the issuance and endorsement of letters of credit.

While importation against documents can sometimes be arranged by a limited number of local banks, it is not available to all clients due to the shortage of simple risk management skills in this areas. Receivable financing, a form of trade finance particularly adapted to SMEs with short export and import cycles and few cash reserves, is at an initial stage of development in Myanmar. Local private banks are not familiar with factoring or forfaiting, which are receivable and payable financing frequent in the garments and textiles industry and, more generally, in global supply chains with short production cycles. Banks may off-load part of the risk to factoring or forfaiting companies that are active in international markets, or to insurance companies, as they often lack the skills to propose these relatively simple and straightforward products.

It is therefore important to educate banks and industries about the potential of short-term receivable and payable financing. Financial education could usefully extend to authorities, as the regulation of trade finance instruments is spread between the

CBM, the Ministry of Finance, and the Ministry of Commerce. Myanmar might consider the following capacity-building program on trade finance:

- The financial education of bank employees, as well as SME managers, is important in optimizing the small amounts of cash and receivable financing of start-ups, and even bigger import and export companies. One form of education would be to inform banks about trade finance products, other than letters of credit (although the handling of letters of credit is relatively time-consuming and subject to too many authorizations). Increasing contacts and partnerships with locally-established foreign banks might help the transmission of know-how and learning-by-doing. International institutions such as the IFC have considerable experience from other countries in building on-site capacity in local banks regarding the use of modern trade finance instruments.
- Encourage banks and traders to enroll in International Chambers of Commerce (ICC) or other institutions’ (such as the Washington-based International Institute of Finance) courses through learning platforms for practitioners. The ICC Academy was launched in March 2015, and aims at supply trade finance e-courses (including on letters of credit, receivable financing, and other simple trade finance instruments), leading to professional certification. The ICC Academy is based in Singapore and will be providing global e-learning at affordable fees.
- Financial education of trading companies is needed for them to be able to match their receivables and payables, hence optimizing their scarce cash reserves. One challenge for the viability of new import-export oriented industries such as textiles and garments is to balance out cash inflows and outflows in very short production cycles. Any maturity mismatch between receipts on their exports (typically paid on a 90-day basis) and imports (to be paid after the issuance of letters of credit, either locally or abroad) may lead the company to becoming cash-strapped. Besides, any delay in the process of letter-of-credit issuance may postpone inputs and hence production, and ultimately lead to the dissatisfaction of final buyers.

Concerns over availability and certainty in accessing US dollars at market rates in Myanmar are another reason for the private sector to seek financial services abroad. In this area, the government has adopted a number of positive reforms, having reduced

Current regulatory constraints and lack of efficiency, if not know-how, in the supply of trade finance instruments led most of the importers and exporters met during the mission to seek alternative modes of financing overseas. One of the most commonly practiced is the use of a parent company registered in Singapore or Hong-Kong to act as an intermediary with trading or banking counterparties. Using remittance channels normally used for the transfer of savings by Myanmar workers established in the region, Myanmar's importers and exporters send money transfers to the parent company or individuals to guarantee for the issuance of letters of credit by Singapore, Thai or Hong Kong banks, which themselves are necessary to guarantee payments to foreign suppliers.

Remittance channels are also used to circumvent the obligation on Myanmar residents to pay for imports only on delivery. Exporters often require advance payments or cash guarantees, notably for car exports, but also other goods, including industrial inputs. One relatively common practice is for the buyer to send a payment through remittance channels to Singapore. Once the merchandise is delivered to Myanmar, an official payment of the same amount will be sent to the seller, with the seller returning the advance payment through the remittance channel once the transaction is completed.

These practices mobilize a fair amount of cash, and therefore are affordable for companies with a certain size, or active in sectors that generate higher profits (construction, import and distribution of imported durables, and consumer goods) than lower margin businesses (agriculture, garments) for which cash resources are scarce.

Apparently, local and foreign brokers help Myanmar's importers and exporters to find overseas banks ready to open or endorse letters of credit on their behalf. Cash deposits are often necessary, particularly for "newcomers", albeit not always if the trader in question has already a good track record of payment or credit. Information was provided about possible "commissions" reverted by brokers to local banks, although this could not be confirmed by the mission. Other banking services are provided off-shore, such as working capital, pre-shipment financing and foreign exchange services.

Second-best solutions may be tolerated by the government in view of the limited capacity or desire of small local banks to take on more risks, or to handle quickly and efficiently trade services and instruments. The status quo may even have generated a "conservative consensus" towards maintaining current practices, in view of the benefits generated by it (kickbacks of commissions from brokers to small local banks; gaining time and efficiency for traders).

In the long run, there is a danger of creating a dual market for trade services, if relatively less efficient services are left to local start-ups, small and medium-sized enterprises, and the more efficient services are affordable only to larger, well-established and higher profit-generating groups.

the number of exchange rates from seven to two. At present, the CBM maintains the operation of a managed exchange rate, keeping the local currency (kyat) within a band of purchasing and selling rate against the US dollar. An inter-bank market was opened for banks to exchange US dollar liquidity. The CBM proceeds with currency auctions, and monitors the markets. The annual turnover in the markets is around US\$2 billion annually.

The current government policy of opening the local banking market to foreign-owned banks aims at not only increasing the level of competition but also increasing collaboration and transfers of know-how between local and foreign banks. However, newly licensed foreign banks (Bank of Tokyo-Mitsubishi, SMBC, OCBC, and six other banks to be licensed) are confined to offering financial services, including trade finance, to foreign companies, joint ventures and domestic banks, not directly to local firms. The gradual approach is aimed at protecting the local financial industry (“infant industry protection”) from being severely affected by the competition of potentially larger players. The expectation is that international banks will “professionalize” and bring synergies to Myanmar’s financial sector as a whole. Eventually, importers and exporters may find the recourse to overseas financial services to be less attractive.

This scenario may work if the market for trade finance is not segmented for too long, with foreign companies benefitting from the advantage of better services for foreign-owned but locally-established banks, and local firms being confined to locally-owned banks. Some business interlocutors have indicated their intention, if the segmentation were to last, to qualify as joint ventures by changing their ownership structure, to benefit from the services of foreign-owned banks.

Although the lifting of international sanctions on Myanmar’s financial industry has taken place in steps, the residual impact on the country’s banking sector has yet to dissipate. For example, US sanctions on transactions with some of the four state-owned banks have been lifted by the US Treasury. Details of the current status of US regulations regarding financial transactions with Myanmar are transparent and can be found on the website of the US Treasury. Education is needed within the domestic and international financial industry about what the US Treasury and other countries’ regulations regarding Myanmar mean in practice. Domestically, some private banks have never been under sanction, although the perception might be otherwise. Internationally, non-US banks have also

been over-cautious regarding what is exactly implied by US legislation.

The licensing of foreign-banks in Myanmar’s local market for financial services is a positive development. This comes in a context in which the international banking community has shown only a very limited appetite for investing in new “frontier” countries. Since the global financial crisis of 2009, many global banks, in particular European- and US-based, have been reducing international networks and correspondent relationships, deleveraging balance sheets, and reducing costs. This overall environment is not favorable for Myanmar’s financial sector expansion, which needs to establish links with the rest of the world, in particular through correspondent banking relationships. At the present time, these relationships are few—only about 30 relationships for the most active bank in trade. The expansion of these relationships is not supported either by the “hand-over” effects of sanctions, or the increased compliance requirements on international banks.

As compliance efforts are increasing, the perception of reputational risk is at its highest, also on know-your-customer (KYC) and anti-money laundering (AML) rules. Despite efforts to upgrade standards, the local financial sector is still regarded as being behind the requirements, which does not help international financial integration. It was sensed during the mission that the local financial industry was very willing to catch up on existing requirements. At least one global bank representation office is dispensing local seminars on KYC and AML rules, destined to improve compliance with international standards. Such an excellent initiative deserves not only to be continued, but expanded. Material on KYC and AML rules exists in the websites of the ICC Banking Commission and the Bankers’ Association on Finance and Trade (BAFT). This could be used by the local banking association.

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