

# ***Trade, Trade Facilitation and Preferential Trade Agreements***

## ***Impact on Social Systems in Myanmar***



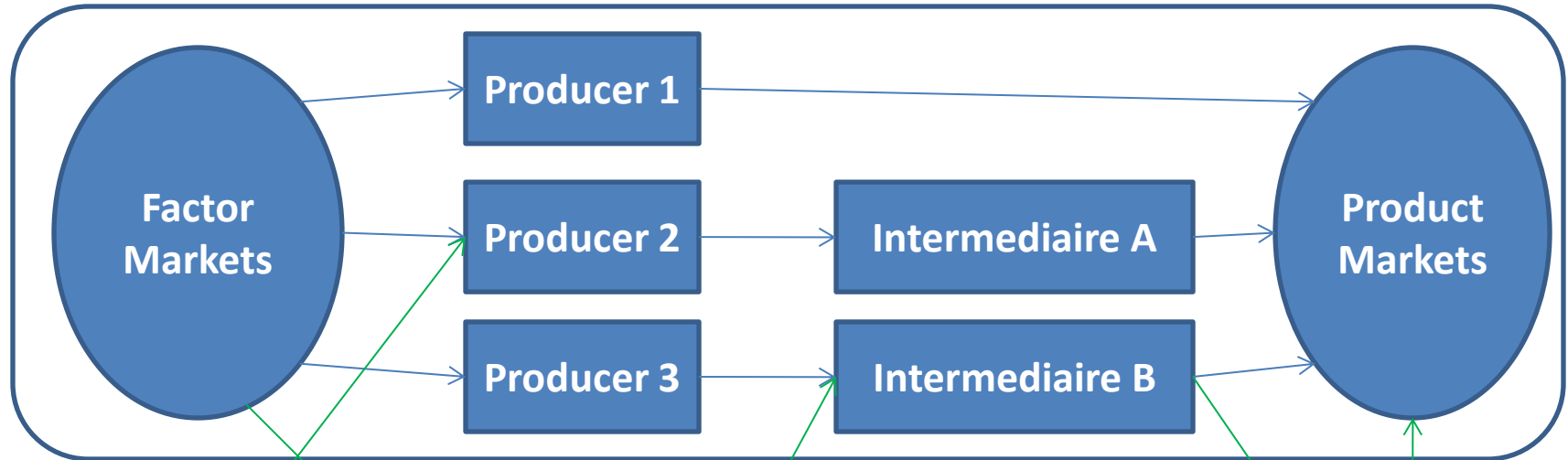
**Felix Haas**

*Independent Business and Development Consultant*

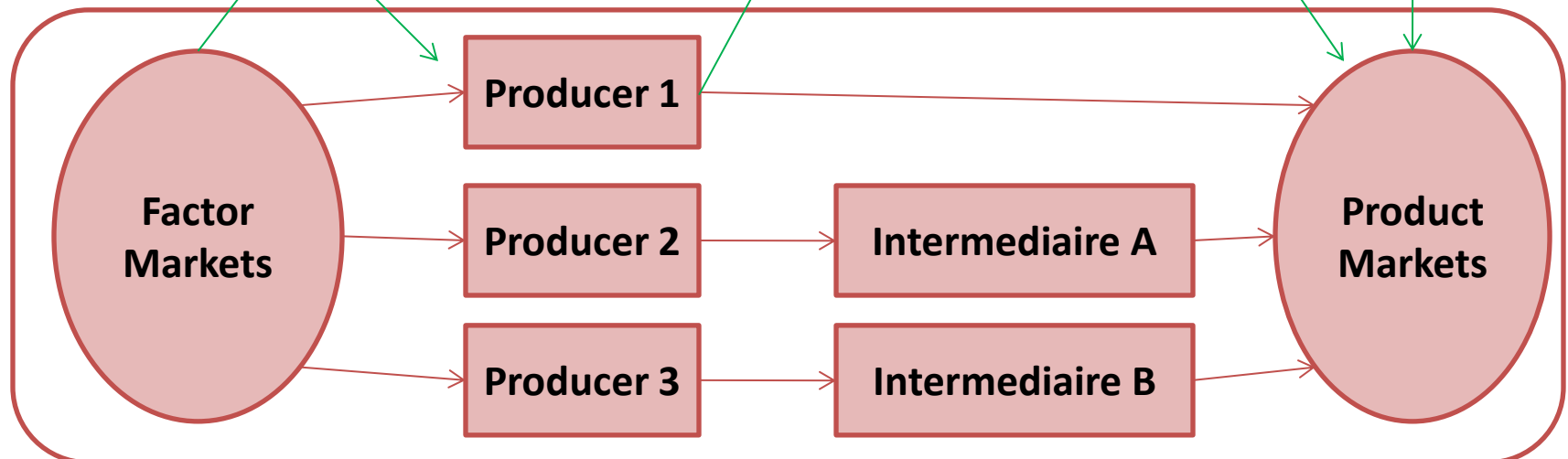
*fhaas@eu-myanmar.org*

# Actors in a Market System and the Role of Trade

**Market System 1**



• **Border**



**Market System 2**

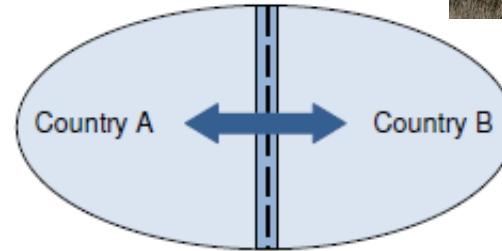
# Different Degrees of Socio-Economic Interaction at Land Borders



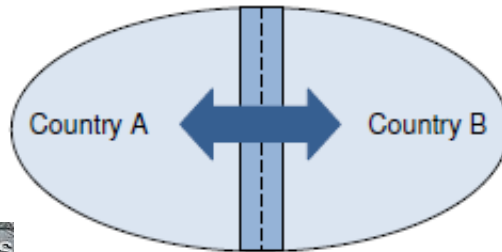
A) Alienated Borderlands



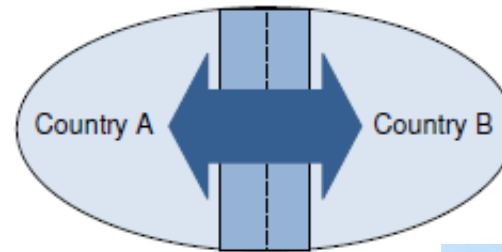
B) Coexistent Borderlands



C) Interdependent Borderlands



D) Integrated Borderlands



15 June 2017



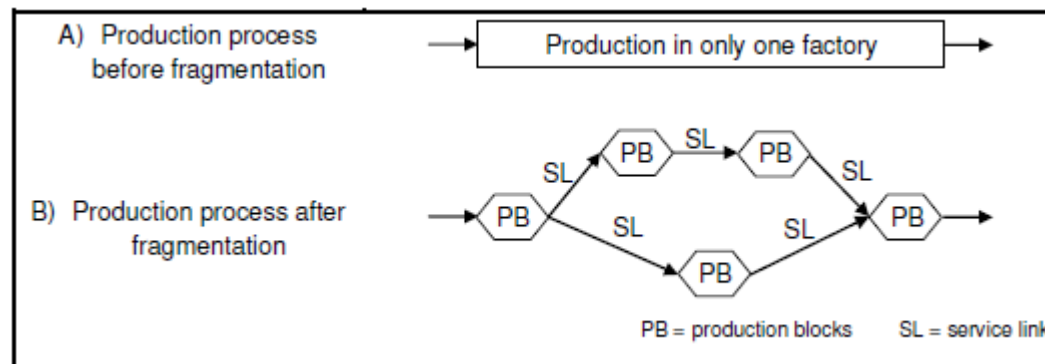
# General Benefits of Trade and Trade Facilitation to Actors in the Market System

## Consumer Perspective

- Trade allows a country as Myanmar so satisfy the demand its consumers and private sector.
- Buyers from receive additional options to receive either cheaper or higher quality product than the domestically produced ones and increased competition lowers prices in general.

## Producer Perspective

- Better input markets for value-added production are available
- Myanmar producers receive access to more than the domestic marketplaces for the sale of goods.
- One manufacturing process can be broken down and be performed in different countries to utilize complementarities (Division of labor and specialization based on comparative advantages)



# General Disadvantages of Trade and Trade Facilitation to Society

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- Export-orientation creates dependence on global markets – subject to various factors of influence out of national control – and to an over-specialization.
- Imports may constitute competition for local producers and therefore an impediment to domestic economic growth, if no high technology is available locally.
- Imports non-compliant with domestic standards may represent a risk to local consumers.

## Exports 2016

Rank	HS4	Product	Value in 1000 USD
1	2711	Petroleum gas and other gaseous hydrocarbons	3,289,611
2	0713	Dried leguminous vegetables, shelled, ...	1,077,985
3	2609	Tin ores and concentrates	818,015
4	9999	Commodities not elsewhere specified	745,525
5	6202	Women's or girls' overcoats, car coats, capes, cloaks, anoraks, ...	333,320
6	6201	Men's or boys' overcoats, car coats, capes, cloaks, anoraks, ...	305,835
7	6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, ...	289,002
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[...]			
13	4001	Natural rubber, ...	194,106
14	4403	Wood in the rough, ...	183,557
15	4407	Wood sawn or chipped lengthwise, sliced or peeled, ...	157,040
16	0306	Crustaceans, ...	152,991
17	7202	Ferro-alloys	124,668
18	1006	Rice	119,904
		ALL EXPORTS	∑ 11,556,945

# Imports 2016

Rank	HS4	Product	Value in 1000 USD
1	2710	Petroleum oils and oils obtained from bituminous minerals	2,005,467
2	8517	Telephone sets, incl. telephones for cellular networks or ...	973,243
3	1701	Cane or beet sugar and chemically pure sucrose, in solid form	966,835
4	1511	Palm oil and its fractions, whether or not refined	536,795
5	9999	Commodities not elsewhere specified	532,929
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7	8711	Motorcycles, incl. mopeds	446,460
8	8703	Motor cars and other motor vehicles	378,805
9	7308	Structures and parts of structures	351,339
10	3004	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses	340,162
11	7228	Other bars and rods of alloy steel	325,252
12	7210	Flat-rolled products of iron or non-alloy steel	296,005
13	8701	Tractors	284,508
14	5407	Woven fabrics of synthetic filament yarn	275,964
15	2106	Food preparations, n.e.s.	234,340
16	2202	Waters, incl. mineral waters and aerated waters	216,734
		<b>ALL IMPORTS</b>	<b>Σ 21,254,860</b>



## Myanmar has yet to follow the industrialization path of regional economies to diversify its economy through manufacturing investments.

- Two thirds of the population work in the agricultural sector short of modern technology and at low productivity levels.
- Regional economies including China and South Korea have – through a smart mix of a stringent policy approach and investment successfully achieved a structural transformation of its industrial landscape.
- A smart industrial policy along with committed and well-coordinated efforts of the political leadership to promote industrial investments at the best suited locations will be pivotal for Myanmar's successful transformation.

Figure: Percentage of GDP contribution of the economic sectors

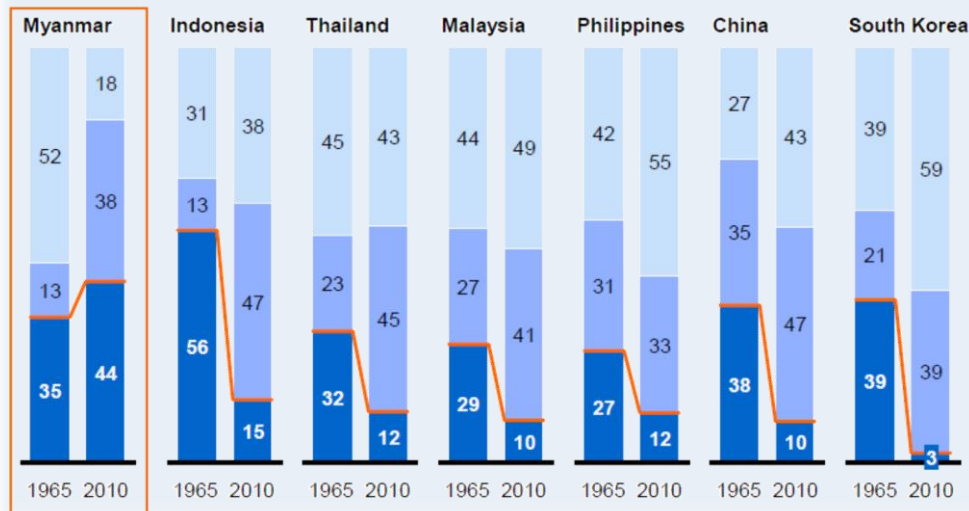
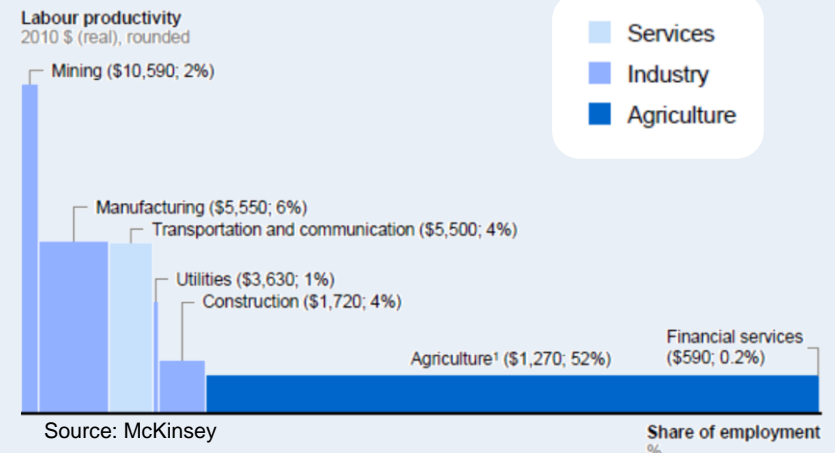


Figure: Labor productivity and employment in Myanmar's industries

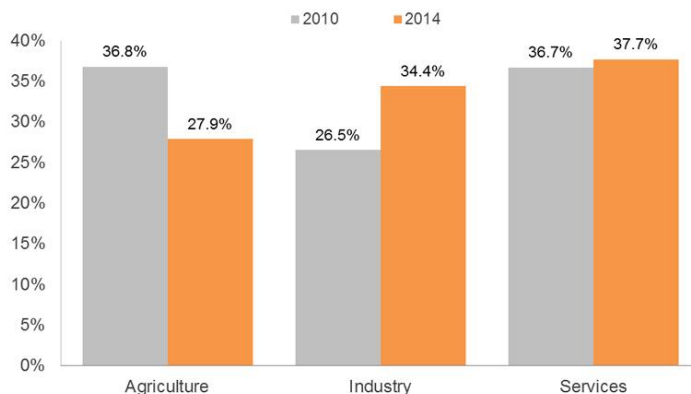




## Early successes in the open Myanmar – the manufacturing and telecommunications sector have been drivers of growth.

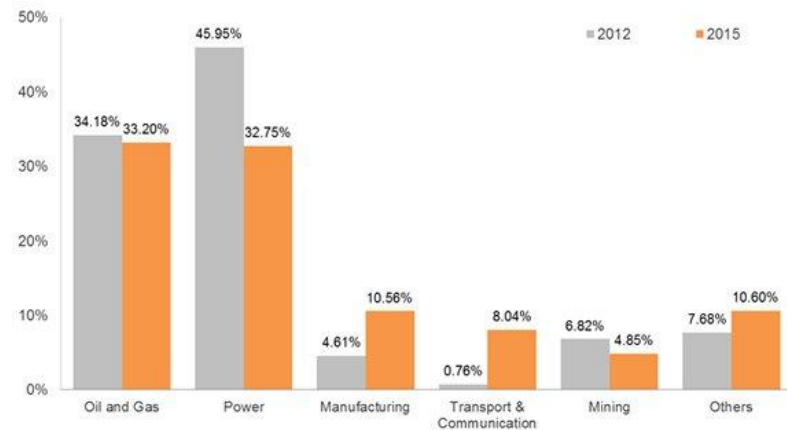
- Around 2000, nearly 60% of Myanmar's GDP came from the primary sector and the economy relied heavily on the exports of natural resources and agricultural products.
- The economic contribution of the industry sector to Myanmar's economy rose substantially from 26.5% in 2010 to 34.4% in 2014, while the share of agriculture shrank from 36.8% to 27.9% in the same period.
- Driving forces of the early growth of Myanmar have been the commencement of operations in Thilawa SEZ, investment in the garment and FMCG sector and the liberalization in the telecommunications industry.

**Myanmar GDP by Sector**



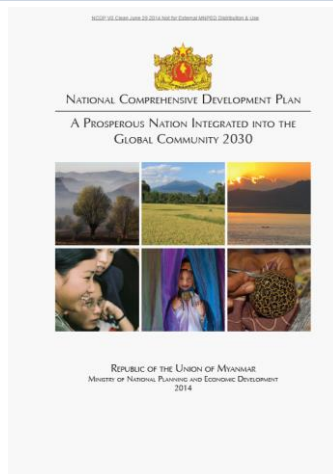
Source: Myanmar Statistical Information Service

**Cumulative Foreign Investment of Permitted Enterprises**

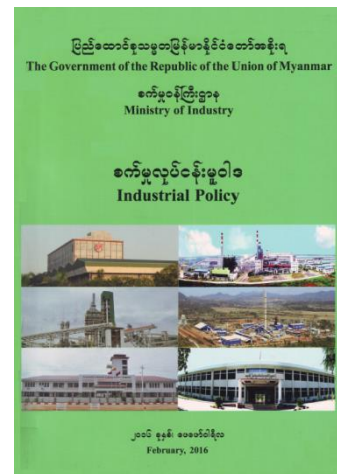


Source: DICA

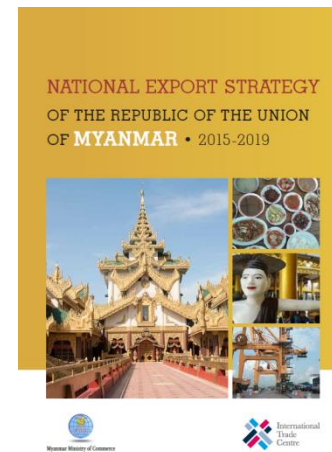
# Policy-level efforts are being undertaken to improve the business environment and to promote responsible industrial investments.



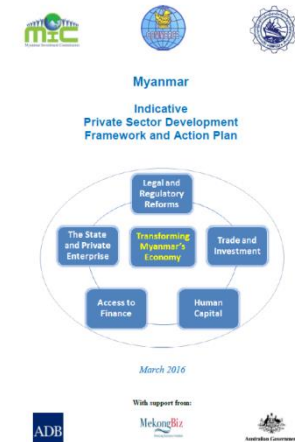
**National Comprehensive Development Plan**



**Industrial Policy**  
(Ministry of Industry)



**National Export Strategy**



**Private Sector Development Framework**



**MYANMAR**  
Strategic Directions for Industrial Development  
Summary of Industrial Development Strategy 2017



**Industrial Sector Masterplan**  
*“Strategic Directions for Industrial Development”*

(UNIDO, Ministry of Industry)

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## Perspective: Garments (HS 61/62)

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Tariffs applied by Japan

Product: 620111100 - Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, other than those of heading 62.03.: Overcoats, raincoats, car-coats, capes, cloaks and similar articles: Of wool or fine animal hair: Containing furskin

Partner: Myanmar

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	12.80%	12.80%	12.80%
Preferential tariff for Least Developed Countries	0%	0%	0%
Preferential tariff for ASEAN countries	0%	0%	0%

## Perspective: Garment (HS 61/62)

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- Environmentally and socially responsible practices are not an integral part of doing business in the sector, threatening negative social impacts and ineligibility to supply socially concerned buyers
- Although providing employment opportunities to vulnerable populations, the sector presents them with some additional risks and little room for advancement
- Government inspection of wastewater at garment firms is not sufficiently effective



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## Perspective: Natural Rubber (HS 4001)

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Tariffs applied by China

Product: 4001100000 - Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gums, in primary forms or in plates, sheets or strip: Natural rubber latex. whether or not prevulcanized

Partner: Myanmar

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	20.00%	20.00%	20.00%

# Social, Environmental and Trade Related Challenges according to the National Export Strategy for Rubber

- Low productivity
- Inferior quality of planting materials and inputs
- Planting of low yield cultivars
- Existence of unproductive trees
- Low quality (impurities such as rocks, sand, dust, etc.)
- Lack of quality control systems and third-party certifications
- Low value addition (unstable and insufficient electrical supply, low domestic & foreign investment, low adoption of technology, unqualified human capital)
- Limited access to trade information
- Absence of export promotion and branding efforts
- Limited investment promotion
- Social and environmental conditions surrounding rubber production (including labour rights, workers' use of protective gear, implementation of effective waste disposal methods, use of chemicals, etc.)



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## Perspective: Crustaceans (HS 306)

Tariffs applied by France

Product: 0306110500 - "Frozen rock lobster and other sea crawfish ""Palinurus spp."" , ""Panulirus spp."" and ""Jasus spp."" , smoked, even in shell, even cooked but not otherwise prepared"

Partner: Myanmar

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	20.00%	20.00%	20.00%
Preferential tariff for Least Developed Countries	0%	0%	0%

## Key Facts Regarding Crustaceans in Myanmar according to National Export Strategy

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- According to statistics of the DEPARTMENT OF FISHERIES of the MINISTRY OF LIVESTOCK, FISHERIES AND RURAL DEVELOPMENT, the production of fish and prawns has (overall) nearly increased to an eightfold from 412 million viss to 3,256 million viss between 1994 and 2014
- In 2014, Myanmar exported 23,552 tons of crustaceans at a value of USD 220.7 million (0.8% of world exports, ranked 24<sup>th</sup>)
- Export markets in 2014, Japan (30.8%), China (19.2%), Hong Kong (12.2%) Malaysia (7.3%) and the United States (16%)
- The recommended three European markets Spain, France and Italy are the top 4<sup>th</sup> to 6<sup>th</sup> world importers in terms of value.

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## Perspective: Rice (HS 1006)

Product: 1006101190 - Rice: Rice in husk (paddy or rough): Seed: Long grain: Rice in husk (paddy or rough), shien rice (long-grained nonglutinous rice), seed (out-quota)

Partner: Myanmar

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	OQTR: 65.00%	OQTR: 65.00%	OQTR: 65.00%
Preferential tariff for Least Developed Countries	IQTR : 1.00%	IQTR : 1.00%	IQTR : 1.00%
Preferential tariff for ASEAN countries	50.00%	50.00%	50.00%



# Key Challenges of the Rice Production in Myanmar with Reference to the National Export Strategy for Rice

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- High-quality seeds are not widely available
- Inadequate finance contributes to lower productivity, output and prices
- Low domestic supply of fertilizers and weak understanding of how to use them
- Inadequate supply of farm laborers and service providers
- Water and soil quality is threatened by the increased use of fertilizers and pesticides, higher crop intensity and use of machines



## Trade for Peace: Different Mechanisms of Informal Border Trade



### **Example 1: Private Vehicles to Mandalay**

Shared taxis as well as highway buses typically make frequent use of any available storage for the transportation of goods (e.g. on the roofs).



### **Example 2: Deconsolidation of Cargo for the Border Crossing Process**

In the shown example, cigarettes from Myanmar – arriving by a larger truck from Central Myanmar – are unloaded onto a number of trishaws (carriers) to cross to China.

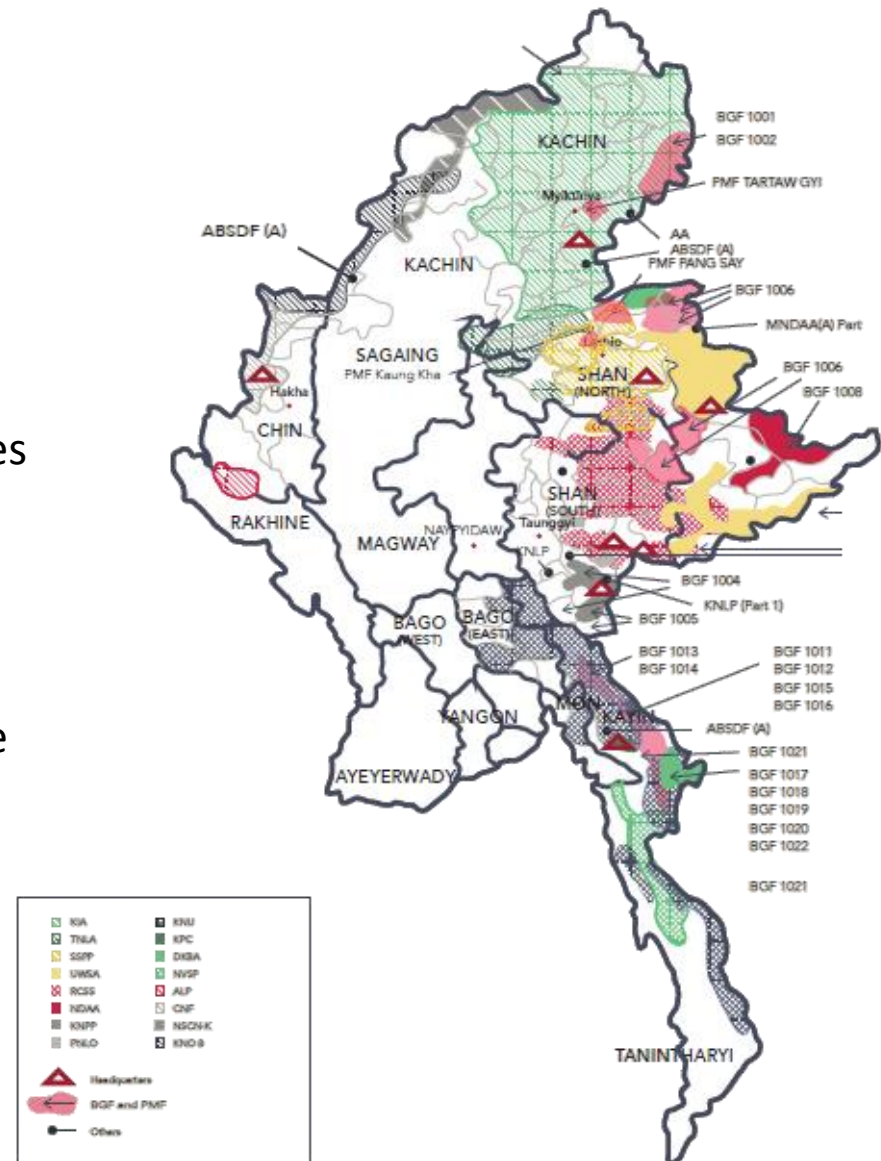


### **Example 3: Individual Smuggling of Motorcycles**

In particular around sunset and during the night daily hundreds of motorcycle carriers depart from Muse to Pyin Oo Lwin or other towns driving and carrying one new motorcycle from the border each. The drivers would typically travel to Muse by public bus and smuggle two non-licensed motorcycles along clandestine paths around checkpoints.

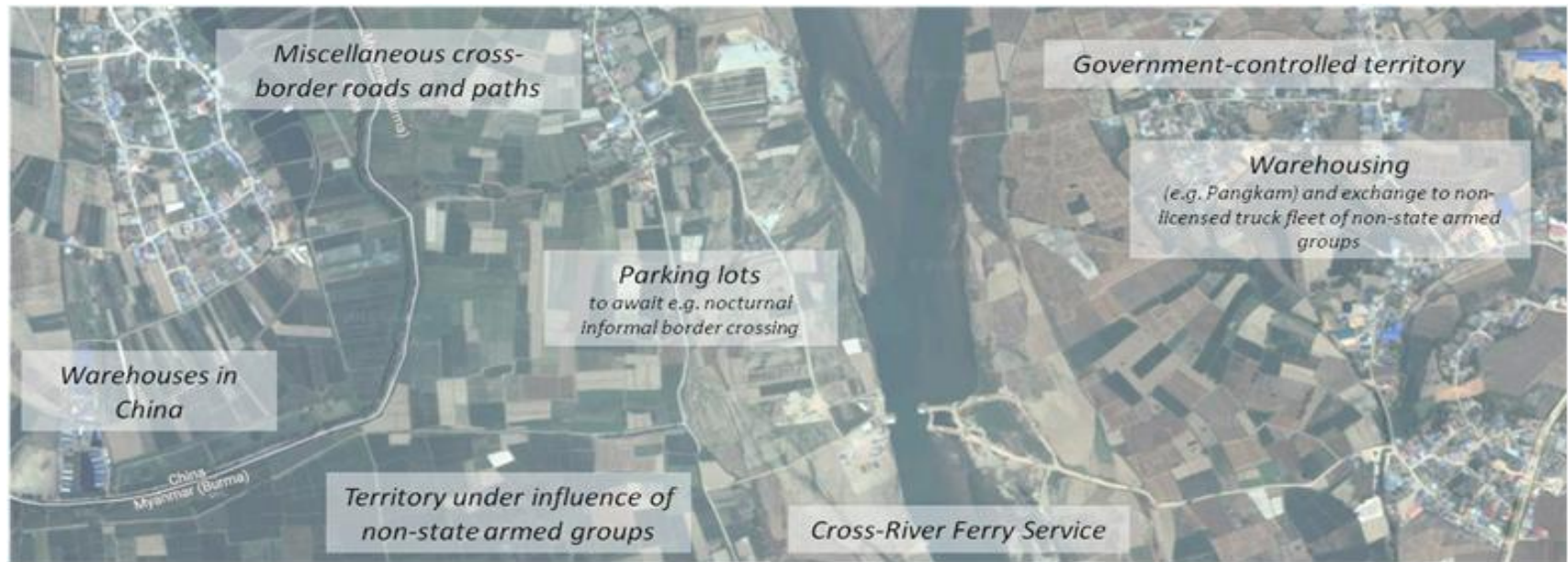
# Trade for Peace: (In)Formal Border Trade and its Role for National Peace and Reconciliation

- Informal border trade had a strong role over the period of an internationally isolated Myanmar.
- Stringent enforcement of formal practices in border may not help the efforts of Government to secure political stability and peace.
- All actors involved in even informal trade shall be supported by all means to find ways to legalize the trade activity gradually.





# Trade for Peace: (In)Formal Border Trade and its Role for National Peace and Reconciliation



## Perspective: Tourism (Export)

- Myanmar's tourism sector is an important area of economic activity from the perspective of employment generation and contribution to gross domestic product (GDP). As Myanmar's sixth largest exporting sector, and the only service sector to boast a trade surplus, tourism currently accounts for 1.02 % of GDP and 2.8 % of total employment (direct and indirect).
- The **government policy** on visitor accommodation is difficult to follow, frequently contradicting other policies, such as those for community-based tourism.
- How accommodation is sited, licensed, constructed and operated will have impact (positive or negative) which in turn determine the potential of the tourism sector
- Hotel zones should be established **outside cultural heritage areas**. (Instances can be seen in Bagan and Inlay Lake), but the overall approach of hotel zones is questionable.
- **Land acquisition issues**
- **Lack of Bed & Breakfast (B&B) accommodation**



# Imports 2016

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1	2710	Petroleum oils and oils obtained from bituminous minerals	2,005,467
2	8517	Telephone sets, incl. telephones for cellular networks or ...	973,243
3	1701	Cane or beet sugar and chemically pure sucrose, in solid form	966,835
4	1511	Palm oil and its fractions, whether or not refined	536,795
5	9999	Commodities not elsewhere specified	532,929
6	8704	Motor vehicles for the transport of goods	513,155
7	8711	Motorcycles, incl. mopeds	446,460
8	8703	Motor cars and other motor vehicles	378,805
9	7308	Structures and parts of structures	351,339
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## Perspective: Mobile Phone (HS 8517)

- The opening of the telecommunication sector has been highly successful due to Myanmar's first national competitive tender.
- Within two years, Myanmar citizens and businesses gained access to digital markets.
- Most of Myanmar's recent entrepreneurship is taking place in the IT and tech sector.



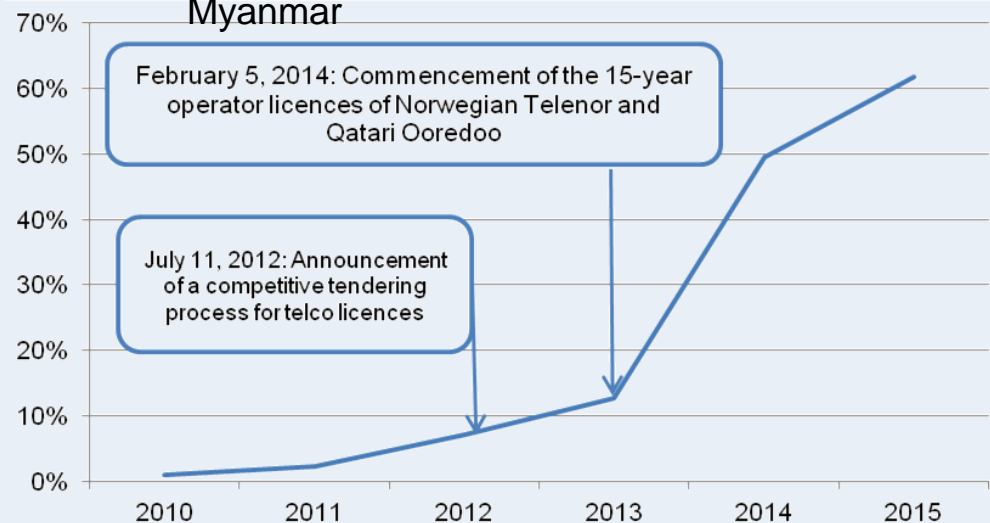
### Tariffs applied by Myanmar

Product: 8517110000 - Telephone sets, including telephones for cellular networks or for other wireless networks

Partner: all partners

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	1.00%	1.00%	1.00%
Preferential tariff for ASEAN countries	0%	0%	0%
Preferential tariff for China	0%	0%	0%

Figure: Share of mobile users of the population in Myanmar





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## Perspective: Palm Oil (HS 1511)

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Product: 1511100000 - Palm oil and its fractions, whether or not refined, but not chemically modified: Crude oil

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## Perspective: Goods for Mobility and Land Machinery (HS 8701, 8704, 8711 and 8703)

Product: **8711101200** - Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars; side-cars: With reciprocating internal combustion piston engine of a cylinder capacity not exceeding 50 cc: Completely Knocked Down: Mopeds and motorised bicycles

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	5.00%	5.00%	5.00%
Preferential tariff for ASEAN Countries	0%	0%	0%
Preferential tariff for India	4.00%	4.00%	4.00%

## Perspective: Goods for Mobility and Land Machinery (HS 8701, 8704, 8711 and 8703) (Continued)

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Product: **8703101000** - Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars: Vehicles specially designed for travelling on snow; golf cars and similar vehicles: Golf cars, including golf buggies

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	1.50 %	1.50 %	1.50 %
Preferential tariff for ASEAN Countries	0%	0%	0%

## Perspective: Goods for Mobility and Land Machinery (HS 8701, 8704, 8711 and 8703) (Continued)

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**Product: 8701101100 - Tractors (other than tractors of heading 87.09): Pedestrian controlled tractors: Of a power not exceeding 22.5 kW, whether or not electrically operated: For agricultural use**

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	0 %	0 %	0 %

## Imports 2016

Rank	HS4	Product	Value in 1000 USD
1	2710	Petroleum oils and oils obtained from bituminous minerals	2,005,467
2	8517	Telephone sets, incl. telephones for cellular networks or ...	973,243
3	1701	Cane or beet sugar and chemically pure sucrose, in solid form	966,835
4	1511	Palm oil and its fractions, whether or not refined	536,795
5	9999	Commodities not elsewhere specified	532,929
6	8704	Motor vehicles for the transport of goods	513,155
7	8711	Motorcycles, incl. mopeds	446,460
8	8703	Motor cars and other motor vehicles	378,805
9	7308	Structures and parts of structures	351,339
10	3004	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses	340,162
11	7228	Other bars and rods of alloy steel	325,252
12	7210	Flat-rolled products of iron or non-alloy steel	296,005
13	8701	Tractors	284,508
14	5407	Woven fabrics of synthetic filament yarn	275,964
15	2106	Food preparations, n.e.s.	234,340
16	2202	Waters, incl. mineral waters and aerated waters	216,734
	<b>ALL IMPORTS</b>		<b>Σ 21,254,860</b>



## Perspective: Waters (HS 2202)

Product: 2202101000 - Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices of heading 20.09: Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured: Sparkling mineral waters or aerated waters, flavoured

Tariff regime	Applied tariff (as reported)	Applied tariff (converted)	Total ad valorem equivalent tariff
MFN duties (Applied)	10.00%	10.00%	10.00%
Preferential tariff for ASEAN Countries	5.00%	5.00%	5.00%

# The Importance of the Food and Beverage Sector

- Myanmar is one of the world's "food surplus" countries. It produces between 55 and 60 million tonnes of agrifoods per annum
- Myanmar is the world's second largest exporter of dry beans, peas, pulses and lentils and also exports fish and seafood, which are currently surplus to its own demand requirements
- It is also exporting some rice under a government policy that is promoting growth in rice production related to exports
- While Myanmar is strong in the supply of basic food products, the opposite is the case for processed food and drinks. Over 50% of import value in 2011 comprised processed food and drinks

**Sectoral distribution of SMEs in Myanmar, July 2012**

<b>Industry</b>	<b>Large</b>	<b>Medium</b>	<b>Small</b>	<b>Total</b>	<b>(%)</b>
Food and beverages	2,369	4,110	20,976	<b>27,455</b>	63.5
Clothing and wearing apparel	341	380	1,001	<b>1,722</b>	3.9
Construction materials	510	650	2,117	<b>3,277</b>	7.6
Personal goods	375	410	330	<b>1,115</b>	2.6
Consumer produce	144	79	97	<b>320</b>	0.7
Literature and art	60	117	183	<b>360</b>	0.8
Raw goods production	169	240	282	<b>691</b>	1.6
Metal and mineral production	315	381	1,204	<b>1,900</b>	4.4
Agricultural machinery	9	25	37	<b>71</b>	0.2
Industrial tools and equipment production	15	49	66	<b>130</b>	0.3
Automobile production	194	40	33	<b>267</b>	0.6
Electrical equipment	43	15	12	<b>70</b>	0.2
General	264	791	4,799	<b>5,854</b>	13.5

# Thank you for your kind attention!

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