

4.1 Basic Viewpoint and Fundamental Direction in which Myanmar should Map out Export Master Plan

Myanmar need have an export master plan capable of coping flexibly with a change in the world economy, including neighboring countries, while making most effective use of her own characteristics. The environments in which Myanmar is situated will be recognized from various points of view.

4.1.1 Progressive Changes in Export Environments and Myanmar

(1) Global trade liberalization and Myanmar

As far as the world trade schemes/systems are concerned, the trade is being now globally liberalized while promoting a variety of regional integration and local collaboration. At the end of 1989, it was proposed to establish a new organization to enhance the functions of the GATT. In the Uruguay Rounds in June 1990, the EC proposed to establish the World Trade Organization for a functional enhancement of the GATT. Later, it was studied in its organizational and practical aspects. In December 1993, it was substantially agreed that the WTO would be established. And the World Trade Organization (WTO) was officially established in January 1995. In January 2002, the People's Republic of China got an official membership in the WTO, which has now had 141 member countries. As of January 2002, moreover, another 29 countries were in the process of getting membership in the WTO.

As far as customs duties are concerned, on the other hand, an "Agreement to Organize the Board of Directors for Cooperation in Customs Duties" was signed in December 1950. In November 1952, the Agreement came into force so that the World Customs Organization (WCO) was established.

Myanmar is a member country of both WTO and WCO and has represented the maintenance of free trade to the outside. As described later, however, Myanmar has had a lot of those substantial practical trade barriers, which have precluded exportation from being promoted. As far as the export master plan map-out is concerned, it is important for Myanmar to improve her problems from a practical trade business point of view.

(Reference) Outline of Various WTO Agreements and Treaties

- 1) General Agreement on Tariffs and Trade in 1994 GATT
 - i) General Rules a) Most-favored-nation treatment, b) Native treatment and c) Quantitative limit inhibition
 - ii) Market access a) Customs duties concession, b) Safeguard agreement and c) Import restriction on account of an unfavorable turn in international trade balance
 - iii) Fair trade rules a) Anti-dumping and b) Compensation duties
 - iv) Securing transparency and disclosing domestic laws and regulations by country
- 2) Agriculture-related agreements

- i) Improve the access to a market.
- ii) More strictly enforce the rules for domestic support.
- iii) Cut export subsidies.
- 3) Agreements on textiles and textile products
- 4) Agreements on trade-related investment measures
- 5) Anti-dumping agreement
- 6) Agreement on assessment of customs duties
- 7) Agreement on rules relating to countries of origin
- 8) Agreement on subsidies and account-offsetting measures
- 9) Safeguard agreement
- 10) General agreement on service trade
- 11) Agreement on trade-related aspects of intellectual properties
- 12) Understandings on rules and proceedings to resolve conflicts

(2) Regional economic integration trends and Myanmar

Since the beginning of 1990s, a regional economic integration move has been getting more and more active all over the world. North America Free Trade Agreement (NAFTA, 1994), Common Market of the South Cone (Mercado Comun del Cono Sur = MERCOSUR, 1991), Free Trade Area of the Americas (FTAA, 2001), Europe Union (EU, 1993), European Economy Area (EEA, 1994), AFTA Free Trade Area (AFTA, 1992) and Closer Economic Relations (CER, revised in 1988) and so on. To form a larger zone of free economy, neighboring economies have been being progressively unified into an economic zone.

Myanmar has got AFTA membership as one of the ten ASEAN member countries. Since 1998, she has been implementing Common Effective Privileged Tariffs (CEPT) and will have to implement a *reduction of intra-region tariffs* by 2004.

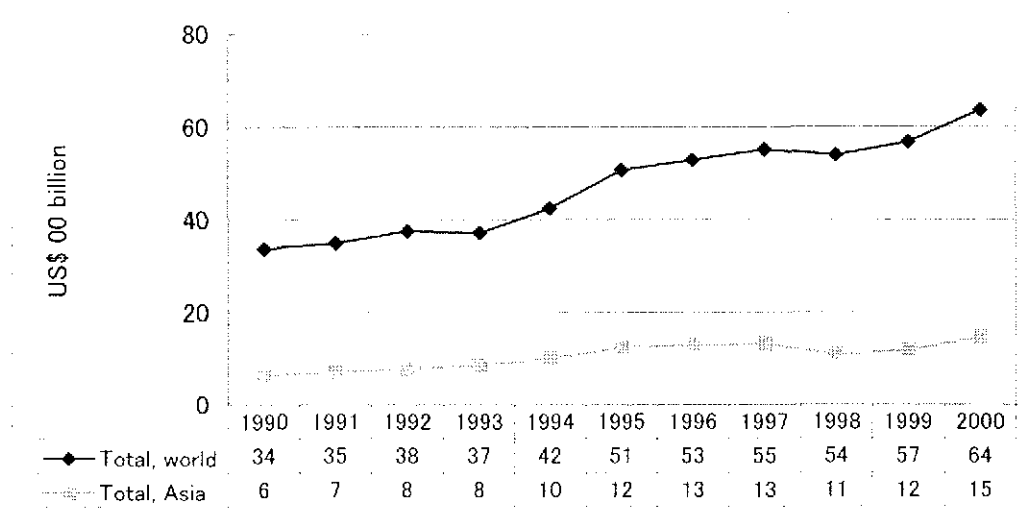
The ASEAN 10 is a mixture of those countries which have already the most advanced trade system, such as Singapore and are now structuring a modern trade system, such as Myanmar, Laos, Cambodia and Vietnam. No powerful leader country, however, has been found among the members. How each member does really react is considered to turn out as an issue awaiting solution.

(3) Worldwide trade trends and Myanmar

According to the IMF statistic data, the world trade turnover for 2000 amounted to 6.4 trillion dollars on an FOB basis. In 1990s, it increased by 6.5% a year. The Asian trade turnover, likewise, amounted to 1.5 trillion dollars, showing an annual growth rate of 8.6% during the same period. The share occupied by Asia in the world trade had been showing an upward trend by 1996, really achieving an increase up to 24.4%. Since the Asian currency crisis that brought about a confusion to the Asian economy, however, the Asian trade share had a decrease in growth rate, declining to 19.9% in 1998. Later, a symptom of recovery appeared and the share recovered up to 22.9% in 2000.

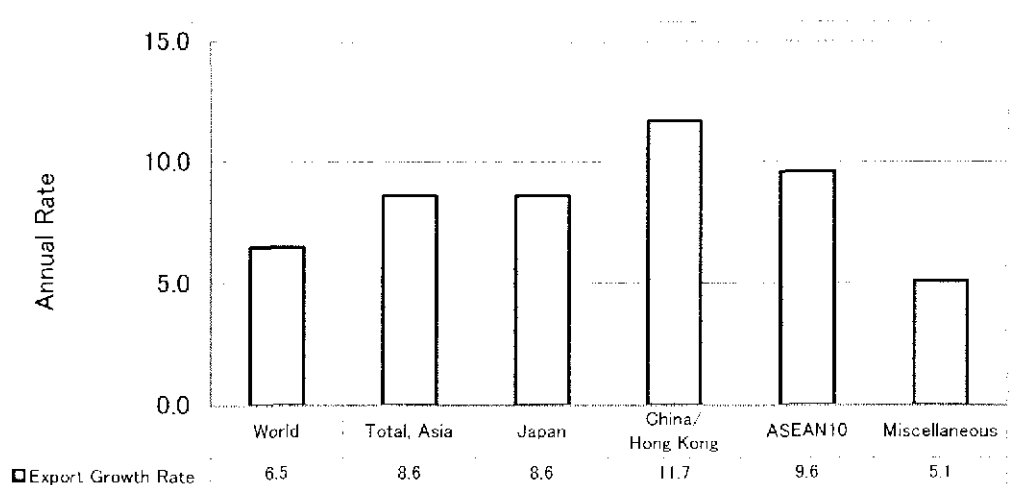
In Asia, there is a tendency for the trade share to distribute regionally. With a decline of the Japanese export growth rate in comparison with China, Hong Kong and ASEAN 10, the export share occupied by Japan in Asia has been lower than that by ASEAN 10, People's Republic of China and Hong Kong since 1993. This may be considered partly because manufacturers in developed countries, such as Japan and the like, have shifted their production bases. These trends, however, have really arisen from an improvement of both regional productivity and price competitiveness.

Figure 4-9 Trends of Exportation in the World and in Asia



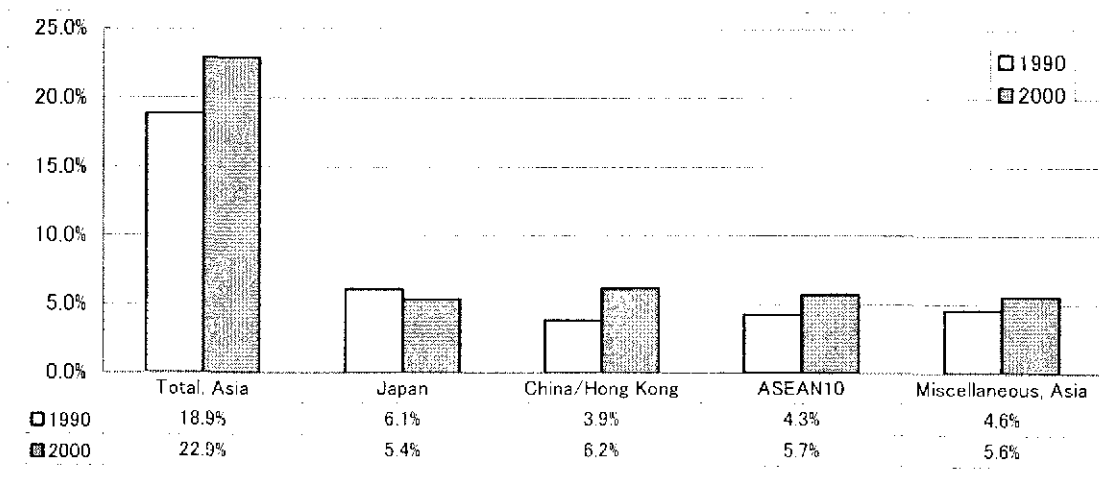
Source: prepared by the JICA study team, based on the data available in the World Bank

Figure 4-10 Export Growth Rates by Principal Region in 1990s



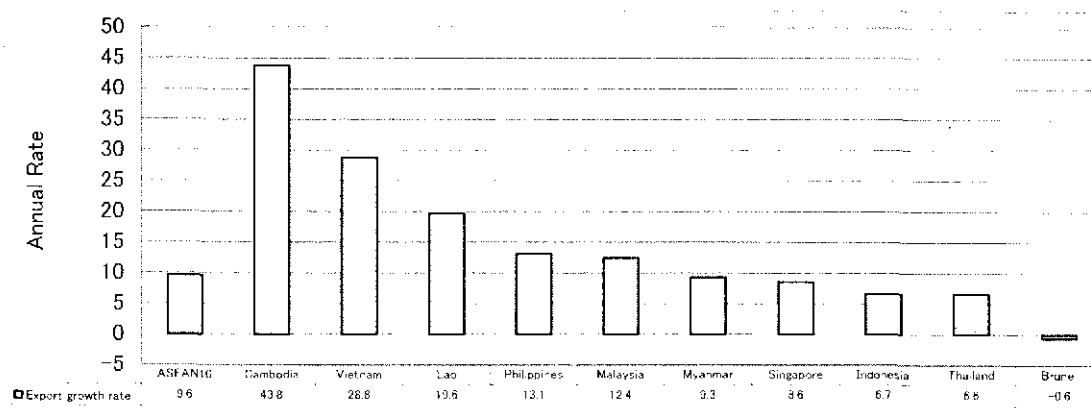
Source: prepared by the JICA study team, based on the data available in the World Bank

Figure 4-11 Share Occupied by Asia in World Trade



Source: prepared by the JICA study team, based on the data available in the World Bank

Figure 4-12 Export Growth Rates in ASEAN 10 for 1990s



Source: prepared by the JICA study team, based on the data available in the World Bank, etc.

For export growth rates by each of the ASEAN 10, furthermore, the three Indo-Chinese countries i.e. Cambodia, Vietnam and Laos, showed an outstandingly high increase in exportation throughout 1990s. In some cases, like Cambodia, however, a very high growth rate of trade arose from the fact that a very small turnover of trade only had been recorded before. Nevertheless, the exports from the region that had been newly incorporated in the regional economy showed a rapid increase as compared with Thailand, Indonesia and Singapore, all that had tested their economies in the ASEAN 10. Since they are certainly cost-competitive, the Indo-Chinese three countries may well be expected to economically develop similarly to the forerunning ASEAN member countries, if their export promotion environments are built up.

Although she has been recorded an annual export growth rate of 9.3%, Myanmar increased her exports at a rate less than half that of the post-running ASEAN countries, that is, Cambodia, Vietnam and Laos. This is considered significantly attributable to the fact

Myanmar has not built up her export environments yet. She is called upon, therefore, to take a full range of export promotion measures.

(4) Environments and trends of trade in Myanmar

From 1886 to 1948, Myanmar was in British territory. Since those days, Myanmar has been exporting natural resources, such as rice, freshwater fish, shrimps, marine products, beans, sesame, jute, hardwood, such as teak or the like, bamboo, rubber, precious stone and minerals, such as copper, lead, tin, etc. In addition, she has two major markets: People's Republic of China to the north and India to the west. And they were large food and wood markets.

In 1962, Myanmar became a socialist state, where self-sufficiency-oriented economic policies were taken on a centrally planned economy basis.

In 1988, the administration drifted to the current scheme, in which an "open-door policy" and a "market-oriented economy" were introduced in Myanmar. And the following fourteen items were implemented as economic policies to reform her economy:

- 1) Establish a foreign direct investment act and introduce foreign capitals.
- 2) Establish a state-owned enterprises act.
- 3) Implement a new banking act and introduce private and foreign capital banking institutions.
- 4) Newly reform the financing system.
- 5) Introduce a system to allow farmers to cultivate freely and liberalize agricultural product sales activities.
- 6) Decentralize the industrial sector by establishing the right for state-owned enterprise employers to autonomously manage their enterprises.
- 7) Encourage the private sector and re-establish the UMFCCL.
- 8) Abolish price control and reduce subsidies to national organizations.
- 9) Start restructuring systems and schemes.
- 10) Introduce a new taxation system and smooth the collection of taxes.
- 11) Improve the infrastructure.
- 12) Reform wages and prices.
- 13) Limit the utilization of land in fallow and marshland to 5000 acres for primary product promotion.
- 14) Promote exportation by making the existing export proceedings more efficient while diversifying a range of export goods by developing new products.

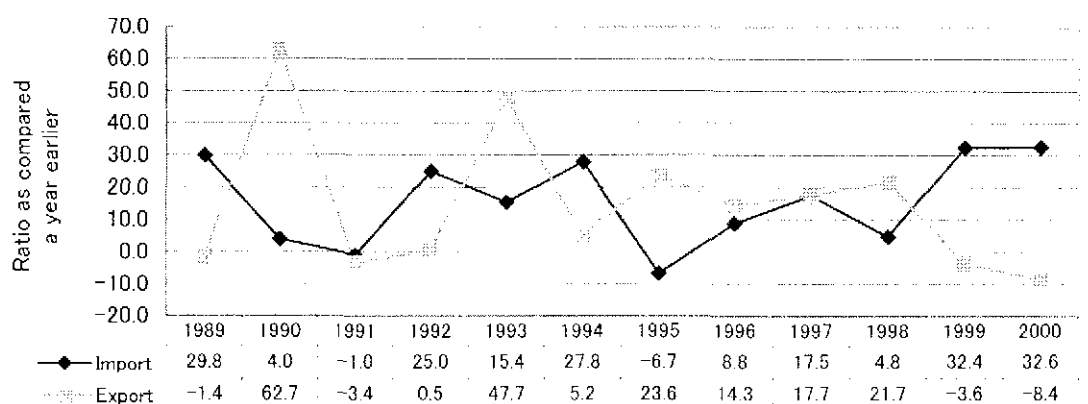
Out of the measures enumerated above, the reform directly related with exportation is

- 15) Promoting exportation by making the existing export proceedings more efficiency while diversifying a range of export goods by developing new products

As a result of taking such policies, Myanmar increased her exports at an annual rate of 15% on a Kyat basis from 1998 to 2000, coupled with the economic growth in Asian (an annual growth rate of 9.3% from 1990 to 2000 on a US dollar basis according to the IMF statistics already referred to). This growth rate exceeded an annual export growth at 13%. Nevertheless, the trade deficit continued and amounted to 3,036 million Kyat in 2000. For 1990 and 1991, Myanmar had the trade deficit exceed the total export value because of the "import first policy" and of an increase in importation of machinery and raw materials. In addition, her trade deficiency from 1995 to 1998 was also larger than the total export because of a rapid increase in importation, coupled with the growing economy overheated on those days when Vietnam and Myanmar enjoyed a boom. As referred to later, Myanmar has not built up export environments fully while showing a strong demand for importation. Besides, her import substitute industries have not developed sufficiently yet. Consequently, Myanmar has a strong inclination to have a trade deficit.

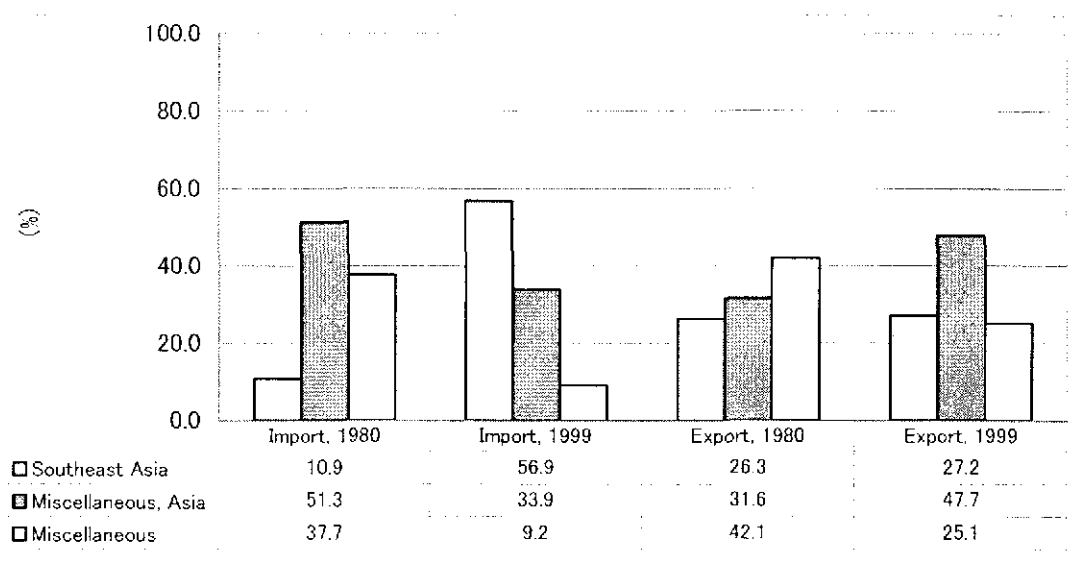
A regional configuration of export/import opponent countries showed a remarkable change. In this sense, three points may be pointed out as regional changes in configuration of Myanmar's trade between 1980 and 1999. The first is a rapid increase in importation from the Southeast Asia, the second an increase in exportation to Asia other than the Southeast and a steep decrease in trade with any areas other than Asia. For 2000, Myanmar mainly exported to Thailand (13%), USA (13%), China/Hong Kong (12%), India (8%), Singapore (5%) and so on. For 2000, she exported mainly to Singapore (24%), China /Hong Kong (17%), Thailand (12%), Korea (12%), Japan (8%), etc. In reality, the current trends are being carried on a flow of regional economic integration rather than globalization. A region with a poor suite of export means, like Myanmar, has difficulties in improving the trade balance, because a rather significant acceptance of imports from neighboring countries would not always be accompanied by the proportional exportation. An adverse balance of trade, therefore, would not improve with ease.

Figure 4-13 Export and Import Growth Rates in Myanmar



Source: prepared by the JICA study team, based on the data available in the World Bank, etc.

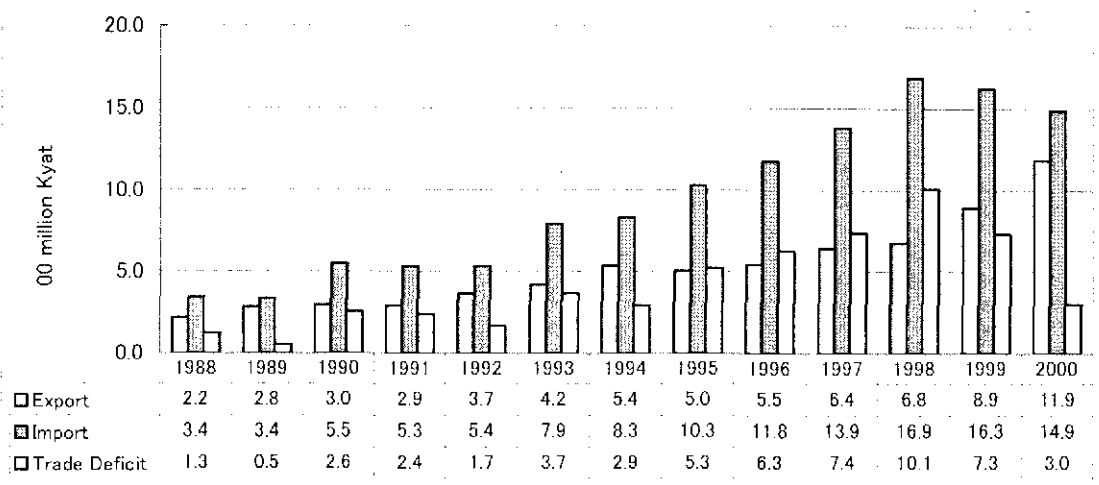
Figure 4-14 Regional Changes by Export/Import Opponent for Myanmar



Source: prepared by the JICA study team, based on the data available in the World Bank, Asian Development Bank, etc.

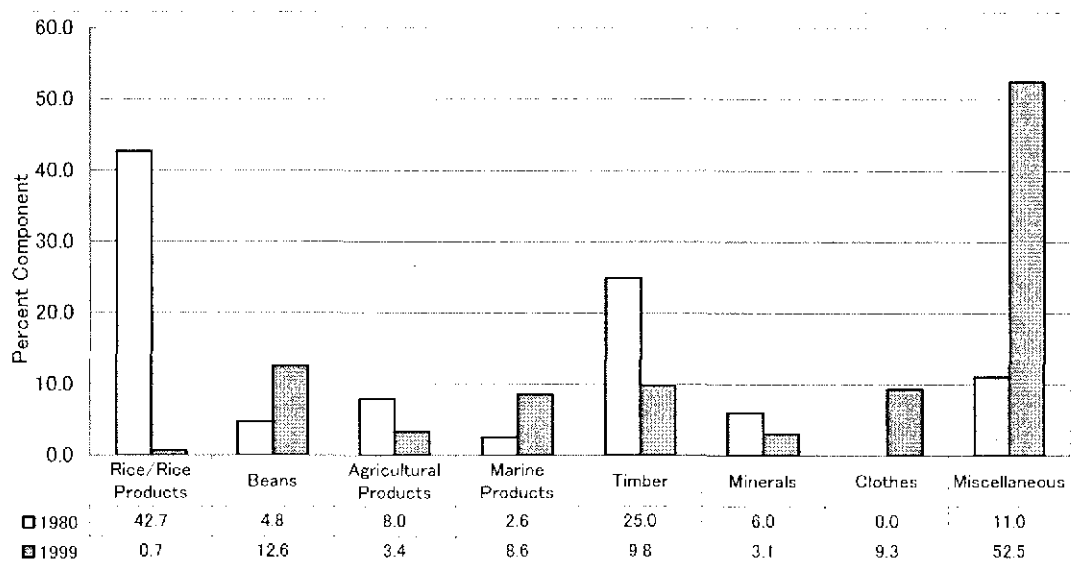
Main export items have also changed in a great measure between 1980s and 1990s. In 1980s, Myanmar mainly exported rice and rice products, which occupied 42% of her total export, followed by wood-related products, ores and beans. These four items occupied approximately 80%. In 1999, the rice ranked so far always at the top showed a significant decrease in the main export items, occupying 0.7% only while timber dropped from 25% to less than 10% and ores from 6% to 3%. Beans and marine products, on the other hand, showed a slight increase in component ratio of Myanmar's total exports. And the clothes that had counted at zero in 1980 occupied 9% of her total exports for 1999. An increase, furthermore, has been seen in those items which were not included in the main items so far and miscellaneous items exceeded 5% of her total exports. They will be analyzed in detail item by item later.

Figure 4-15 Trade Balance Trends



Source: prepared by the JICA study team, based on the data available in the Myanmar Government, etc.

Figure 4-16 A Time-Series of Changes in Principal Export Items in Myanmar



Source: prepared by the JICA study team, based on the data available in the Myanmar Government

4.1.2 Myanmar's Trade Policy

(1) Myanmar's basic trade policy

Myanmar has her trade policy focused mainly on the points referred to below.

As described later, however, these policies have significant discrepancies from trade practices. The export master plan, therefore, has focused on reconstructing a trade policy as tailored to the trade practices.

- 1) An import substitute policy and an export promotion policy are fundamental to

Myanmar's trade policies.

- 2) A private enterprise is allowed to be engaged in the trade business in accordance with the rules and regulations relating to import and export.
- 3) A private enterprise is called upon to follow the "Export First" principle. Those who own different foreign currencies have not been allowed to transfer their accounts to each other (account transfer) since 2001 from the viewpoint of securing a dollar account required for importation. Dollar accounts except for an import one, however, have been being transferred practically.
- 4) Mainly from a domestic food control point of view, it is provided that state-owned enterprises only shall be allowed to 32 items, such as rice and rice products. Except for these control items, all goods are allowed to be exported.
- 5) All private exporters and importers, including foreign trading firms, are required to obtain a license. This is required every time when an export or importer may export or import.
- 6) Priority import items are agricultural machineries, farming tools, fertilizers, food oils, industrial raw materials, machines/equipment, construction supplies, building materials and so on.
- 7) A private enterprise must import a certain quantity or more of the priority items. As referred to later, essential goods must be imported at 80% or more every time when an import is made.

(2) Principal rules and regulations relating to export/import business in Myanmar

Principal rules and regulations relating to the export/import business in Myanmar are referred to below. System-related or operation-related problems will be referred to later.

1) Export/Import License System

In accordance with the "Control of Imports and Exports Act, 1947" under the jurisdiction of the Ministry of Commerce, an exporter or an importer need obtain an export/import license and a permit from the Ministry of Commerce on every export/import transaction that may be closed. This act has been revised many times as required. At the same time, the Ministry of Commerce has been publishing an ordinance, regulation, notification or the like from time to time in relation to every matter involving the issuance of export/import licenses and permits.

An export/import license is generally valid for a period of 6 months and may be extended for another 3 months at a time.

2) Registration

Those who may be engaged in export/import business must be registered as exporter or importer in the Ministry of Commerce.

3) Exportable Items

Generally, the registered exporters/importers may export any items other than the principal thirty and several items which state-owned enterprises only are permitted to export (as detailed later).

4) Exported Dollar Framework for Importation

To import anything in Myanmar, the importer need to have a US dollar framework, which has been obtained from the exportation amounting to the same value as that to be imported. Since 2001, the account transfer has been prohibited, or an importer has been prohibited from buying any exported dollar framework owned by an exporter.

5) Importable Items

Importation is of importance from two points of view. One is to meet the basic needs in the main sectors of the state economy, such as agriculture, livestock industry, fishery, forestry, haulage, manufacturing, mining and the like. The other is to meet the needs of consumers at a time. To this end, the Myanmar Government has divided import items into two categories. (Details involved will be described later.)

Essential Goods: First-priority import items, such as agricultural machineries, farming tools, fertilizers, food oils, industrial raw materials, machinery/equipment, construction items, building materials, etc.

Non-essential goods: Personal belongings, household appliances, foodstuffs, construction materials, sewings, electric products and other goods in general.

It is necessary to normally set a ratio of essential and non-essential goods to a value of imports to 80 :20. Nevertheless, an import is neither quantitatively limited nor has an upper limit.

6) Import-banned items are amended from time to time in line with the trends on the domestic market in addition to those specified under the international law. This is a very cloudy point. To reduce the trade imbalance and to improve the operating balance, import items are limited.

7) Customs duties

The 5,472 tariff items include 4,558 essential and 718 non-essential items. And there are another 718 items banned to import. They, respectively, occupy 83.3%, 13.1% and 3.6%.

8) Quota

At present, sewings have an export quota fixed on an importing country by importing country basis. With the sewings excepted, there is not any Myanmar product that has had an export quota or upper limit of export quantity fixed.

9) Fee and Tax

An export license is fee-free. An export tax is imposed at 5% thru 10% on five items, including rice and beans. An export effected, furthermore, has an 8% commerce tax and a 2% income tax levied. These taxes are nicknamed "Export Tax."

An import is required to pay license fees, customs duties and commerce tax. The license fee is charged within a range of minimum 250 Kyat to 50,000 Kyat according to the monetary value of the goods imported on a CIF basis. Customs duties are established within a range of 0% thru 40%. The customs duties for raw materials are low while those for luxurious goods are high. Since January 1999, the goods imported from the ASEAN member countries are imposed with customs duties at a tariff of 0% thru 5%. The commerce tax is levied at 5%, 10%, 20% or 25% in accordance with the 1991 Commerce Tax Act.

10) Assessing a Taxable Value:

A taxable value is a sum of the CIF price plus a landing charge (5% of the CIF value). Since January 2002, a taxable value has reportedly come to be assessed on a GATT basis. Nevertheless, the assessment has not been made so expressly yet.

11) Temporary Import

Those items, such as raw materials and the like, which shall be imported temporally, are duty-free for a period of two years under the condition that they shall be re-exported.

12) Repayment

Taxes, customs duties and any other levies may have been paid beyond a reasonable tariff of imported goods on account of an inappropriate exchange rate or tax rate, and/or of a shortage for/damage to goods, will be repaid at the importer's request. It is necessary for the importer to apply for the request within a period of 3 months following the date at which such taxes, customs duties and levies were paid.

As far as the rules and regulations relating to the export/import business in Myanmar are concerned, there are a lot of issues considered problematical from an export promotion point of view as referred to above. Typically problematical points include paper work to acquire licenses, export income frame for importation, restrictions on importation of non-essential goods and essential goods and export barriers, such as export tax or the like.

4.1.3 Policy- and Institution-Related Problems, and their Causes

(1) Confirmation of the major steps of the export process flow

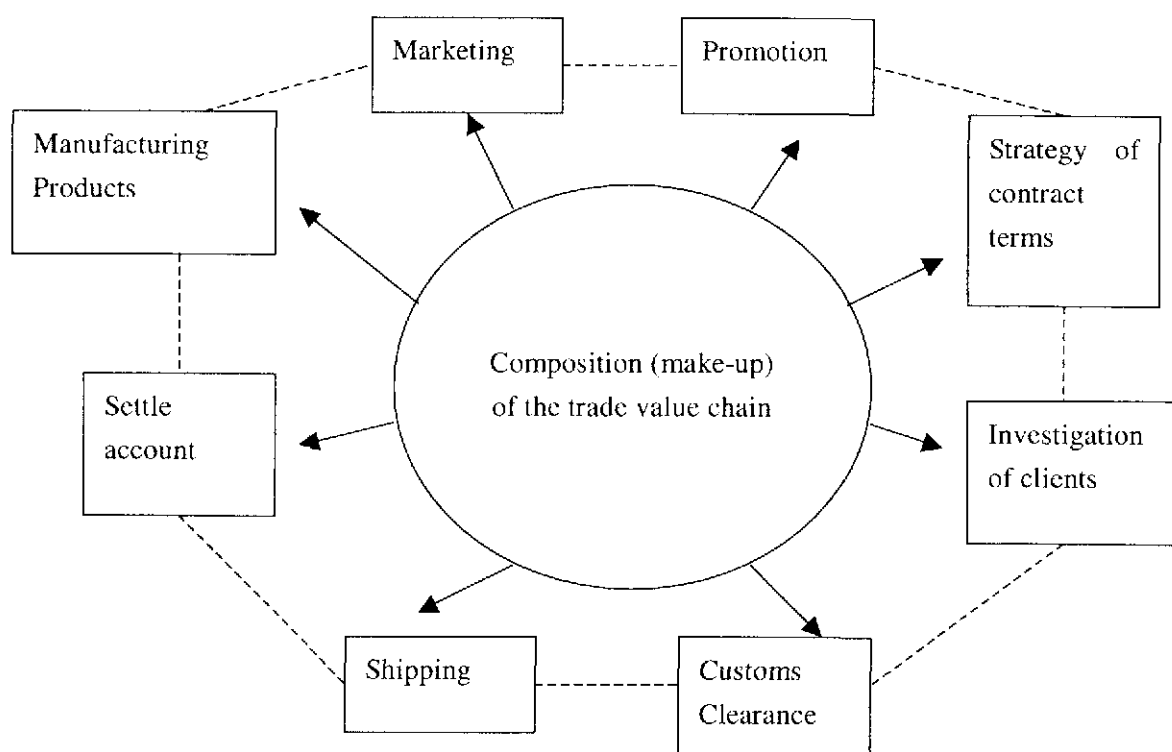
The export process is generally performed in the following sequence of steps.

- * Survey of external markets and sales promotion
- * Establishment of transaction terms
- * Response to inquiries and investigation of credit standing

- * Receipt of orders and contracting (business procedures)
- * Inspection and customs clearance procedures
- * Settlement and assurance of profit

This sequence of steps can be smoothly executed with the support of an institutional infrastructure designed to promote export. Conversely, exporters in countries where the sequence cannot be smoothly executed are saddled with an extra burden of time and cost, and must compete with counterparts in others which do not have this burden. This section consists of a close examination of work in each of these steps, and delineates the problems to export promotion in Myanmar and their causes.

Figure 4-17 Analysis of the Current Status in Accordance with the Trade Value Chain



Source: JICA Study Team

(2) Problems and their causes in each step of the export process flow

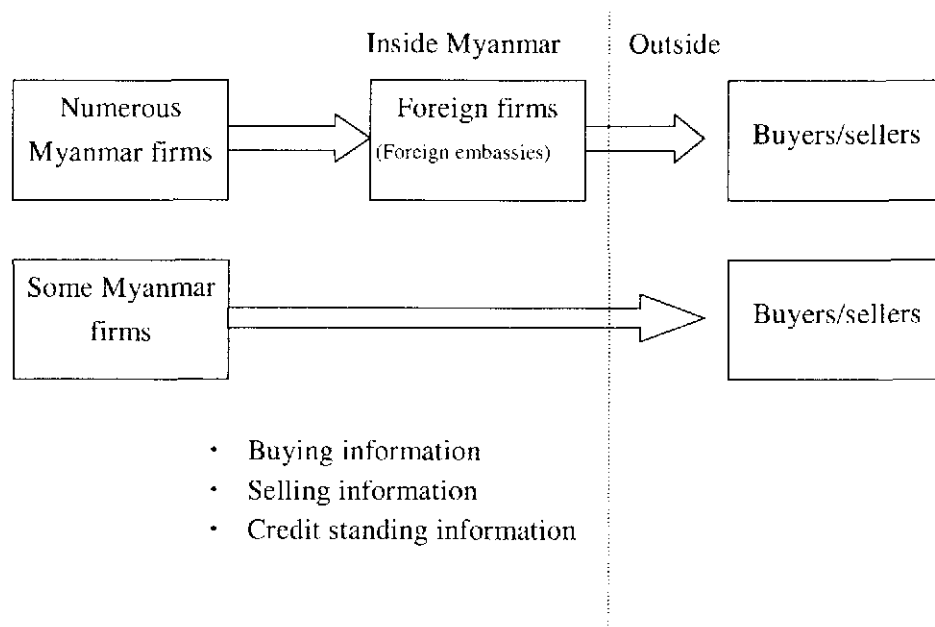
1) Current status and problems related to the survey of external markets and sales promotion in Myanmar

i) Acquisition of information on overseas products, markets, and firms in Myanmar

In Myanmar, there are no public institutions or survey organizations providing information on products, markets, and firms in other countries. It is consequently difficult for exporters to acquire such information. Furthermore, independent survey work is made impossible by the lack of external trade statistics and foreign directories as well as the limited

access to websites and the Internet in general. As a result, exporters must rely on resident foreign firms and existing clients in other countries to collect information for them. This information deficiency puts great constraints on efforts to expand export.

Figure 4-18 Current Status of Information Access among Firms in Myanmar



Source: prepared by the JICA study team based on interview data

Generally speaking, information is needed on the following items in external markets.

- * Product characteristics
- * Product standards
- * Trade partner country (market scale, economic power, industry, financing, etc.)
- * Commercial conventions and practices
- * Structure of distribution (commercial and physical)
- * Transaction partners, etc.

The table below shows the ordinary means of accessing such information and their availability in Myanmar at present.

Table 4-17 Rating of the Availability of Means of Access to Overseas Information in Myanmar

Means of foreign information access	Current availability in Myanmar
1. Related firms and transaction partners	◎ (However, contact points are limited)
2. Statistical materials	○ (However, quality is lower than other countries)
3. Specialized journals and industry papers	○ (However, variety is less than other countries)
4. Trade-related institutions	◎ (However, contact points are limited)
5. Survey firms	○ (However, it costs for private companies to consign consultants)
6. Overseas travel	○ (However, it takes a time and limits to passport)
7. Participation in overseas trade fairs	○ (However, it takes a time and limits to passport)
8. Internet websites	○ (However, it costs a lot for private companies to use it. Deposit is 500US\$, Admission fee is 300US\$, Monthly use fee is/150US\$, Costs of set up is 300US\$, Service charge for support is 20US\$ one time)

◎: fully available in Myanmar

○: available in Myanmar, but not fully

Source: prepared by the JICA study team based on interview data

ii) Acquisition of passports and departure forms by employees

It is not easy for employees to obtain passports, and this limits international business trips for the purpose of gathering information and engaging in talks. Ordinarily, business passports can be obtained only by three persons in a single company (managing director and certain other executives). They are issued by the Ministry of Home Affairs and it normally takes more than one month to receive them. It is relatively easy to obtain one for trips to Thailand, for example, but not to countries such as Japan and the United States due to visa issues. Business passports are valid for a period of one and a half years, but must be renewed every six months whether the holder makes an overseas trip within six months or not.

Acquisition of a business passport requires submission of numerous documentation providing information on the applicant's company, the company in the destination country, the transaction, and other items. Besides the passport, it is also necessary to obtain a departure form by the Ministry of Immigration and Population. Acquisition of a departure form requires documentation of local tax clearance in township, that of corporation income tax clearance in tax office and that of individual income tax clearance.

In this way, procedural complexity hampers the prompt gathering of information.

iii) Trade-related human resources and their quality

While Myanmar has an abundance of natural resources, many interviewees were of the opinion that its processed products were not up to the standards in the Japanese market. There is a shortage of the engineers needed to increase the value-added level of processed lumber and food products. Similarly, trade-related human resources are in short supply, and this impedes an aggressive development of business. However, labor costs are much lower than other Asian countries including China. Myanmar should concentrate on attracting FDI for natural and human resource based industries for export promotion with training engineers.

iv) Requisite facilities and machines

There is a shortage of requisite facilities and machines to meet the standard in the advanced countries such as Japan. There is not a financial support for installment of new facilities.

* Example: The case of a Myanmar firm engaged in lumber processing and export

The firm's factory processes logs into rectangular lumber and exports it as material for flooring. To date, its main export destinations have been Thailand, China, and Bangladesh. In its search for new buyers, it usually makes use of its existing connections. It sends staff on business trips to Thailand and other countries, and utilizes the Internet in Thailand. It is difficult for it to find buyers in new countries. Because it would have trouble meeting standards of quality for developed-country markets such as Japan, its products are processed in Bangkok before shipment to the export market. In Myanmar's accounts, this business is considered export to Thailand.

The management issues of this firm are as follows.

- * Requirement for improved quality: 1) experts, 2) capital investment in processing facilities, and 3) stable supply of electrical power, 4) technology and 5) marketing
- * Frequent changes in rules and regulations
- * Difficulty of cultivating new markets because of the lack of information on other countries

2) Current status and problems in the survey of external markets and sales promotion in Myanmar

i) Items of export restriction

Myanmar prohibits export of the 31 items for overseas and 32 items for overland. The purposes of the export restrictions are as follows: 1) maintenance of domestic resources, 2) resolution of domestic shortages.

Although export of these items is therefore monopolized by state enterprises, private-sector trading firms often execute the actual trade on commission (i.e., consignment) from the government. However, the competitiveness of this export is generally brought down by various factors, including the designation of asking prices without regard to the

levels in the international market and inability to provide timely responses to inquiries from buyers. As viewed from the aspect of export promotion, for many of these items, export would reportedly increase more smoothly if it were left completely to the private sector. Many interviewees wanted to see a relaxation of these regulations to permit expanded export. It also must be realized that arrangements which run counter to the preferences of consumers and the business motivations of private firms cannot last for long.

For example, private firms used to export a total of about 100,000 tons of sesame (seeds) per year and made Myanmar one of the world's largest exporters of this commodity. It also had a 20-percent share of the sesame market in Japan. Nevertheless, Myanmar has a high import of palm oil, and restricted export of sesame to encourage the domestic production and circulation of sesame oil to replace this import. Because the people of Myanmar do not prefer sesame oil or sesame oil is too expensive, consumption of it is not experiencing significant growth, and the restrictions cut earnings of dollars from export of the seeds. Furthermore, whereas sesame commanded a price of around 500 dollars per ton when exported, it had no chance of bringing such prices in the domestic market, and this greatly diminished farmer inclinations to grow it. Meanwhile, palm oil is imported for about 400 dollars per ton, and export of the two tons of seeds needed to produce one ton of sesame oil would bring an income of 1,000 dollars. Therefore, the switch from palm oil to sesame oil translates into an export decrease of 600 dollars per ton of edible oil.

Table 4-18 Export of Sesame Oil and Import of Palm Oil

Sesame oil export and production cost	Palm oil import price
Price in export to Japan: 500US\$/t	Price of import of 1 ton of palm oil: 400US\$/t
Sesame seed quantity required for production of 1 ton of sesame oil: 2 tons	
Conversion of the sesame seed quantity required for production of 1 ton of oil to the export price: 1,000US\$/2t	

Source: prepared by the JICA survey team based on interview data

List of items subject to export restrictions

(Agricultural products)

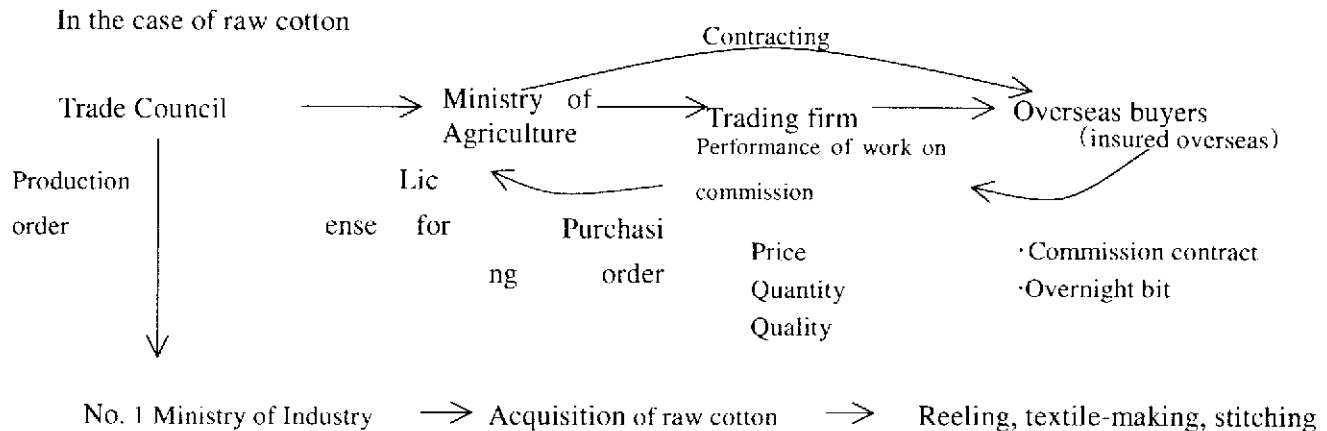
- 1 – Rice, Broken rice, Rice bran
- 2 – White sugar, Red sugar, Brown sugar
- 3 – Brown slab-sugar (Deregulated in 2002)
- 4 – Groundnut, Groundnut oil
- 5 – Sesame and Sesame oil (20% share of the Japanese market up to around 1994)
- 6 – Groundnut cake and Sesame cake
- 7 – Gram (Deregulated in 2002)
- 8 – Cotton and Cotton products
- 9 – Mustard and Mustard oil (Deregulated in 1999)
- 10 – Sunflower seeds and Sunflower seeds oil (Deregulated in 1999)

11 – Niger seeds and Niger seeds oil	(Deregulated in 1999)
(Minerals and metals)	
12 – Petroleum	
13 – Gems and Jewelry	
14 – Gold	
15 – Jade	
16 – Pearl	
17 – Diamond	
18 – Lead	
19 – Tin	
20 – Wolfram	
21 – Tin scheelite	
22 – Silver	
23 – Bronze	
24 – Zinc	
25 – Coal	
26 – Other minerals and metals	
(Animal and Animal Products)	
27 – Ivory	
28 – Buffalo, Cow, Elephant, Horse and rare animals	
29 – Leather	
(Marine Products)	
30 – Shrimp bran	
(Miscellaneous)	
31 – Arms and ammunitions	
32 – Antiques	
(Forest Products)	
33 – Rubber	
34 – Teak	Restricted only for overland export)

Reference: mechanism and problems of export of items subject to export restrictions

- Inability to react to purchase orders such as overnight bids from overseas
- Price indications by the government that are divorced from international levels
- Lack of policy consistency between the domestic production system and raw cotton export

Figure 4-19 Status of Export of Items Subject to Export Restrictions

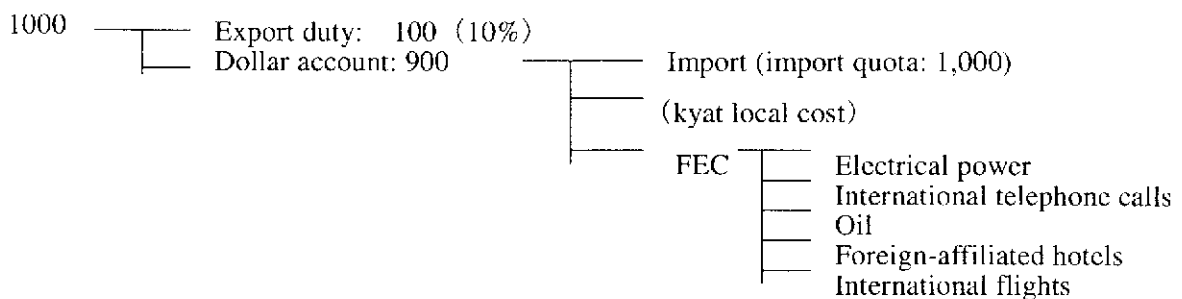


Source: prepared by the JICA study team based on interview data

ii) Export duty (8-percent commercial tax plus 2-percent income tax) and dollar account for import

The government has imposed an 8-percent commercial tax and 2-percent income tax on export sales of ordinary items not on the list of items for export promotion (Notification # 29/99, dated on Jan. 1st, 1999). This taxation squeezes profit in export business and also lowers the competitiveness of Myanmar products in the international market.

Figure 4-20 Case of Sales Proceeds from Export (Figures Indicate Dollars)



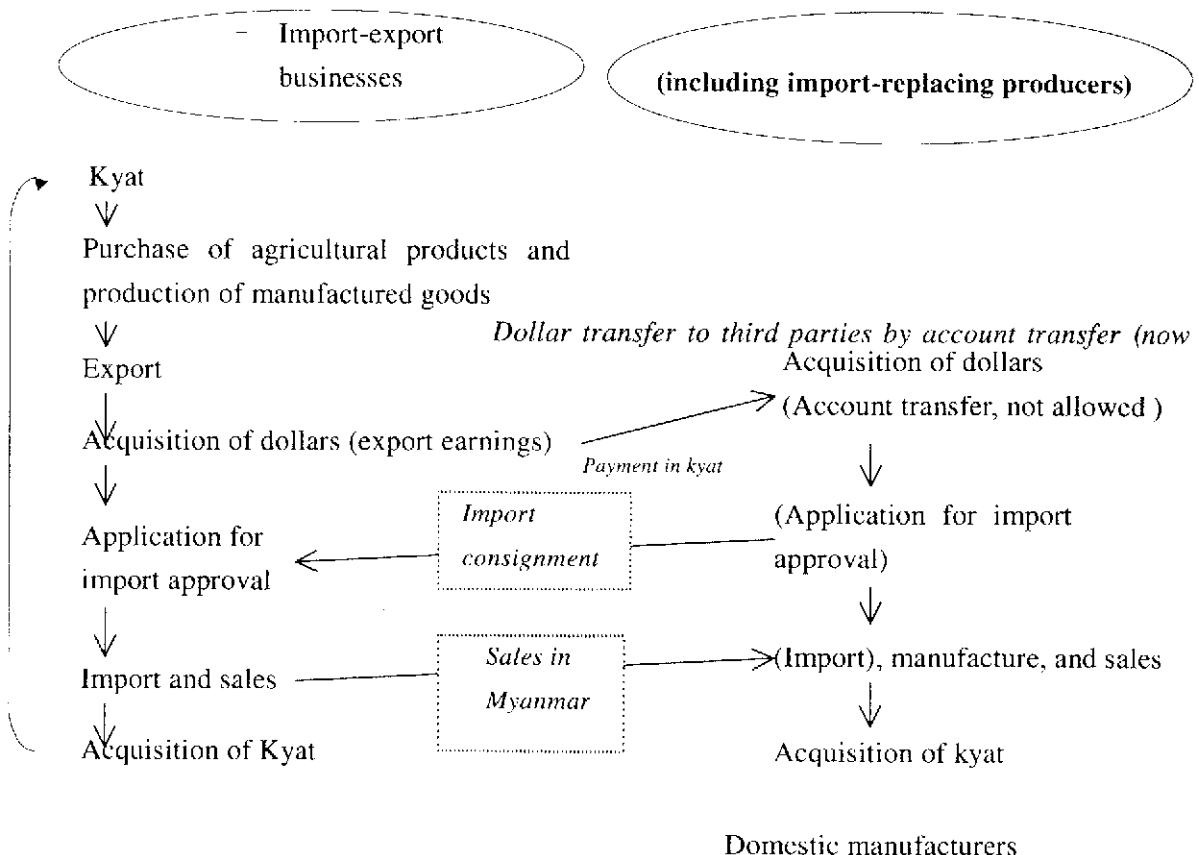
Source: prepared by the JICA study team based on interview data

In addition, all import activities require proof of an export-earned dollar account commensurate with the amount of import. Dollar accounts resting on export income are evidenced by export licenses, invoices, letters of credit, etc.

Funding from other sources can also be counted as part of the import dollar quota, as follows.

- * Ability to import for up to (but less than) 75 percent of capital movement from other countries in accordance with the law on foreign investment
- * Ability to import for up to (but less than) 90 percent of remittances from overseas

Figure 4-21 Flow of Trade (Import and Export) in Myanmar



Source: prepared by the JICA study team

iii) Items of import restriction and limits on import quantity

While the export dollar account opens the door to import, import must retain a composition of (no less than) 80 percent essential goods and (no more than) 20 percent non-essential goods. The import dollar quota is defined by the sales proceeds (in dollars) before payment of export duties. At every phase in utilization of the import quota, import of essential goods is accorded precedence. Because the list of essential goods contains virtually all kinds of products other than luxuries, including consumer goods, intermediate goods, and materials, the problem as viewed from the standpoint of import control lies in the inefficiency of enforcing this complicated quantitative rule about import composition.

As for the list of items subject to import restrictions, the government has clearly stated that it is subject to change depending on the trends in the market. Currently, 14 items are subject to import controls (15 items in the case of transborder trade). The 1998 Myanmar Export/Import Rules and Regulations lists ten items in the food product category, including spices and soft drinks. In the category of mechanical parts and machine equipments, import of used items is restricted. Several years ago, the government planned to import new

machines from an Indian company. The Indian company cheated the government and exported used machines. This restriction will hinder foreign direct investment for labor intensive industry. It is now the practice in countries with high labor costs to move existing factories to countries with low labor costs. In reality, however, importers sometimes import used items as new ones.

Table 4-19 Mechanism of the Import Quota

Import quota		Case 1	Case 2				Case 3			
		Import in a single shipment	Import in more than one shipment				Import in more than one shipment			
			1	2	3	Total	1	2	3	Total
1000 US\$	Non-essential -20% • US\$200	US\$200	100	50	50	US\$200	100	100	0	US\$200
	Essential -80% • US\$800	US\$800	400	200	200	US\$800	400	200	200	US\$800
Permitted/not permitted		○	○				×			

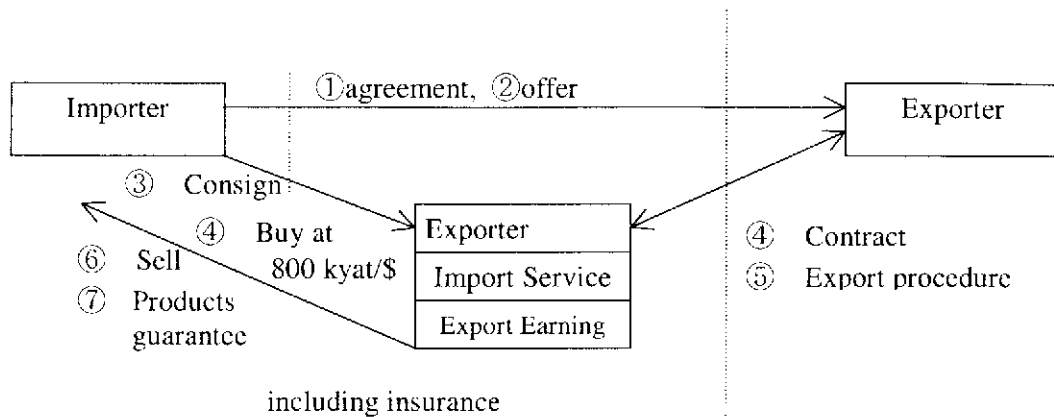
Reference: Essential goods should be imported advanced and non-essential goods can be imported.

Source: prepared by the JICA study team based on interview data

iv) Changes in import business

Importers and manufacturers of import-replacing goods have been allowed to purchase dollar accounts from exporters, but are now beginning to consign import work to exporters because such transfer was not allowed since July 2001. This suggests that the quality of the import services delivered by exporters may very well determine whether or not trade can be smoothly conducted.

Figure 4-22 Import System



Source: JICA study team

v) Recorded price for duties

The taxable amount for import and export duties is determined by the trade recorded price based on the "special notification of export or import" made twice per month. It is also called the "floor price." Businesses must make notification of prices in excess of it. This price does not necessarily reflect the actual prices in the market, and therefore can impede import and export activities. For example, if the market price plunges without a corresponding revision of the recorded price, a big gap will open up between the two. This would compel import to be made at exorbitant prices and erase or deal a great blow to export competitiveness. In the case of import, businesses reportedly cope by asking their transaction partners to present a higher price. Conversely, if market prices suddenly jump, trade can be conducted at them. This is said to be done as a measure to counter undervalued declarations by private firms. Putting aside the pros and cons of this mechanism, it may be regarded as tightening official control over tax evasion. Nevertheless, although the government is, in a sense, setting prices on the basis of actual transactions, this kind of price control is working against swift business action by private firms in a market economy keyed by globally interlinked price movements.

vi) Frequent policy and institutional changes and sudden notifications

Various institutions (systemic provisions) and regulations related to trade are subject to frequent alteration. Moreover, concerned parties may be notified of decisions to halt transport of certain materials, for example, orally and without any advance notice. Such practices greatly detract from Myanmar's credibility among trade partners. In one case, a vessel that had been loaded with products for export was suddenly forbidden to leave port by the government for reason of a supply-demand imbalance in the domestic market. In another, the government suddenly halted acceptance of a certain imported product after the firm had

gone through the process of acquiring a dollar account, opening a letter of credit, and having the product transported from the exporting country. Such changes without sufficient advance notice can make it impossible to do business.

"Trade News" is published by the government twice a month and contains articles on matters such as policy and institutional modifications and trade-related issues. In reality, however, there is a time lag between its publication and the effectuation of provisions due to delays involving the former, and this triggers complaints among private firms. Some interviewees also indicated that the publication of English-language materials was tardy.

**Table 4-20 Major Changes in Export-import Policy
and Foreign Currency Regulations since the Asian Currency Crisis**

	Changes in export-import policy	Controls on export-import transactions	Controls on foreign currency and exchange
July 1997	Instatement of the "export first" line		Limitation of foreign-currency remittances secured with FEC to no more than US\$50,000 per month
November			Dollar settlement in transborder trade
December		Imposition of a 2% export tax on all export items	
March 1998		Limitation of import of non-essential goods to no more than 20% of the total import amount	
March		Addition of nine items, including alcoholic beverages, to the list of items for which import is banned	
March		Imposition of a 2% service fee on imported cargo in line with the CMP formula	
March		Imposition of a 10% handling fee on export in transborder trade	
March			Abolition of the foreign exchange business at nine private banks
March		National control of export of sesame seed, peanuts, and other nuts	
July		- Imposition of a requirement to obtain an import license on all foreign firms	
August		Abolition of the exemption from the requirement to obtain an export-import license that had been granted to national institutions and state enterprises	
November		Prohibition of sesame seed export	
January 1999		Imposition of an 8% commercial tax on all export items	
April			Limitation of foreign-currency remittances secured with FEC to no more than US\$30,000 per month

August 2000			Limitation of foreign-currency remittances secured with FEC to no more than US\$10,000 per month
August			Compulsory sale of 40 percent of all foreign currency earnings from export of shrimp to the marine
June 2001		Tightening of regulations on import licensing	
June			Prohibition of transfer of dollars between bank accounts
August			Compulsory exchange of foreign currency earnings of CMP exporters at the FEC rate
April 2002		Prohibition of engagement in trade business by foreign-affiliated firms	

Source: JICA Study Team

vii) Official policy intentions not conveyed to the private sector

There is some exchange of opinion between the government and private-sector groups, but there are no forums for frequent and regular discussion, and the official intentions behind policy and institutional adjustments are not conveyed to private firms. This situation is exacerbating problems.

3) Current status and problems related to response to inquiries and investigation of credit standing

Due to the undersupply of services in credit investigation in Myanmar, businesses must depend on resident foreign firms to investigate the credit standing of overseas firms. Inquiries about credibility are normally made to commercial credit bureaus and client banks, but it is impossible to do so in Myanmar. When Myanmar firms are faced with problems such as incurring loss in trade, they come to the UMFCFI for consultation. A recent case involved a Myanmar importer wanting to import from a Pakistani company. The importer thought the requisite documents were in order and transferred the import fees to Pakistan, but failed to receive the goods. In this case, there were various problems: the bill of lading (BL) had a low credibility because it was signed by an unknown agent instead of the shipper, the bank which opened the letter of credit was not of sufficient standing, and there had been no rating of the credit standing of the exporter. There have also been reverse cases in which Myanmar exporters have incurred loss.

The following table summarizes the ordinary means of obtaining information on the credit standing of overseas firms and their availability in Myanmar.

Rating of the availability of means of obtaining information on the credit standing of overseas firms in Myanmar.

Table 4-21 Availability of Obtaining Information on Credit Standing in Myanmar

Means of obtaining information on credit standing	Availability in Myanmar
1. Client banks	△
2. Businesses in the same industry	○
3. Dedicated credit investigation agencies	△
4. Ratings of credit standing in directories, etc.	△
5. Registers of overseas trading firms in the trade insurance business (in the case of the Japanese government)	△

◎: fully available in Myanmar

○: available in Myanmar, but not fully

△: basically unavailable in Myanmar

Source: prepared by the JICA study team based on interview data

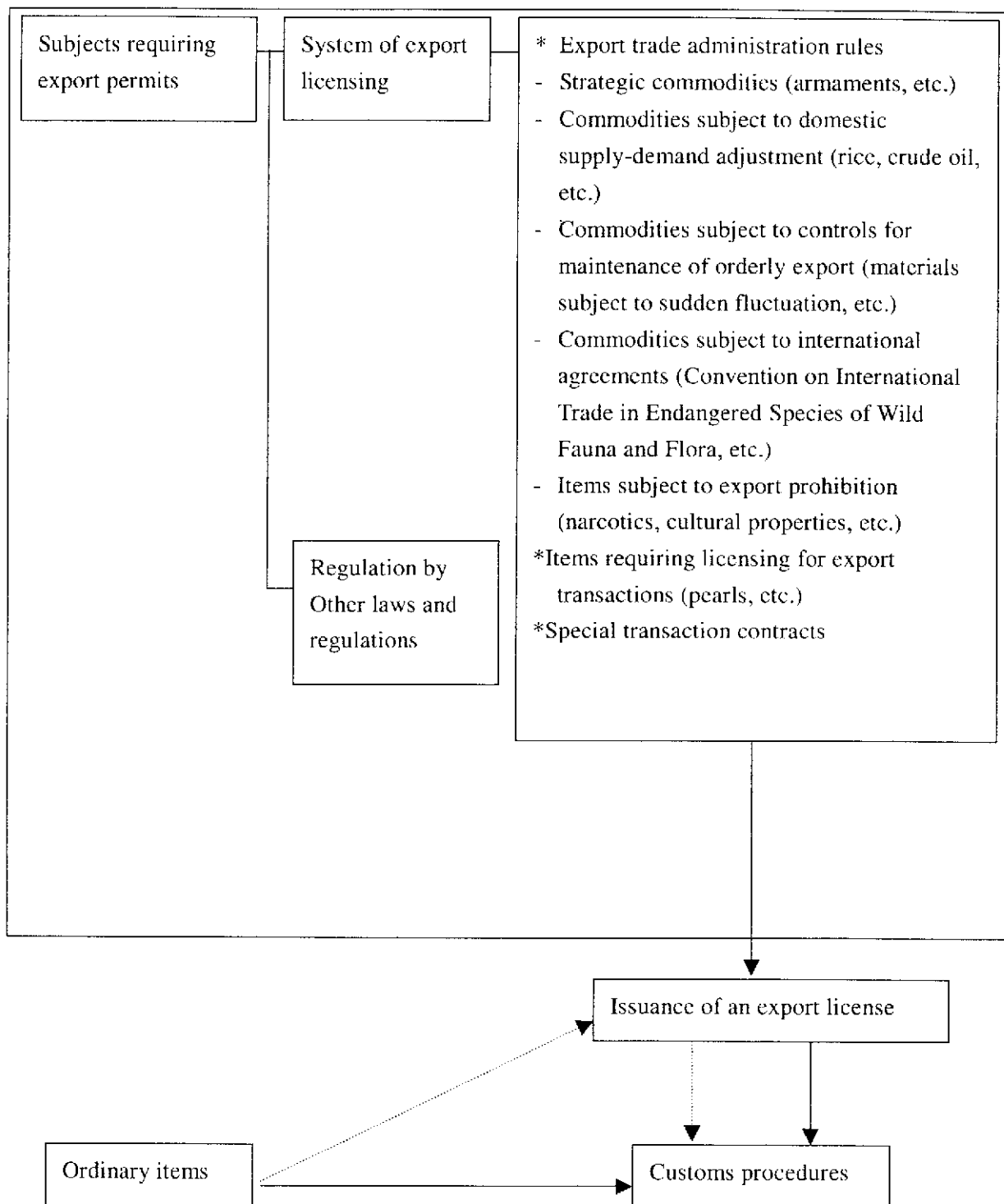
4) Current status and problems related to receipt of orders and trade (import-export) procedures

i) Acquisition of import-export licenses

In Japan and various other countries, no particular official permission is required for export of items that are not subject to export restrictions; they can be exported upon performance of the procedures for clearing customs, without licensing from the government. The means of declaration in customs clearance are written export declarations, customs-use invoices, packing lists, and (if necessary) catalogues, etc.

Myanmar, in contrast, requires indication of items, lots, prices, and transaction partners in the other country at each step of the export process (in addition to registration of the company intending to engage in import-export business) to obtain a license. This requirement complicates procedural work, which becomes inefficient and time-consuming as a result.

Figure 4-23 Scheme of Export Permit Procedures in Japan



Source: prepared by the JICA study team based on data from "Jissen Boeki Jitsumu Dairokuban" (Practical Trade Business, Edition 6), by Yoshihiro Kanda, published by the Japan External Trade Organization (JETRO) in January 2001. The solid lines indicate the flow of export licensing in Japan, and the broken lines, that in Myanmar.

Documentation required for obtaining an export license in Myanmar

- 1 Application sheet for E/L
- 2 Sales Contract
- 3 Permit to Trade issued by Ministry of National Planning and Economic Development
- 4 Exporter/Importer registration issued by Min of Commerce
- 5 Form VI (Return of Allotment)
- 6 Form XXVI (Board of Directors registration)
- 7 Company Registration
- 8 UMFCCI membership

Steps in the process of obtaining an export license in Myanmar

- 1 Manager
- 2 Assistant Director
- 3 Deputy Director
- 4 Director
- 5 Licensing Supervisory Committee (Trade Council)
- 6 Prepare the export license
- 7 After sign by Deputy Director
- 8 License No. to be issued
- 9 Check again by Supervisor
- 10 Assistant Director
- 11 License to be issued

Documentation required for obtaining an import license in Myanmar

- 1 Application sheet for I/L
- 2 Copy of Invoice or Purchase Contract
- 3 Undertaking Letter confirming that the price is a actual price
- 4 Explanation for the product to be imported (the application of the product)
- 5 Statement of which export earning to be used for the import applying
- 6 TT remittance copy (proof of money received against export)
- 7 BE Form (export declaration issued by the custom office)
- 8 B/L (for export)
- 9 Invoice (for export)
- 10 Export License
- 11 Proof from the bank (paid export tax already)
- 12 Permit to Trade issued by Ministry of National Planning and Economic Development
- 13 Exporter/Importer registration issued by Min of Commerce
- 14 Form VI (Return of Allotment)
- 15 Form XXVI (Board of Directors registration)
- 16 Company Registration
- 17 UMFCFI membership
- 18 Bank Passport

Steps in the process of obtaining an import license in Myanmar

- 1 Manager
- 2 Assistant Director
- 3 Deputy Director
- 4 Director
- 5 Licensing Supervisory Committee(Trade council)
- 6 Pay the license fee
- 7 Assistant Director
- 8 After sign by Deputy Director
- 9 License No. to be issued
- 10 Check again by Supervisor
- 11 Assistant Director
- 12 License to be issued

ii) Opening of letters of credit

In opening a letter of credit, Myanmar importers must confirm a 100-percent L/C or prepayment. This is a wide departure from international rules, and acts to impose a burden on buyers. Generally, buyers perform import procedures only after opening a letter of credit in accordance with purchasing orders. In Myanmar, on the other hand, an import license is obtained first because of the lack of certainty and stability surrounding it.

5) Current status and problems related to inspection and customs clearance procedures

Depending on the item of import or export, customs clearance takes time and is highly prone to error. Although these items are difficult to ascertain from statistics, foreign-affiliated firms mentioned practices suggesting a lack of equity, fairness, and transparency, such as a difference in efficiency and judgments in clearance work and inconsistency in examinations. There was also said to be absolutely no problem depending on the forwarder. It is said that persons having human connections with customs offices can pass examination and clearance works smoothly. Systemization of procedures is important.

A case in point is processed lumber products. They are items of export promotion and also simple manufactured goods, and consequently regarded as not requiring a lot of time for license issuance and inspection. In spite of this, it takes them about ten days to clear customs.

- i) Trade license (3 days)
- ii) Forest export license (2 days)
- iii) Other permission (country of origin, chemical test, etc.) (3 days)
- iv) Customs examination (2 days)
- v) Shipping
- Total: 10 days

Source: prepared by the JICA study team based on interview data

6) Current status and problems related to settlement and assurance of profit

i) Financial institutions of import-export settlement

Remittances of dollars from other countries are limited to three governmental banks: MFTB and MICB (handling for overseas trade) and MEB (handling for overland trade). Private banks were permitted to handle foreign currency over the years 1995 - 1998, but this permission was subsequently withdrawn because the government was not able to control the exchange. These three banks cannot swiftly process all financing associated with import-export business, and settlement consequently takes a very long time. It can also be noted that the work is not sufficiently computerized and has a low efficiency.

ii) Plural exchange rates and finalization of profit

In Myanmar, there is a complex system of exchange rates, as follows.

- a) Official rate and corporation tax: 6kyat/dollar
- b) Semi official rate: Import duty: 100 kyat/dollar (Essential goods)
150 kyat/dollar (semi-essential goods)
250 kyat/dollar (non-essential goods)
- c) Official FEC rate: 450kyat/dollar

- d) Market cash rate: 685kyat/dollar (30 August, 2001),
 735kyat/dollar (31 October, 2001)
 723kyat/dollar (27 December, 2001)
 775kyat/dollar (28 February, 2002)
 885kyat/dollar (27 June, 2002)
 1260 kyat/dollar (26 September, 2002)
- e) Market FEC rate: 665kyat/dollar (30 August, 2001)
 690kyat/dollar (31 October, 2001)
 693kyat/dollar (27 December, 2001)
 785kyat/dollar (28 February, 2002)
 775kyat/dollar (27 June, 2002)
 1180kyat/dollar (26 September, 2002)
- f) Consignment rate for essential goods: 790kyat/dollar (February, 2002)
 Importers consign exporters to import essential goods at the so-called bone price.
- g) Consignment rate for non-essential goods: 810kyat/dollar (February, 2002)
 Importers consign exporters to import non-essential goods at the so-called meat price.
- h) Service price for domestic dollar dominated income:
 The middle price between the market cash rate and the market FEC rate.
 The housing owners who rent their houses to foreigners can get dollars and they utilize these dollar accounts to transfer foreign companies who must pay FEC for IDD, etc.
- i) Honti price: Approximately market cash rate
 People living in foreign countries transfer foreign earnings to Myanmar at honti price actually.

This exchange rate complexity makes it harder to draft business plans. Taxable income under the corporation tax is calculated using the official rate of 6 Kyat per dollar. As a result, firms with dollar earnings from export have only a small amount of such taxable income on the Kyat basis. Some foreign companies say that a deemed corporation tax based on a deemed rate is applied to the sales proceeds on the Kyat basis. Because of this deemed taxation, there are some firms whose corporation tax has not been finalized for a long time. It is said that it is negotiable to have tax office hasten calculation. It is true that a corporate tax on export earnings is difficult for foreigners to understand.

Some are of the opinion that the export duty is imposed to compensate for dollar revenue earnings. However, it is not possible to compensate completely for the decrease, which leads to an overall tax revenue drop.

* Dollar-based sales proceeds x 6 Kyat = Kyat-based sales proceeds

* Kyat-based taxable income x corporation tax rate (30%) = corporation tax (formal)

* Kyat-based sales proceeds x deemed-corporation tax rate = corporation tax (supposed and unclear) (assuming a deemed profit)

iii) "Export first" policy not actually promoting export

Prior to the outbreak of the Asian currency crisis, the Myanmar government had deployed an "import first" policy, which was intended to resolve the shortage of funds among exporters. To assist the build-up of export funds among private firms, it promoted a sequence beginning with import by Myanmar firms, followed by sales of the imported goods in the domestic market, purchase of domestic products with the earnings from these sales, and export of these products to other countries. Export was to commence no more than six months after the import, and no single company was allowed to be involved in more than three such projects at a time. In reality, however, there were many cases in which the product export did not go as smoothly as planned and the earnings from domestic sales were sent out of the country. Similarly, the limit of up to three projects per firm where the firm can not export led to the establishment of a succession of what were companies only on paper to develop import business. As such, the policy was not effective for promoting export.

In response, the government switched to an "export first" policy according recognition to import within the scope of the dollar account derived from export. Nevertheless, judging from actual corporate behavior, mere promotional schemes are not going to be linked to increased export.

At present, firms are not permitted to convert the dollars gained through export into Kyat; they convert them into FEC, which either are used in that form or converted into Kyat. For FEC exchange, there is an official rate of 450 Kyat to the dollar and a market rate of 750 Kyat to the dollar (as of February, 2002). For example, export earnings of 100 dollars would be converted into anywhere from 45,000 Kyat to 75,000 Kyat. However, the latter is strictly the black-market rate, and detection would result in penalties for the offending firms. In use of the export-based dollar account to perform import, although the same firm would not be permitted to direct all of the dollar account to import, it could probably make sales worth more than 77,000 Kyat (based on the market rate as of February, 2002), provided that there is no particular problem with the imported products. In import agency business, the amount could exceed 79,000, with the difference of 2,000 Kyat being taken by the agent as a service fee.

Under this structure, it appears that the "export first" policy is, on the contrary, causing a shift to import.

Table 4-22 Comparison of Uses of Export Dollar Accounts
(without Consideration of the Profit Rate)

Conversion of the dollar account into Kyat	Import within the dollar account
1. Export dollar account: US\$100	1. Import using US\$100
2. Conversion into FEC: US\$100	2. Sale of US\$100 worth of imported products at market prices, for earnings of up to 77,000 Kyat (legitimate).
3. Conversion into Kyat at the official FEC rate: 45,000 Kyat	3. Agency business for import of US\$100 worth of products, for earnings of up to 79,000 Kyat (also legitimate) or 81,000kyat (for non-essential goods, also legitimate)
4. Conversion into Kyat at the market FEC rate: 75,000 Kyat (black-market trading at risk of detection and penalization)	

Source: prepared by the JICA study team based on interview data

iv) Crash of the Kyat

The value of the kyat to the dollar declined from 702 kyat on 27 September 2001 to 1,260 kyat on 26 September 2002, for a decline of about 44 percent over the intervening year.

This sharp drop points to a substantial decrease in denominated-denominated earnings on the dollar basis and rise in the cost of imported goods. By the same token, it could be said to have greatly bolstered the cost competitiveness of Myanmar export.

v) Remittances

Although there are systemic provisions for external remittance of profits by foreign firms, it takes an extremely long time to obtain permission for such remittance, which consequently is very difficult to do in reality.

4.1.4 Fundamentals to Export Promotion

As already referred to, Myanmar has a lot of problems involved in her export business. Now, crucial fundamentals to a study of export promotion are discussed here because it is considered that a mere technical system reform only could bring about a solution to the export problems in Myanmar.

(1) Necessity of securing export competitiveness and promising export sector

(Vietnam's growing export industry)

Export items in the world, including Japan, have been drastically changing in line with the flow of the times. These changes are also remarkable not only in developed countries but also in the nations around Myanmar, developing country.

In Thailand, for example, foodstuffs and animals were main export items in 1980s,

occupying 44.8% of the total export in 1985. Machinery and transport equipment, on the other hand, occupied 8.8% in 1985, which, however, increased up to 43.7% in 2000. This is because main automakers in the world made inroads into Thailand to make her their base in ASEAN to compete with the AFTA. With the location of Thailand in ASEAN highly appraised, her position as export base has been changing in a great measure for these 15 years. Foodstuffs and animals decreased to 14.1% of her total export in 2000.

In Vietnam, moreover, her main export sector in 1980s was also found in foodstuffs and animals like Thailand, occupying 42.7% of the total export in 1986. Various manufacturing sectors in Vietnam, on the other hand, occupied 20.9% of her total export in 1986. In 2000, however, they came to occupy 32.1%. In 1986, moreover, Vietnam exported mineral fuels at 4.3% of her total export in 1986, which increased to 16.5% in 2000. Vietnam has been showing a rapid growth of electric product exports since 1997 mainly because of the exportation by foreign capitals there. Besides, it was textiles and sewings that showed a consistent increase throughout 1990s, mainly because not only foreign capitals made inroads in the country with her diligent and inexpensive labor highly appraised but also Vietnamese enterprises developed their export business significantly. In addition, an increase was also seen in exportation of natural resources, such as rice, coffee, tea, vegetable, fruit and so on. Thus, the progressive export growth in Vietnam may be broken down into three: one is an increase in exportation by foreign capitals, the second an increase in labor-oriented exports, including local enterprises and the third an increase in exportation of natural resources, including those newly developed. The sectors in which the Vietnam Government is now prompting exportation at present are a labor-intensive industries, such as agricultural products, marine products, textiles and sewings, leather products, shoes, handcraft and so on.

In Cambodia, furthermore, her exportation has been increasing rapidly for recent years as already referred to. In 1993 and 1994, she showed a rapid increase in exportation of teak, which occupied 45.6% of her total export. Since then, however, Cambodia has decreasing her teak export while showing an increase in exportation of textiles and sewings.

Thus, the main export sectors in peripheral countries of Myanmar have been changing. It is necessary, therefore, for Myanmar to take export promotion measures as tailored to a change in environments.. For such a country as Myanmar who must substantially promote her exportation from now on, an urgent short-term export promotion measure is critical. It was around 1993, 1994 and 1995 that Vietnam increased her exportation. Those items, which Vietnam exported at a rapid growth rate during the three years, belonged mainly to two sectors; one is the natural resource sector, such as coffee, rice, marine products and the like and the other the labor-intensive export sector, such as textiles, sewings, etc. In the second half of 1990s, Vietnam had a progressive growth of exportation by foreign capitals, such as electric machines, etc. Myanmar, where natural resources and inexpensive labor are available, should be able to increase exportation like Vietnam and Cambodia.

The promising export sectors for Myanmar, meanwhile, will be referred to later.

Table 4-23 A Time-Series of Changes in Main Export Sectors in Thailand

(% ratio of export sector to total export)

	1985	1990	1995	2000
Food + live animals	44.8	28.2	19.1	14.1
Machine + transport equipment	8.8	22.2	33.8	43.7
Misc. manufactured goods + Basic manufactures	31.0	39.7	36.3	26.7

Source: prepared by the JICA survey team, based on the materials available in ADB

Table 4-24 A Time-Series of Changes in Main Export Sectors in Vietnam

(% ratio of export sector to total export)

	1986	1990	1995	1998
Food + live animals	42.7	34.4	37.9	33.7
Mineral fuels	4.3	20.8	22.2	16.5
Misc. manufactured goods	20.9	23.9	24.1	32.1

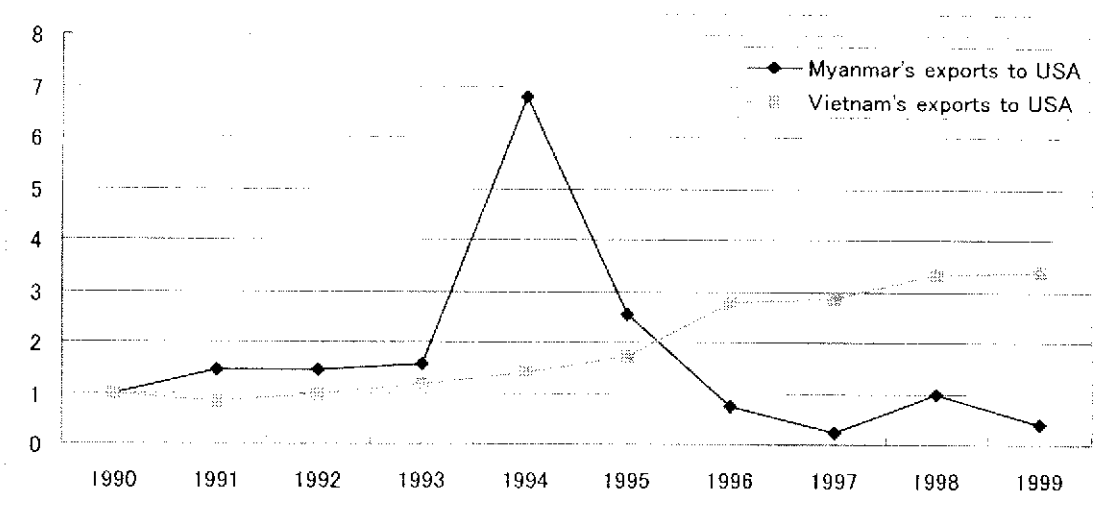
Source: prepared by the JICA study team, based on the materials available in ADB

Table 4-25 A Time-Series of Changes in Main Export Items in Vietnam (US\$ million)

Year	1991	1993	1995	1997	1999	2000
EXPORT	2,087	2,985	5,449	9,185	11,540	14,455
IMPORT	2,388	3,924	8,155	11,529	11,622	15,639
MAIN EXPORTS						
Rubber	50.0	74.6	193.5	191.0	146.8	166.0
Coffee	74.0	110.6	595.5	497.5	585.3	501.0
Tea	14.0	26.0	26.5	48.3	45.0	69.0
Rice	255.0	363.0	546.8	870.9	1,025.0	668.0
Pepper	18.0	14.0	38.8	67.5	137.1	145.0
Vegetables and fruit	12.0	20.0	56.0	71.2	105.0	213.0
Seafood	285.0	427.2	621.4	782.0	917.0	1,478.0
Textile and garment	158.0	335.0	850.0	1,502.6	1,747.0	1,892.0
Handicrafts	6.8	21.0	19.0	43.0	168.2	236.0
Electronics	0.5	3.5	8.3	440.1	585.1	782.0
MAIN IMPORTS						
Automobiles	11.0	100.0	231.0	136.1	88.6	134.0
Motorcycles	4.0	286.6	460.0	233.0	399.2	787.0
Cotton	61.0	20.3	77.0	109.0	90.0	101.0
Cement	0.5	9.6	76.4	51.7	0.6	0.0
Steel	25.0	233.0	365.0	510.0	418.9	812.0
Urea	236.0	205.0	339.0	275.5	189.4	200.0
Petroleum oil	485.0	687.4	830.0	1,123.0	1,054.0	2,057.0
Electronic parts	29.7	116.9	113.8	465.6	518.0	748.0
Chemicals	37.0	99.0	233.0	216.0	258.0	306.5

Source: Vietnam Government

Figure 4-24 Trends of Exports by Myanmar and Vietnam to the USA
(in indicators with 1990 aken for 100)



Source: prepared by the JICA study team, based on materials available in ADB, etc.

In Vietnam, farmers and the Government cooperated and succeeded in prompting her export-competitive items. Their respective roles are referred to below.

Government: a) Using VIETRADE and embassies in various countries all over the world, gather the information on those agricultural products which are in high demand (have a market) and select an item.
b) Give farmers incentives, such as fertilizers, agricultural machines, export bonuses and the like.

Farmer: Improve and select applicable agricultural products under the Government's guidance.

No incentive for farmers would discourage them to produce and would fail to continue producing those agricultural products which are exportable.

(2) Export promotion, a bearer of economic growth

Although it is unnecessary to dare to mention various favorable effects of an increase in exportation on the economy of a nation, neighboring countries are also forming an economic base thanks to the increase exportation.

In Vietnam, a chronic adverse balance of trade continued. In the middle of 1990 when she started to open her economy, Vietnam had a trade balance deteriorated further. At the same time, however, a Vietnamese boom took place and direct investments in the country made progress. Consequently, a general balance of trade turned toward a recovery. Following the Asian currency crises in 1997 and 1998, direct investments in Vietnam came to no longer grow. Nevertheless, she increased her exportation remarkably while the rapid growth of imports calmed down. As a result, her trade balance turned black. As referred to

later, Vietnam after the Asian currency crisis has been taking export promotion measures very boldly. The recent export growth in Vietnam may well be considered significantly attributable to a macro economic environment. Nevertheless, it is necessary for Myanmar to set eyes on the export incentives that the Vietnamese Government had adopted. Thus, Vietnam has opened the way to the black figures in her ordinary/general balance.

Table 4-26 A Time-Series of Changes in Vietnam 's Ordinary/General Balance (US\$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Merchandise exports, fob	1,731	2,042	2,475	2,985	4,054	5,198	7,330	8,955	9,300	11,540	14,000 *
Merchandise imports, fob	-1,772	-2,105	<u>-2,535</u>	<u>-3,532</u>	<u>-5,244</u>	<u>-7,543</u>	<u>-10,480</u>	-10,313	-10,080	-10,460	-13,500 *
Trade balance r/	-41	-63	<u>-60</u>	<u>-547</u>	<u>-1,190</u>	<u>-2,345</u>	<u>-3,150</u>	-1,358	-780	1,080	500 *
Other goods, services and income	-356	-160	-71	-484	-278	-150	-468	-1,162	-530	-1,008	-1,383 *
Unrequited transfers s/	138	90	123	264	302	627	1,200	885	1,022	1,181	1,446 *
Current balance	<u>-259</u>	<u>-133</u>	<u>-8</u>	<u>-767</u>	<u>-1,166</u>	<u>-1,868</u>	<u>-2,418</u>	<u>-1,635</u>	<u>-288</u>	1,253	563 *
Capital account	121	-59	271	-180	897	1,807	2,306	1,972	2,426	1,368	966 *
Direct investment	120	220	260	300	1,048	1,780	1,803	2,100	1,735	1,484	900 *
Other long-term capital t/	-47	-191	52	-597	-275	-284	279	392	950	2	134 *
Other short-term capital	48	-88	-41	117	124	311	224	-520	-259	-118	-68 *
Net errors and omissions	-4	142	-197	-109	-140	-115	125	-21	-1,492	-1,022	-324 *
Overall balance	<u>-142</u>	<u>-50</u>	66	<u>-1,056</u>	<u>-409</u>	<u>-176</u>	13	316	646	1,599	1,205 *

Source: prepared by the JICA study team, based on the materials available in ADB (Figures for 2000 are estimates.)

Generally speaking, the profitable expansion of product export is accompanied by an expansion of domestic investment in industries involved at various stages of the export sector in question. Furthermore, increased export acts to stimulate investment in concomitant industries involved with it in the manufacturing and service sectors. If the country is equipped with a favorable investment climate in the eyes of foreign firms, it will also act to attract foreign direct investment (FDI). Moreover, besides increased investment from inside and outside the country, sectors of export growth could also induce innovation in the technical and management aspects.

(3) Role by foreign capital (Foreign firms driving China's export)

In Asian countries, a foreign capital has been playing a very significant role in export promotion. It is the People's Republic of China that has been exporting most dependently upon foreign capitals among Asian exporter countries.

Out of the US\$62.1 billion exported by China in 1990, US\$7.8 billion or 12.6% was

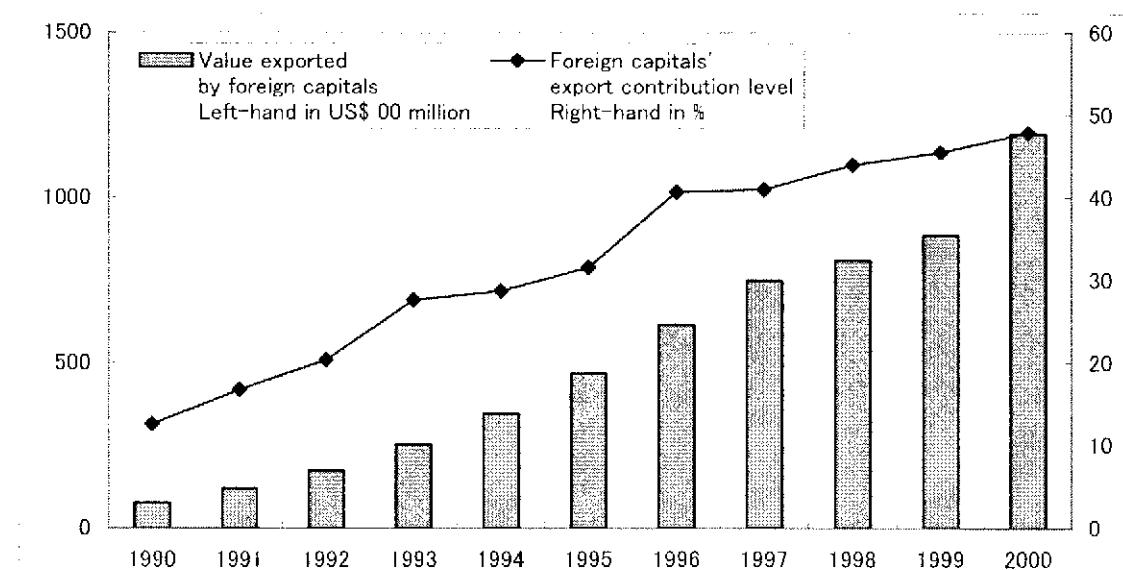
occupied by foreign capital. Subsequently, the Chinese exports increased at an annual rate of 14.9 and reached US\$249.2 billion in 2000. In the meantime, foreign capitals' direct investments increased rapidly. Since most of them were export-oriented enterprises, the ratio occupied by foreign capitals in her total export reached 47.9% in 2000. In order to make effective use of the "competitiveness" or inexpensive and rich manpower available in the People's Republic of China as referred to above, foreign capitals made inroads into China and increased the Chinese exportation. Since a base was available for the manufacturing industry in China, and because many leading enterprises had their subcontractual undertakings made inroads into China, it is said that the local content ratio of raw materials in China has been getting very high.

In Vietnam, foreign capitals have had an export contribution level of rapid increase from about 23 percent in 1997 to 36 percent in 2002. In the Philippine export-processing district where foreign capitals have made inroads mostly, their export contribution level has exceeded 50%.

Thus, foreign capitals have been playing a very significant role for Asian countries to promote their exportation. With foreign capitals making inroads, they invest capital, thereby bringing about employment. consequently, exportation permits the country to acquire foreign currencies. It is important for a domestic industrial policy to link the foreign capital activities with domestic industries.

In April 2002, Myanmar prohibited foreign firms from engaging in trade business. In trade business, however, a thorough knowledge of external markets is absolutely essential. Myanmar therefore must try to take full advantage of the product competitiveness, know-how, and informational resources of foreign firms.

Figure 4-25 Foreign Currencies in the People's Republic of China



Source: prepared by the JICA study team, based on the materials available in the Chinese Government

Table 4-27 A Time-Series of China's Total Export and Foreign Capitals' Export

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Value Exported (US\$ 00 million)	621	719	850	917	1,210	1,488	1,510	1,827	1,840	1,949	2,492
Value Exported by Foreign Capital (US\$ 00 million)	78	120	174	253	347	469	615	749	810	886	1,194
Foreign Capitals' Export Contribution Level (%)	12.6	16.8	20.4	27.6	28.7	31.5	40.7	41.0	44.0	45.5	47.9
Foreign Capital Investment (US\$ 00 million)	35	44	110	275	338	375	424	453	455	404	408

Source: prepared by the JICA study team, based on the materials available in the Chinese Government

(4) Attempt to smooth export business (Notable measures for export promotion in Vietnam)

As already referred to, Vietnam has been taking export promotion measures positively for recent years. Following the Asian currency crisis in 1997, the direct investments so far made in the country came to no longer increase. With a rise of China, moreover, each ASEAN member country is called upon to take action. Vietnam, among others, has been reducing the export-impeding factors positively.

Vietnam's export-impeding factors resembled Myanmar's as already referred to. Nevertheless, Vietnam implemented a lot of reforms for a short period of time as referred to below. As a matter of course, Vietnam has not yet had her trade business smoothly flow as seen in a developed country. Nevertheless, her improvement process is worthy of being noted.

The Vietnamese Government is proceeding with reforms so that private enterprises can promote the export business.

A change in ratio of private enterprises and foreign capitals to state owned enterprises (SOEs) in sharing the total export except for the exportation of oil is shown below.

According to this change, private enterprises had their share rapidly increase from 11% in 1997 to 31% in the first quarter of 2002. Besides, foreign capitals have their exportation increased from 22% in 1997 to 36% in the first quarter of 2002.

From this, it may be gathered that the Vietnamese exports by private enterprises and foreign capitals have been hauling the Vietnamese exportation.

Table 4-28 A Change in Exporters in Vietnam

	1997	1 st Quarter, 2002
State-Owned Enterprises (SOEs)	67%	33%
Private Enterprises	11%	31%
Foreign Capitals	22%	36%

Source: Hearing in Vietnamese Government

In Myanmar, many export-import enterprises consider the complexity of licensing procedures a problem. Vietnam, in contrast, eliminated the need to obtain a license for import or export as a general rule, as stated in Decree No. 57 issued in 1998. It does not relate to a mere paperwork proceeding but the export/import license system lift-up has allowed Vietnamese exporters/importers to export/import any items except for some banned by the Government. Now, a private company is in a position to export the goods in any field that a state-owned enterprise or a leading private company monopolized so far. Anyone may be registered as trading firm by visiting the provincial customhouse office only. As a result, approximately 50 trade-related undertakings in 1986 reportedly increased to 12,000 firms in 2001. Coupled with this improvement, furthermore, the license obtainment proceedings required so far whenever an export or import might be made was also cut off.

The export tax was nearly abolished. At present, twelve items only are levied with an export tax at 0 thru 5%. This, however, does not relate to the commerce tax/income tax in Myanmar. In addition, no VAT is imposed on exportation. As far as the importation of equipment/materials to make an export product is concerned, furthermore, it is possible to defer the VAT payment within a term specified in the Customs Duties Act. In addition, an export enterprise has an ordinary 32% legal person tax reduced to 25%. To attract foreign capitals, moreover, their legal person tax is provided with 20%, 15% and 10% preferred treatments according to the level of their contribution to the promotion in aspects of exportation, region and science. To receive these preferred treatments, it is necessary for a foreign capital to invest in line with an investment promotion project list. The basic idea is to promote exports and regional and scientific developments. If an undertaking should export 80% or more of its products, for example, a 10% tax will be levied as a special investment promotion project.

From last to this year, moreover, a special export measure was taken in the sector of sewings. That is, an enterprise manufacturing sewing-related raw materials (textiles, dyes, machines, etc.) are entitled to get a loan at so low interest rates of 3% up to 50% on the loan and of 5.4% on the rest 50% (9.3% on the market) by providing a mortgage equivalent to 30% of the loaned value only. A mortgage-free loan at an interest rate of 5.4% , moreover, has been also offered to a sewing company if its project is highly viable.

Some private banks, furthermore, have begun to finance an exporter with its operating fund, taking a letter of credit for mortgage. In addition, the trends have changed into an environment where a land lease or leasehold newly obtained may be used as mortgage to raise a fund.

In 2000, Vietrade was established as an export promoter organization, which has an objective of promote the Vietnamese trade and the investments involved in trade. More specifically, Vietrade has been conducting on projects, such as to 1) Furnish the business information, 2) Send missions overseas and receive missions from overseas, 3) Coordinate trade fairs and exhibitions overseas as well as in the country, 4) Offer training for Vietnamese enterprises to promote exportation, 5) Render various consulting services and technically support export products, 6) Develop the E-commerce in Vietnam, 7) Support foreign capitals,

8) Propose in relation to policies and systems, 9) Develop trade-promotion facilities, 10) Conduct on a project to cooperate with a foreign/international organization for trade promotion.

As far as customs clearance is concerned, improvements are in process. Although every problem involved has not been dissolved yet, a significant change has been seen in transferring the total inspection to a sampling inspection. A new attempt worth of appraisal, moreover, is an introduction of the ethical provisions governing the customhouse personnel.

As already referred to above, moreover, Vietnam has succeeded in exporting some export-competitive items through a cooperation between farmer and government.

What is important from another point of view is a meeting for public and private sectors to exchange their respective opinions. The public-private opinion exchange meeting in Vietnam has substantially started since around 1999. Public-private opinion exchange meetings are available in three types. The first is a meeting where the Prime minister and private enterprise representatives exchange their opinions. This meeting is held once a year. The representatives in the private sector are representatives of the VCCI (Vietnamese Chamber of Commerce and Industry), of young employers' associations and of the UAIC (Union of Associations in Industry and Commerce).

The second is an export promotion conference composed of local administrative organizations, such as Municipal Bureau of Commerce in Hanoi, Ministry of Commerce and local private enterprises. The meeting attended by a representative of the Ministry of Commerce is held once a year and the one not attended by the Ministry of commerce is held twice a year. In these meetings, opinions are exchanged in relation to the export promotion measures to reduce export-impeding factors.

The third is an opinion-exchange meeting attended by ambassadors and commerce secretaries from various foreign countries to Vietnam and by representatives of private enterprises. This is a mechanism through which the living information available in various foreign countries may be offered to private enterprises in Vietnam.

In the 2002 export summary meeting attended by the prime minister and the deputy prime minister, it was stated, "The export system is operating smoothly. There are some problems involved in customs clearance proceedings and in export financing." And the concerned were called upon to take corrective action.

The main policies being now deliberated are intended to a) Establish an export/import bank, b) Build an information database for exportation, c) Build up a manpower cultivation center for promotion of international services, and d) Build up bonded show rooms and warehouses in various foreign countries. For a scheme to establish an export/import bank, among others, a draft is scheduled to be worked out in September 2002.

In Vietnam, some private enterprises have begun to turn successful. Such success may be expected to make up a favorable circulation by turning the Government's policy toward a further liberalization.

According to the interviews with Vietrade and Ministry of Commerce, a Vietnamese enterprise has encountered with export-promotion issues, such as a) Finding out a buyer, b) Improving quality, c) Shortage for manpower familiarized with export business and d) Raising a fund for business expansion.

Principal Export Promotion Measures Taken in Vietnam for Recent Years

- * 1998: Abolished export/import licenses, in principle.
- * 1999: Held three types of public-private opinion-exchange meetings.
- * 2000: Established an export promotion agency, Vietrade.
- * 2000: Expressly state an import plan approval term (15 days).
- * 2000: Revised the Foreign Capital Investment Act.
- * 2001: Established the custom duties Act.
- * 2001: Opened some windows to tax-related consultation.
- * 2001: Established an export support fund.
- * 2001: Reduced the number of items specified to mandatorily require an 80% export in a new investment (from 24 to 14 items).
- * 2001: Took a special export measure (low-interest finance) in the sewings sector.
- * 2002: Revised the Customs Duties Act (introduced a customs sampling inspection on items continuously transacted).

The major measures instated by the Vietnamese government to promote export are as follows.

1. Private firms are allowed to engage in export and import business for all items as a general rule.
 2. Almost all export taxes were abolished; Vietnam does not apply any commercial and income taxes like those in Myanmar.
 3. Export incentives were instated for the garment industry.
 4. Provisions were made for export financing.
 5. Vietrade was established to serve as a national institution for promotion of export. Furthermore, the following additional measures are under consideration for export promotion.
 - 1) Establishment of an export-import bank
 - 2) Construction of a data base for export
 - 3) Institution of a center for development of trade-related human resources
 - 4) Establishment of bonded showrooms and warehouses in other countries
- (5) Export incentives characterized on a country by country basis

An Asian country has export promotion positioned as mainstay for national industrial

policies.

Singapore has formed the Sustainable Trade Development Cycle in which exportation is powerfully promoted to increase the national income while building up a better trade-related infrastructure. This cycle is composed of an industrial trade policy, an infrastructure policy, a manpower development policy, a labor wage policy and a macroeconomic policy. The industrial trade policy, among others, is related directly with export promotion, comprising the five basic courses as follows:

- 1) Make effective use of the industrial policy as a strategic measure to develop the economy.
- 2) Recognize and materialize an open free trade.
- 3) Cooperate with multi-national enterprises overseas.
- 4) Invest in manpower.
- 5) Mutually negotiate, form an agreement and share a vision.

What should be noted here is a position to build a collaborative relationship with multi-national enterprises in a foreign country. The Singaporean Government recognizes the importance of and makes it as a basic policy to make effective use of those multi-national enterprises accustomed to a market overseas. Besides, it can be appraised that the policy expressly states that investments will be made in "Human Capital," too. Even if a system or scheme is built up for export promotion, exportation could not be promoted without the manpower able to make effective use of such system/scheme.

Malaysia has established the MIDA as an organization to develop industries and attract foreign capitals and the MATRADE "Malaysia External Trade Development Corporation." In 1992, MATRADE was organized for the purposes to a) Promote exportation, b) Map out an export promotion plan, c) Gather and distribute trade information, and d) Support exporters to develop technologies. Export promotion is to cover training, business matching, export documentation proceeding support and so on. What should be noted in MATRADE's strategies is the express consciousness about the market to be targeted. According to MATRADE, a) Maintain the existing export markets, b) Increase export items on an emerging market, c) Increase the production of high added-value products, and d) Give special consideration to SME products. Being clearly conscious of a market as referred to above is considered important for Myanmar in exporting strategic export items in the future.

In Thailand, on the other hand, the Department of Export Promotion (DEP) is in charge of export promotion. Thai export promotion comprises a) Decentralize markets (Exploit new markets, with a ratio of new markets to total export for 4 years reckoned as 13%), b) Diversify export items (with a ratio of foodstuffs and agricultural products, to total export made to grow from annual 8% to 12%), c) Strengthen the trade information system by means of E-Commerce, etc., d) Promote the Thai brand, and e) Set export targets (14 manufacturing sectors, such as foodstuffs, textiles, jewels, electric and electronic products, etc. and 4 service sectors, such as restaurants, education, long-term stay, etc.)

In addition, principal service sectors include trade information gathering/furnishing,

manpower development, global standard-conforming product development support, awarding private enterprise export contribution prizes (Award a brand name product exporter with a prize once a year while supporting the participation in an international trade fair). In Myanmar, it is also considered important to have an export market and export items expressly on a short-term basis like Thailand. The fact that importance is attached to private enterprises' export promotion may well be deemed crucial for an industrial policy.

In Thailand, furthermore, an export-promotion steering committee was organized, with the chairmanship taken by the prime minister and members from both public and private sectors. And discussions were made about the policies and systems for export promotion. To map out a policy, it is necessary to exchange opinions with those enterprises who are accustomed to the export business.

(6) Slogan and trigger project

To shortly express a national economy opening, it is necessary to have a slogan, "Doimoi" in Vietnam and "Southern Peace Agreement" in China is required. It expressly indicates the position of a nation to open her economy while showing a summary of the specific measures involved.

"Import First" and "Export First" so far said in Myanmar are technical rather than briefly showing an export promotion policy adopted by the Myanmar. It is necessary, therefore, to provide a slogan with terms, opening and liberalization, taken for keywords.

And a trigger project did exist in each Asian country to bring about export promotion by advancing it on a forerunning basis. Foreign capital attracting projects, such as "Special Ward of Economy," in China and "Export Processing District" in Philippines, Thailand or Indonesia were trigger projects. VIETRADE established in Vietnam may well be evaluated as trigger from the viewpoint of exporting Vietnam products and prompting the exportation by Vietnamese enterprises.

4.1.5 Basic Viewpoint in Mapping out Myanmar's Export Master Plan

Based on an analysis relating to various problems involved in export business and its environments in Myanmar, and export promotion measures taken in peripheral countries, it is important to take the following three points for the fundamentals to the map-out of an export master plan:

- 1) Reconstruct an export promotion scheme.
- 2) Make effective use of competitiveness available in Myanmar, and
- 3) Make effective use of export networks overseas.

(1) Reconstructing export promotion scheme:

Judging from the realities in export business, it is inevitably necessary to point out that the existing export-related systems and schemes and their operations are far from export promotion. Without improving this issue, it is quite unlikely that export-oriented foreign capitals may make inroads into Myanmar. Besides, the existing export-related systems and schemes are discouraging private enterprises in Myanmar to be willing to export. In this sense, a basic viewpoint of reconstructing the export promotion system is crucial for Myanmar to map out an export master plan.

(2) Making use of competitiveness available in Myanmar

As shown in exemplar cases of various foreign countries, moreover, it is necessary to recognize the export-promotion items as tailored to the times and to the trade environments. This recognition should vary with the times. For Myanmar at present, it is important to introduce those competitive promising export items, which would permit her to set up exportation in a short time. Such a viewpoint of making effective use of competitive items available in Myanmar is of importance.

(3) Making effective use of foreign export networks

The export business requires markets and buyers in foreign countries. And the buyers should be accustomed to markets in foreign countries. In Myanmar at present, there are few enterprises of such type. It will be essentially necessary, therefore, to establish a network with a foreign enterprise. As implemented in Asian countries, moreover, export-oriented foreign capitals should be attracted to Myanmar because it is also one of specific export promotion measure. Thus, it is important to take such a viewpoint as to promote exportation by expanding export networks through a reconstruction of relationships with foreign enterprises.

4.1.6 Basic Direction of Export Master Plan

Based on a basic viewpoint of the export master plan, the following three fundamental plan-related directions should be set up:

- 1) Reconstruct a system for smoothing the export business and recover a trade value chain.
- 2) Expand the exportation through a policy-induced type export industry.
- 3) Make effective use of foreign enterprises.

(1) Recovering trade value chain

A basic direction, in which the export promotion system reconstruction should be proceeded with, is to "Reconstruct a system for smoothing the export business and recover a trade value chain." It is certainly important to dissolve various problems at private enterprises have been facing individually. It is necessary, however, to expressly show the direction in which each of such problems should be dissolved in advance. As already referred to, the export business in Myanmar mostly has problems stage by stage. A solution to individual problems only would not permit the trade business to run smoothly. In this sense, the "Trade Value Chain" concept is proposed here. This is a business process, which would allow exporters in Myanmar to secure efficiency enough to form an added-value in every stage in their export process. The export promotion system should be reconstructed while taking the trade value chain recovery for a basic direction.

(2) Expanding export through policy-induced type export industries

The basic direction, in which "Competitiveness in Myanmar should be effectively utilized," on the other hand, is to "Expand exportation in a policy-induced type export industry." Some Japanese enterprises have commented that Myanmar does not have exportable items. Nevertheless, Myanmar has those items which supported her exportation, such as rice, sesame and the like in the past. And the demand for such items does exist at present, too. The problem is the fact that such items are not politically induced as export items and it impairs the willingness for producers to produce. The relations between the Government and farms in Vietnam should be noted. It is important to politically cultivate and positively expand the exportation of those items which might be deemed promising for exportation in the near future from an export's point of view.

(3) Making effective use of foreign capital

"The basic direction in which export networks in foreign countries should be expanded" is to "Make effective use of foreign enterprises." A foreign enterprise generally is accustomed to markets all over the world and has established its own sales channel. It is effective to make full use of their networks. An export-oriented manufacturer, in particular, is crucial in the sense that they accompany both investment and employment.

More specifically, it is necessary to attract foreign manufacturers into an export-processing district or the like.

4.2 Basic Directions of Policies and Programs to Solve Major Issues and Major Measures

(Recovery of Trade Value Chain)

4.2.1 Basic Five Perspectives for Resolution of Export Process Issues

(1) Shift from control to decontrol as the basic tone of market policy

In light of the current situation and issues related in the previous chapter, it must be said that, in many aspects, the policy intent of promoting export is not clear (even granting the accordance of precedence to countermeasures for the difficult foreign exchange circumstances and stabilization of domestic affairs). Myanmar could be regarded as having shifted from a policy of market liberalization in the early 1990s to one of strict control afterward, in reaction to developments such as the discovery of unlawful practices in both the public and private sectors around the time of the Asian currency crisis and the worsening of the macroeconomic situation like trade deficit and budget deficit. And Myanmar have faced difficulties of total balance deficit since foreign direct investment and soft loans were very much reduced. A look at the export performance thus far suggests that the control-oriented policy has not been successful as compared to the policies of peripheral developing countries in Indochina such as Vietnam and must be revised. In addition, the efforts to clamp down on unlawful practices ought to rest on reinforcement of surveillance and punishment instead of limitation of trade activities in general through tighter control.

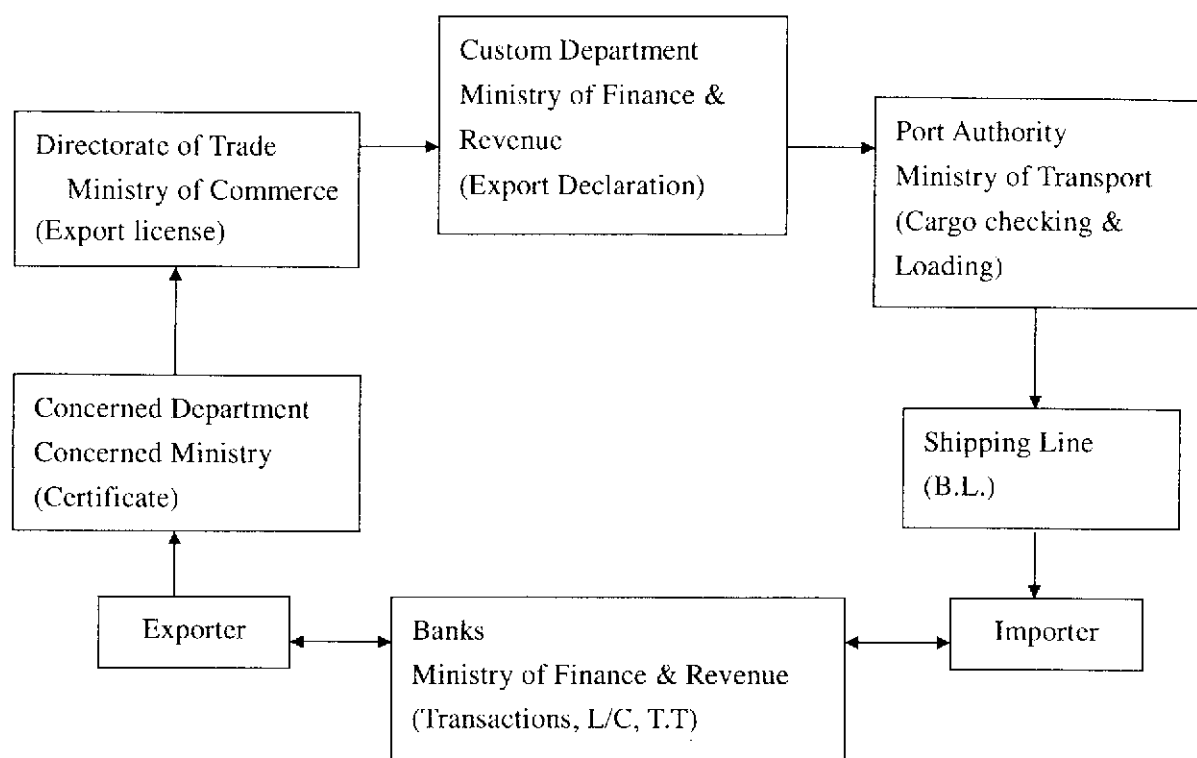
(2) Need for continuity and consistency as well as fairness, impartiality, and transparency (sure application of five principles)

The objective of the export-related policy and institutional reform is promotion of export and establishment of uniform rules to that end. Needless to say, the reform must be grounded in the principles of fairness, impartiality, and transparency. Additionally, the institutions must themselves have a continuity and consistency deriving from a definite policy intent. Frequent changes and sudden modifications will only produce disruption.

(3) Need for coordinated export promotion by all authorities with a sense of urgency

As shown in the figure below, various agencies are involved with export. Each must execute its duties in line with the principles of fairness, impartiality, transparency, continuity, and consistency. Actions not in line with these principles on the part of any one of them would present problems for export as a whole.

Figure 4-26 Major Export-related Agencies in Myanmar



Source: JICA Study Team

- (4) Formation of a "win-win" circle to replace public-private confrontation and "win-win" circle of Myanmar companies and foreign companies

Institutional reform must emphasize build-up of the national economic foundation by eliminating problems in export or generating new export. Use of private energies must be at the basis of this build-up. In today's global economy, business requires speedy decision-making, and decisions therefore cannot be left to the administrative authorities, whose role lies more in mutual surveillance and checking for fairness. The idea of having the government conduct trade because of the lack of know-how among private firms is not going to work in today's business, which demands prompt action on a global scale. In fact, even in the fields where the government is in charge of export, private firms execute the actual work. From here on, it should be an important aim of policy to set up a "win-win" circle in place of the usual relationship of confrontation between the public and private sectors. More specifically, the point is to have the export-oriented policy function to expand export by private firms and thereby improve foreign currency earnings and the current balance of payments, so that both sectors "win." This demands the provision of fair opportunities to private firms.

There is a large trade deficit even though import of private companies is restricted within dollar account of export earning. Other sector may import more than dollar account of export earning or there is a lot of illegal import. However, illegal import may not be in import

statistics. Private sector should be able to create “ win-win” circle with other sector.

It is clear that other neighboring Asian countries attracted foreign companies and promoted export by making use of their capabilities. Actually, foreign companies’ strategy is to export products that are produced in countries where they can use cheap labor costs in terms of assembling manufacturers and CMP companies. Foreign traders make use of their global network to export products in foreign countries. It is necessary for local exporters to have foreign business network and better to utilize capabilities of foreign traders. Foreign companies are not enemies but partners. Important point is to develop “ win-win” circle.

- (5) Recovery of the trade value chain through policy and institutional reform and duty process reform

One of the barriers to the smooth promotion of export identified in this study is the complicated setup as regards duties. There is a need for a program of process reform, separate from that of institutional reform, to streamline duties in areas such as the scheme for licensing import and export, the allocation of import quotas, and customs clearance.

4.2.2 Major Measures for Solution of Major Issues

This chapter considers major measures for promotion of export in Myanmar based on the basic perspectives toward resolution of the issues in the export process.

- (1) Survey of overseas markets in Myanmar and measures for promotion of marketing - 1

- 1) Major issue

- * Lack of overseas information and means of accessing such information

- 2) Major factors

- * Limitation on/lack of access to information resources in other countries

- * Lack of domestic institutions gathering and providing overseas information

- 3) Basic measures for solution

The first step in making the transition to a more open market is information disclosure. The compilation of information on prospective export destinations and export products can be expected to raise the level of judgment in decisions on business expansion and concentration. For this purpose, a trade information center could be instituted in combination with a trade service center furnishing services in provision of information on credit standing and in all kinds of support for export. The MOC's opinion and expectations on this proposal may be paraphrased as follows.

"Myanmar does not have an institution exclusively assigned to promotion of export or provision of 'one-stop services,' and unified measures are called for. Because it also does not

have the know-how needed for export in areas such as marketing and analysis of product markets, we would like to see this kind of expertise transferred to the MOC and UMFCCL. Next, an information center should be set up to provide information on items related to export promotion, such as prices, sellers, buyers, potential markets, and markets in general. This is because Myanmar does not have sufficient arrangements for the collection of requisite trade information and its provision to companies."

For its part, the UMFCCL pointed out the need to strengthen its international division.

As this suggests, there are deep-seated desires for the preparation of such an integrated center in both the public and private sectors.

Analogous action in a neighboring country may be exemplified by the establishment of Vietrade in Vietnam. Considering the stage of national development, this institution may serve as a model for the export promotion center in Myanmar.

(2) Survey of overseas markets in Myanmar and measures for promotion of marketing - 2

1) Major issue

* Difficulties in obtaining a business passport and rigid entrance and exit requirements

2) Major factors

* Stance in regulations on exit

* Stance of excessive control

3) Basic measures for solution

For sales personnel as well as for executives, provisions must be made for prompt issuance of business passports on a priority basis. Also needed are exemption from requirements for approval for every exit as long as the passport is valid and simplification of procedures for renewing the passport. This will presumably assist collection of overseas information, facilitate communication with customers, and heighten marketing abilities.

In light of the pronounced wants and needs among private firms inside and outside Myanmar, the government must examine concrete measures to these ends with due consideration of the precedent cases in other developing countries.

(3) Survey of overseas markets in Myanmar and measures for promotion of marketing - 3

1) Major issue

* Shortage of human resources versed in trade business

2) Major factor

* Lack of institutions for human resource development

3) Basic measures for solution

Although the UMFCII is looking into ways of strengthening its international department, its staffing limitations would probably make it impossible to offer full educational opportunities. To remedy this situation, national agencies such as the MOC could lead efforts to prepare trade-related training programs in collaboration with the UMFCII, industrial associations, and international agencies, each drawing fully on the networks of human resources. The option of establishing a trade training center like those in Thailand and the Philippines also deserves study.

Table 4-29 Profile of the Trade Training Program Desired by the UMFCCI

• Objective	Understanding of trade business opportunities, challenges, and risks	
	Understanding of the key success factors (KSF) in trade business	
• Anticipated effects	Understanding of international business	
	Clear definition of the information and networks needed for international business	
• Curriculum	1. Definition of export opportunities	Analysis of export trends
		Assessment of potential markets
	2. Identification of market attributes and needs	Scale
		Price trends
		Function trends
		Consumer needs and preferences
		Potential customers and their segmentation
		Market-related institutions
	3. Market strategy	Regions
		Customer strata
		Functions
		Design
		Price
		Packaging, marking, and labeling
		Trademarks and certification marks
		Standardization
		Production setup
		Commercial/physical distribution
		Alliance
	4. Cost and price	Price-setting
		Calculation of export cost
		Cost allocation
	5. Market promotion	Marketing methods
		Effective use of IT
	6. Financing	Fund-raising
		Foreign exchange
		Barter/counter
		Terms of payment
	7. Export procedures	Preparation of documents
		Customs examination
		Customs clearance
	8. Transport	Means of transport
		Shipment-related documents
		Insurance
	9. Negotiation	Inquiries and contracting
		Conclusion of MOU
		Grievances and arbitration
	10. Plant tours and corporate visits	
	11. Exchange of opinion with executives and people of experience	

Source: prepared by the JICA study team based on interview data

(4) Measures related to settling transaction conditions - 1

1) Major issue

- * Items of export regulation limiting the business activities of private firms

2) Major factors

- * Worsening of the macroeconomic environment like trade deficit and budget deficit following the Asian currency crisis, etc.
- * Protection of resources
- * Domestic supply-demand adjustment
- * Mutual distrust between the public and private sectors
- * Bias toward certain corporate groups in provision of business opportunities

3) Basic measures for solution

The changes in the macroeconomic environment demand a powerful instatement of the new market-opening provisions. There is a store of know-how and experience in product fields placed under export restrictions in recent years and in industries with good export prospects. For this reason, the government should steadily relax restrictions, beginning with items capable of being exported solely by private energies.

Meanwhile, in accordance with the principles of impartiality and transparency, the agenda include the privatization (or transformation into joint-stock companies) of business now confined to certain groups such as state enterprises or conducted by the authorities.

Illicit activity in either the public or the private sector should be controlled not by restricting business in general but by reinforcing surveillance and penalties for said activity.

(5) Measures related to settling transaction conditions - 2

1) Major issue

- * Decline in export competitiveness and profit due to the export taxation (8-percent commercial tax plus 2-percent income tax)

2) Major factors

- * Shortage of foreign currency
- * Multi-tiered foreign exchange system, and prices subject to the corporation tax and tariffs

3) Basic measures for solution

The basic orientation should be one of reducing the export duties and increasing import duties before AFTA comes. It is very important that import duty should be collected in dollar

or exchange rate applied in customs should be increased in line with the devaluation of Kyat. Instead of reduction of so-called export tax, import duty should be collected in dollar in order to cover dollar revenue losses. Although it varies somewhat depending on the item, the exchange rate applied in customs is 150 Kyat to the dollar. A revision of this rate and a hike in the tariff rate would increase tax revenue and make it possible to lower the export duties. It should also be noted that there is a lack of consistency even in this taxation due to valuation changing, as the exchange is sometimes made at a rate approaching the market rate. Furthermore, the high rate of 10 percent applied in the so-called export duty is leading to tax evasion through undervaluation. To break this vicious circle of official measures and private countermeasures calls for not only a reduction of the export duty rate and amount but also an increase in revenue from the corporation tax by evaluating the taxable amount of dollar-denominated sales proceeds at rates close to the market prices. (At present, the conversion is made at the rate of 450 Kyat to the dollar in the case of performance of business in export of restricted export items on consignment.)

(6) Measures related to settling transaction conditions - 3

1) Major issue

- * Import restriction items and quantities

2) Major factors

- * Objective of improvement of the trade balance
- * Policy for exclusion of luxuries

3) Basic measures for solution

There is no great difference between essential goods and non-essential goods in respect of the tariff rate, and the requirement of the former to account for at least 80 percent of all import results in a heavy load of complicated work. As such, it would be advisable to switch from this volume-based restriction to mere imposition of a higher tariff on import of non-essential goods before AFTA comes.

Table 4-30 Comparison of Tariff

	Simple average tariff rate (%)
Major essential goods (35 items)	2.14
Major non-essential goods (25 items)	3.42

Source: JICA Study Team

(7) Measures related to settling transaction conditions - 4

1) Major issue

- * Frequent changes in policies and institutions, and sudden notifications of the same, as viewed from the standpoint of private firms

2) Major factors

- * Inconsistency and temporizing in policy-making
- * Limited means of conveying information to the private sector
- * Lack of public-private communication
- * Lack of accurate statistical data

(It is not possible to get an accurate grasp, in quantitative terms, of the latest situation as regards domestic supply and demand, import and export, etc.; this is behind the rice and onion issues.)

3) Basic measures for solution

The following measures are thought to be required to address these issues.

- * Establishment of an official export promotion steering committee based on public and private collaboration, to be convened at regular intervals (with a membership including representatives of the MOC and other concerned official ministries and agencies, the UMFCCEI, private-sector experts, etc.)
- * Revision of the current export-related institutions and preparation of mutually consistent programs for export promotion
- * Build-up of public-private interchange by the UMFCCEI and smoother communication through expansion of private-sector networks
- * Fuller compilation of statistics related to major products

(8) Measures related to settling transaction conditions – 5

1) Major issue

- * Rigid customs clearance process and encouragement of black-market transactions due

to the recorded price system

- 2) Major factors
 - * Mutual distrust between the public and private sectors
 - * High-handed supervision
- 3) Basic measures for solution
 - * This control-oriented price-setting system was installed as a guard against undervalued declarations by private firms. Nevertheless, it has the effect of causing firms to resort to black-market transactions in order to avoid disadvantage, and also leads to bribery and procedural inefficiency in customs work. As such, it ought to be abolished.
 - * Considering the work load, it would be more effective to combat undervalued declarations by making spot (surprise) inspections and imposing harsher penalties than by inspecting all lots in their entirety.

(9) Measures related to import and export procedures

- 1) Major issue
 - * Complicated, inefficient export-import procedures as viewed from the standpoint of private firms
- 2) Major factors
 - * Requirement for obtaining an import/export license for each import/export
 - * Inefficiency due to manual operations

3) Basic measures for solution

Mechanisms must be changed to enable items not on the restricted list to be exported or imported steadily merely upon performance of the customs clearance procedures.

In addition, improvements must be made in the procedural flow, which is complex and has not been computerized. What is required here is trade business process reengineering (BPR).

(10) Measures related to inspection and customs clearance procedures

- 1) Major issue
 - * Inefficient, inconsistent inspection and clearance procedures as viewed from the standpoint of private firms

2) Major factors

- * Shortage of properly trained and educated staff
- * Insufficient inspection and clearance facilities

3) Basic measures for solution

This issue is mainly a matter of a shortage of human resources, lack of sufficient instruction, and lack of an internal system for evaluation of administrative services. Solution consequently calls for an improvement of instruction and training for the assigned personnel. Capabilities in these areas are in effect on display to others both inside and outside Myanmar. As such, they require improvement on an urgent basis and the execution of model projects to this end. In conjunction with these projects, the government could instate innovative systems for assessment of administrative services, degree of user satisfaction, etc.

These more efficient mechanisms of customs examination and clearance work must be introduced first in the special export zone. Port and harbor facilities serving Yangon must be improved at the same time.

(11) Measures related to import-export financing

1) Major issue

- * Inefficient import-export financing and lack of related services

2) Major factors

- * Shortage of properly educated and trained staff
- * Lack of processing capabilities (dependence entirely on the MFTB and MICB)
- * Inefficiency due to manual operations
- * Lack of programs for systematic promotion of export

3) Major measures for solution

Import-export financing services were offered by seven financial institutions prior to 1997, but only MFTB, MICB and MEB have been permitted to offer them since, because it became impossible to control dollars. There is consequently said to be an absolute shortage of processing capacity. The MFTB, MICB and MEB are also saddled with a shortage of qualified staff and operational inefficiency.

This situation points to a need for again permitting private financial institutions to engage in import-export financing services while taking measures for dollar control. The current staff of the MFTB, MICB and MEB also must be given proper instruction and training. In addition, these institutions must consider approaches to streamlining and computerizing their processing work. Provisions for export financing and other financial support are also required.

(12) Measures related to export incentives

1) Major issue

- * Insufficient export incentives

2) Major factor

- * Lack of programs for systematic promotion of export

3) Basic measures for solution

Exporters are looking for greater incentives along with the widening of the circle of firms whose export is encouraged, such as a decrease in export duties, export financing services, and provision of bonuses to model firms exporting a lot. This must be joined by the development of consistent programs for promotion of export.

(13) Measures for improvement of export products

1) Major issue

- * Level of quality not acceptable in Japan and other developed countries (processed lumber and food products, etc.)
- * Low-value-added products

2) Major factors

- * Shortage of engineers
- * Shortage of facilities
- * Lack of technology and local market

3) Basic measures for solution

Solution requires an expansion of training opportunities in order to raise the quality of items of export promotion and those with promising export prospects, as well as financial assistance for import of production facilities and equipment. Technical aid is being furnished by Japan and should broaden as it continues. The import of facilities and equipment demands studies of setups for financial assistance for it and also an easing of limitations on import of used products.

Attraction of foreign companies having technology and market is very important for export promotion to obtain technology and market.

(14) Measures related to total package of trade value chain-1

1) Major issue

- * Lots of regulatory issues

* Complicated procedures

2) Major factor

* All of before mentioned factors

3) Basic measures for solution

It is important for the government to improve current problems as soon as possible. However, it may take a time to realize solving main problems for export promotion. In order to avoid the many and complicated problems, special export zone should be developed. This zone should offer simplified procedural requirements as well as the measures described before. Export oriented manufacturers can import parts, manufacture products and export them efficiently without normal and time consuming procedures as explained before. The Myanmar government should designate one or two sites for special export zones for new trials.

(15) Measures related to total package of trade value chain-2

1) Major issue

* Lots of regulatory issues

* Complicated procedures

2) Major factor

* All of before mentioned factors

3) Basic measures for solution

The other measure to avoid the many and complicated problems is to select export promotion items that producers and exporters can enjoy efficient trade value chain. Special measures to promote export should be taken for the following items, which are on the MOC list for export promotion, as well as for other items with promising export prospects.

MOC list of items for export promotion (based on interviews)

i) Rice & Rice products

ii) Pulses & Beans

iii) Marines & Fisheries

iv) Value Added Timber Products

v) Handicrafts

vi) Jade, Gems & Jewelry

vii) Garment & Textile

viii) Household Goods

ix) Furniture made of timber and cane, etc.

Promising export items is explained in the other part of this chapter. Producers and exporters of export promotion items should be able to import parts and materials, produce

products and export them with exceptional and quick procedures.

4.2.3 Priority Tasks for Export Promotion

This table sets forth the order of priority of the aforementioned measures and respective roles of the public and private sectors in them, based on exchange of opinion with export-related parties in both sectors. The important point is the order of priority.

It is true that lack of overseas information is a problem of export promotion. However, private exporters can't export the products unless the exporters can get the export license even though exporters can gather overseas information. Lack of overseas information should be given the lower priority than getting the export license. After improvement of the licensing system and regulation of export items to private sector, lack of overseas would be given the higher priority than now.

It is also true that export incentives should be introduced. However, private exporters can't export the products unless the exporters can get the export license even though exporters can enjoy lots of export incentives. Lack of export incentives should be given the lower priority than getting the export license now in Myanmar. After improvement of the licensing system and regulation of export items to private sector, export incentives would be given the higher priority than now.

Following major measures rank first.

- Export regulation

- * Steady relaxation of export restrictions for items whose export was restricted in recent years, items of export promotion, and industries with promising export prospects.

- * Privatization in the concerned fields

- Export tax

- * Reduction of export duties on items of export promotion and items in industries with promising export prospects undergoing separate study

- * Reinforcement of import tariffs

- * Establishment of a special export zone

- * Import tariff in dollar to cover losses of abolition of export tax

- Import restriction

- * Shift from quantity-based control to higher tariff rates for import of non-essential goods or import tax in dollars for non-essential goods

- Abolition of frequent policy and institutional changes and sudden notifications

- * Establishment of an official export promotion steering committee convened on a regular basis with private- and public-sector membership

- * Revision of the current institutions related to export

- * Preparation of mutually consistent export promotion programs

- * Reinforcement of public-private interchange and expansion of private-sector networks by the UMFCFI

- * Fuller compilation of statistics for major products
- Human resource development
 - * Preparation of trade training programs through public-private collaboration
 - * Establishment of a training center for trade like those in Thailand and the Philippines
- Development of Export Special Zone
 - * Designation and development of special export zones for leading incorporation of more efficient inspection and clearance procedures
- Promotion of export promising items
 - * Designation of export promotion items that producers and exporters can enjoy efficient trade value chain

Table 4-31 Priority Tasks for Export Promotion

Major issues	Major measures	Order of priority 1) First priority 2) Second priority 3) Third priority	Public and private roles
1. Lack of overseas information and means of accessing such information	<p>* Establishment of an export-promoting center (Myanmar External Trade Organization; METRO) integrating a center of trade-related information and a trade service center furnishing services in credit information provision and export assistance</p> <p>* Grooming of human resources in the field of trade business</p>	3) No direct impact on the business foundation, but needed for promotion of export	Such a center could be established and operated through collaboration by the authorities (MOC, etc.) and private-sector parties such as the UMFCCI
2. Difficulties in obtaining a business passport and rigid entrance and exit requirements	* Prompt issuance of business passports on a priority basis	3) No direct impact on the business foundation, but needed for promotion of export	- Need for relaxation of regulations by the authorities and observance of rules by private firms
3. Shortage of human resources versed in trade business	<p>* Preparation of trade training programs through public-private collaboration</p> <p>* Establishment of a trade training center like those in Thailand and the Philippines</p>	1) Human resources should be developed together with steady relaxation of export restrictions	- Such a center could be established and operated through collaboration by the authorities (MOC, etc.) and private-sector parties such as the UMFCCI
4. Items of export regulation limiting the business activities of private firms	* Steady relaxation of export restrictions for items whose export was restricted in recent years, items of export promotion, and industries with promising export prospects undergoing	1) Constraints on the business foundation; urgent need for revision	- Easing of regulations by the authorities and development of business in items of export promotion by private firms

	separate study * Privatization in the concerned fields		
5. Decline in export competitiveness and profit due to the export taxation (8-percent commercial tax plus 2-percent income tax)	* Reduction of export duties on items of export promotion and items in industries with promising export prospects undergoing separate study * Reinforcement of import tariffs * Establishment of a special export zone * Import tariff in dollar to cover losses of abolition of export tax	1) Direct impact on business profit and international competitiveness	- Revision of tax/tariff rates and reinforcement of surveillance and penalties for illicit private-sector practices such as under-valuation by the authorities, and observance of rules by private firms
6. Import restriction items and quantities	* Shift from quantity-based control to higher tariff rates for import of non-essential goods or import tax in dollars for non-essential goods	1) Large impact on the business foundation, and needed for more efficient trade business	- Need for relaxation of regulations by the authorities and observance of rules by private firms
7. Frequent policy and institutional changes and sudden notifications	* Establishment of an official export promotion steering committee convened on a regular basis with private- and public-sector membership * Revision of the current institutions related to export * Preparation of mutually consistent export promotion programs * Reinforcement of public-private interchange and expansion of private-sector networks	1) The problems are linked to an inability to prepare business plans and loss of external credibility; need for urgent improvement	- Promotion of public-private interchange under the leadership of the authorities and expansion of private-sector networks under the leadership of the UM FCCI

	by the UMFCCL * Fuller compilation of statistics for major products		
8. Rigid customs clearance process and encouragement of black-market transactions due to the recorded price system	* Abolition of the recorded price system in customs duties * Spot inspections and tougher penalties to prevent illicit declarations	2) Constraints on the business foundation; urgent need for revision	- Need for relaxation of regulations by the authorities and observance of rules by private firms
9. Complex, inefficient import-export procedures	* Switch to a more export-oriented system in customs clearance procedures for items not subject to import-export restrictions * Implementation of trade business process reengineering (BPR) to streamline the process of import-export licensing and customs clearance	2) No direct impact on the business foundation, but needed for more efficient export business	- Improvement of the business process under the leadership of the authorities
10. Inefficient, inconsistent inspection and clearance procedures	* Fuller instruction and training for customs personnel * Installation of an innovative evaluation system for administrative services, degree of user satisfaction, etc. * Improvement of port and harbor facilities in the Yangon area and others in accordance with infrastructure plan	2) No direct impact on the business foundation, but needed for more efficient export business	- Improvement of the business process under the leadership of the authorities

11. Inefficient import-export financing and lack of related services Insufficient export incentives	<ul style="list-style-type: none"> * Resumption of provision of import-export financial services at private-sector financial institutions together with dollar control measures * Instruction and training for staff at the MFTB and MICB, MEB * Duty process improvement and computerization at the MFTB and MICB, MEB * Installation of export financing services 	2) No direct impact on the business foundation, but needed for more efficient export business	- Improvement of the business process under the leadership of the authorities and easing of regulations
12. Insufficient export incentives	<ul style="list-style-type: none"> * Reduction of export taxes for items of export promotion and promising export industries * Installation of export financing services * Bonus system for model firms 	3) No direct impact on the business foundation, but needed for promotion of export	- Improvement of the business process under the leadership of the authorities and easing of regulations

13. Level of quality not acceptable in Japan and other developed countries (processed lumber and food products, etc.) * Low-value-added products * Lack of technology and market	* Expansion of training opportunities for improvement of the quality of items for export promotion and products with promising export prospects (establishment of a training center for improvement of the technical level of export products) * Financial support for the import of production facilities and equipment * Attraction of FDI	1) Direct impact on the business foundation; one of the key factors for promotion of export	- Integrated measures for technical improvement through public-private collaboration
14. Lots of regulatory issues, Complicated procedures	* Designation of a special export zone for leading incorporation of more efficient inspection and clearance procedures	1) Direct impact on the urgent export foundation; one of the key ideas for promotion of export	- Need for relaxation of regulations by the authorities as a sort of test in order to make a successful case
15. Lots of regulatory issues, Complicated procedures	* Designation of export promotion items that producers and exporters can enjoy efficient trade value chain	1) Direct impact on the urgent export foundation; one of the key ideas for promotion of export	- Need for relaxation of regulations by the authorities as a sort of test in order to make a successful case

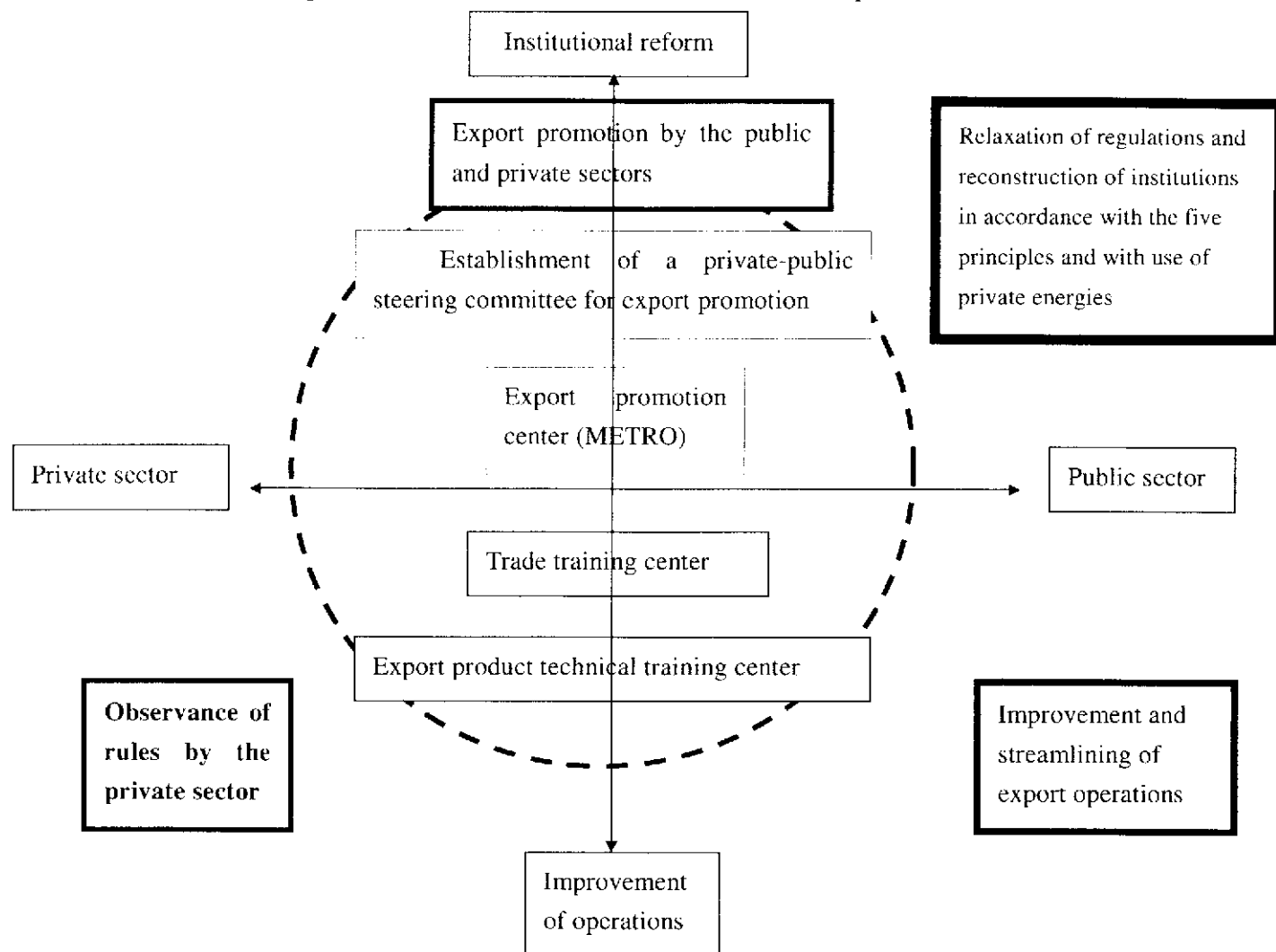
Source: prepared by the JICA study team

4.2.4 Division of Public and Private Roles for Export Promotion

There are lots of cases such as in Japan, Thailand that the government leads to cooperate between private sector and public sector in order to establish industrial policies and programs. It is quite usual that the government gets business information from private sector and the private sector provides information to the government.

Public sector is responsibility for regulation and control of trade to promote export for Myanmar economy. Private sector has to survive for global competition with keeping fair rules. The both parties should recognize this system as a matter of course.

Figure 4-27 Division of Public and Private Roles for Export Promotion



Source: JICA Study Team

4.3 Export Promotion by Special Export Products Supported by the Government

4.3.1 Recent Development in Myanmar's Exports and Major Export Items

(1) Recent Development in Myanmar's Exports

Majority of products that Myanmar exports now are still primary commodities, such as agricultural products, forest products and aquatic products. Yet, recently there have been significant changes in Myanmar's export items. First, rice export, which used to dominate Myanmar's agricultural product export, has been decreasing. Instead, export of pulse and beans has been showing significant increase. Rice export has been declining except in 1994/1995 when export volume increased because of the diffusion of double cropping. Second, export of aquatic products (especially shrimps) has grown substantially. Third, export of garment products, mainly those processed on commission, has been rapidly expanding. Fourth, export of natural gas has begun and risen.

Since 1988, Myanmar's export value has shown a steady but slow increase. On the other hand, due to the increase in export, Myanmar's trade deficit had been growing every year. Since the export of natural gas for Thailand began in 2000, the trade deficit has decreased.

Table 4-32 Changes in Myanmar's Exports: By Export Items

	1985FY	1990FY	1995FY	1996FY	1997FY	1998FY	1999FY p.a.	2000FY p	Share %
Agricultural Products	1,126	942	2,321	1,981	1,952	1,890	1,602	2,312	19.9
Livestock Products	11	5	7	9	8	34	28	37	0.3
Aquatic Products	94	165	615	887	945	941	807	934	7.6
Forest Products	1,046	999	1,048	985	853	789	925	803	6.5
Mineral Products	114	72	70	33	30	74	289	324	2.6
Gems	74	86	137	159	207	149	219	363	3.0
Natural gas	0	0	0	0	0	5	31	1,110	9.0
Garment products	6	8	300	402	436	471	2,722	3,785	30.9
Others	95	676	535	1,032	2,016	2,403	2,324	2,594	21.2
Total	2,566	2,953	5,033	5,488	6,447	6,756	8,947	12,262	100

Note: 1) p.a.: provisional actual p: provisional

2) Share: Share in 2000FY

3) Increase of mineral product export in 1999FY is due to export of refined copper by a joint venture between Ivanhoe Co. Ltd (Canadian refining and proofing company), and No.1 Mining Enterprise at the Monywa Copper Mine. Export of gas in 2000FY is natural gas for Thailand.

4) The figures after 1990 includes export value generated in Border Trade.

Source: : Statistical Yearbook 2001, Myanmar

* In an effort to promote more frequent trades with other countries, Border Trade which was previously prohibited was legalized in November 1998. As a result, international trade between Myanmar and its neighboring countries including Thai, India, and Bangladesh accelerated. The table below shows the current status of Border Trade.

Table 4-33 Amount of Trade in the National Boundary

In US\$ million

Border Trade Partners	1998-1999			1999-2000		
	Export Value	Import Value	Volume	Export Value	Import Value	Volume
China	104.085	126.922	231.007	108.922	130.465	239.387
Thailand	24.121	24.937	49.058	50.101	14.327	64.428
India	2.275	1.812	4.087	6.333	3.055	9.388
Bangladesh	15.819	0.297	16.116	31.046	0.145	31.191
Total	146.300	153.968	300.268	196.402	147.992	344.394

Source: UMFCI 2001 October, Investigation Report

Examples of items exported from Myanmar include, fish, cigarettes (shipped to London), coffee mix, soy beans, crabs, rattan, maize, salted fish, onions, chili, mangoes, and green gram.

Other reasons why Myanmar's international trade has expanded are:

- 1) Myanmar relies on barter trade where deals are made after actual products are checked and confirmed. As a result, the percentage of inferior products is less.
- 2) Delivery is fast which ensures freshness of products.
- 3) Delivery cost is low.
- 4) Export procedures are easy. Myanmar government's settlement system is unclear and thus, confirmation of export value is difficult. Consequently, traders are instructed to complete transactions through authorized banks.

In addition, in order to promote export, international trade, which had been previously dominated by the government, opened its doors to private companies and cooperative associations. Now, trade of all products (except for rice, teak, crude oil, natural gas, pearls, and gems) by private companies is allowed. As a result, export volume by private companies has been expanding.

In 1998/1999, export value by private companies accounted for 4.6 billion Kyat (68.7% of Myanmar's entire export value), exceeding state-owned companies' export value of 2.1 billion Kyat (31.3% of the entire export value). With the arrival of market economy, private companies' businesses are growing in various fields, and their presence in Myanmar's exports is far greater than state-owned companies. (Source: Selected Monthly Economic Indicators, July-Aug. 2001)

Among Myanmar's export products, teak requires special explanation. Currently, teak is one of Myanmar's core export products. Myanmar's teak has received high reputation from international market, and the government is strongly promoting afforestation policies. However, while appropriate logging age for teak trees is over 50 years, majority of teak trees in Myanmar are currently below 50 years old in Myanmar. Consequently, less and less teak trees are available for logging. In addition, areas that have been a major provider of teak trees are now going through shrinkage of population. As a result, significant increase in teak tree export cannot be expected in the future.

Analysis of Myanmar's major exporting countries shows that, India has maintained over 10% share of Myanmar's entire export value since 1990. Although India was Myanmar's largest trading partner up until the 1990s, Thailand was ranked first with 14.3% share in 2000 as the export of natural gas started. The U.S. is ranked third with 13.0% share as a result of the increase in the export of garment products by CMP (cutting, making and packing).

Following the United States, China has ranked fourth with 6.2% share in 2000, followed by Singapore with 6.0% share. Japan is ranked sixth with 4.4% share.

Table 4-34 Myanmar's Major Exporting Countries (Export Value)

(In 1 million Kyat)

	1985FY	1990FY	1995FY	1996FY	1997FY	1998FY	1999FY p.a.	2000FY p.	Share %
India	189	524	1,037	929	1,425	1,040	1,346	1,687	13.8
Singapore	353	846	987	1,007	829	701	813	737	6.0
China	165	396	2,195	336	837	571	847	758	6.2
Japan	199	223	256	374	240	296	362	542	4.4
Thai	135	388	535	544	724	565	553	1,758	14.3
United States	20	4	217	258	219	226	563	1,594	13.0
Indonesia	—	—	299	142	117	203	188	222	2.7
Hong Kong	329	248	359	414	364	353	428	531	4.3
Malaysia	93	41	148	305	165	253	335	471	3.8
Pakistan	31	11	126	94	99	99	69	145	1.2
Korea	17	16	72	53	55	125	91	139	1.1
England	45	5	39	62	94	86	90	221	1.8
Philippines	0	0	133	84	18	36	13	38	0.31
Germany	142	23	37	43	62	57	18	6	0.14

Note: 1) p.a.: provisional actual p: provisional
2) Share : Share in 2000FY
3) The figures after 1990 includes export value generated in Border Trade
4) Source: Statistical Yearbook 2001

(2) Recent Trends in Myanmar's Exports to Japan

Table 4-35 Ranking of Major Export Items (2000)

Export value is in US\$1,000

Ranking by export value	Products	Expor Value	Share (%)	Ranking by export value	Products	Export Value	Share (%)
1	Frozen shrimps	48,879	40.8	14	Gem stones, semiprecious stones	646	0.54
2	Refined copper	15,257	12.7	15	Mollusce	217	0.18
3	Footwear	11,450	9.5	16	Frozen fish fillet	173	0.14
4	Sesame seeds	10,920	9.1	17	Cuttlefish	155	0.13
5	Pulse and beans	7,564	6.3	18	Wooden building materials	129	0.11
6	Apparel products	5,487	4.5	19	Frozen crabs	116	0.096
7	Teak	3,028	2.5	20	Turmeric	97	0.08
8	Fuses (electrical)	2,900	2.4	21	Frozen fish	54	0.045
9	Fish meat	1,646	1.4	22	Roughly trimmed marble	50	0.042
10	Sawn timber	1,429	1.2	23	Veneer plywood	48	0.040
11	Wood flooring	1,136	0.94	24	Beer	22	0.018
12	Transformers	1,080	0.9	25	Wood charcoal	15	0.013
13	Electrical machinery accessories	994	0.83		Others	6,414	
【Total Export Value】				119,906			

Source: Japan's Import from Myanmar, dated Oct. 9, 2001, JETRO Yangon

Changes and characteristics observed in the current export status/products from Myanmar to Japan are:

- 1) Export of frozen shrimps are still dominant with approximately 40% of total export value from Myanmar to Japan. The number of export items remains small.
- 2) Export of refined copper started in 1999. It is now the second largest export item from Myanmar to Japan.
 - i) A joint venture agreement was signed by Ivanhoe Co. Ltd in Canada and No.1 Mining Enterprise of the Myanmar, Ministry of Mining in regards to developing, mining, and refining the Monywa Copper Mine. Production of Copper cathodes by the solvent extraction (SX-EW) method started from November 1998. (Myanmar has the right to keep 10% of copper produced.)

Currently, 25,000 tons of copper cathodes are produced annually, with a goal to

produce 125,000 tons in the future.

- ii) Copper cathodes produced at the Monywa Copper Mine meet global standard of 99% LME grade. Also, the Monywa Copper Mine is the only copper mine in Southeast Asia where copper cathodes are produced by the solvent extraction (SX-EW) method. The production volume is the largest in Asia.

Export price is usually US\$1,400/ton. However, recently the price has dropped to around US\$1,200/ton. Production cost in Myanmar is US\$0.7 per kilogram, about half of industry standard, and thus a great advantage for Myanmar. Finished products are delivered from Monywa to Yangon by trucks. Copper cathodes produced at the Monywa Copper Mine are competitive even considering transportation costs and taxes.

- iii) Export volume of copper cathodes from this project is high (2-3% of GDP) and Myanmar government considers this fact important. Letpandanaung, the mountain seven kilometers apart from the current factory has more than 3 million tons of reserve. Myanmar government is strongly interested in starting to mine this mountain because it is capable of producing 12.5 million tons of copper per year (five times more than the current production volume).

- iv) The most critical issue is the shortage of electricity. If the production volume increases by five times, electricity will also increase by five times. Myanmar government is planning to build a steam power plant using coals mined from nearby Kalewa. However, the construction costs are estimated to be approximately JPY10 billion.

- v) Copper Export from Myanmar to Japan (Source: Nagoya Custom Office)

1998: No export from Myanmar to Japan.

1999: Export volume: 13,386,408 kg @JPY168.26/kg

Export value: JPY2,252,371,000

2000: Export volume: 8,667,710 kg @JPY188.62/kg

Export value: JPY1,634,861,000

2001: Export volume: 5,810,952 kg @JPY209.15/kg

Export value: JPY1,215,332,000

Copper could be one of core export items to Japan in the future.

- 3) Rapid increase in export in footwear industry is observed since 2000.

Footwear export have rapidly increased with total export value of US\$5,614,000 in 1998, US\$6,135,000 in 1999, and US\$11,450,000 in 2000. Footwear was the second largest export item from Myanmar to Japan in 2000.

Currently, three foreign affiliates (two Korean companies and one Taiwan company) have joint venture operations in Hlaing Tharyar Industrial Park. The NRI research team conducted an interview with Sunny, one of the two Korean companies. Below is a summary of

the interview:

- i) In February 2001, 5,000 pairs of shoes were exported to Japan for the first time. They were "Air Light" brand casual shoes by Hawkins.
 - ii) Since Myanmar qualifies for general preferential duties that the Japanese government provides to developing companies, products can be exported to Japan with hardly any custom duties. On the other hand, items exported from Korea to Japan are subject to approximately 5% import tax.
 - iii) Currently, monthly production volume remains low at 15,000 pairs. In six months, Sunny plans to double this figure with a goal to manufacture 500,000 pairs annually. Another Korean company is planning to start operations in Myanmar. In the beginning of 2001, the Japan Leather Association organized a tour to Myanmar for 13 Japanese companies. One of these companies is supposed to be interested in launching operations in Myanmar. Entry by more Japanese companies to the Myanmar market is desired.
- 4) Coffee and honey were exported to Japan for the first time in the first half of 2001, (although their export value were small.) In addition, export of other new items such as beer, marble, and turmeric, are increasing gradually. It is hoped that export of these items will grow in the future.
- 5) Because of the ban on sesame seeds export activated in 1999, export of sesame seeds declined rapidly to US\$3,625,000 in 1999. However, export value recovered to US\$10,920,000 in 2000 after the ban was abolished. Among pulse and bean products, export of matpe has been steady and Myanmar is now Japan's second largest trading partner, following China. Japan ranks the third to import kidney beans following the United States and China. These are promising export products in future.
- 6) Myanmar government considers apparel industry critical for generating employment and earning foreign currencies. There are approximately 400 companies/factories that are engaged in Cutting, Making & Packing (CMP) in Myanmar. According to Statistical Yearbook 2000 by Myanmar government, export from apparel industry reached 877 million Kyat (US\$140 million, based on the official exchange rate) and accounted for 12.45% of the entire export value of Myanmar. According to one source, Myanmar's apparel industry is estimated to be earning US\$400 million. Apparel industry is now viewed as one of the country's core export industries, together with agricultural and forest industries.
- However, export to the United States showed a substantial decrease, after last year's boycott campaigns by European and American consumers, and a resolution to put a total ban on Myanmar product imports was submitted to the US Congress. In addition, mandatory exchange rates used in foreign currency earnings for CMP at public

exchange counters (US\$1-450Kyat instead of US\$1-750Kyat) are disadvantageous to Myanmar's apparel industry. International and domestic environments that surround Myanmar apparel industry are very difficult and its future is unpredictable. The number of Japanese companies launched operations in Myanmar increased rapidly as the table below indicates:

Table 4-36 Japanese Apparel Companies Newly Entered Myanmar (Garment Industry)

Company Name	Headquarters	Main Products	Location of Factory	Trading Companies Involved
Okuda Sawing	Gifu	Trousers	Hlaing Thayar Industrial Park	
Access	Osaka	Men's shirts	Shwe Pyitar Industrial Park	Daimaru Kogyo
Kojima Apparel	Seki	Women's apparel	Shwe Pyitar Industrial Park	
Just	Nagoya	Men's apparel	Shwe Pyitar Industrial Park	Daimaru Kogyo
Tomiya Apparel	Osaka	Men's shirts	CMP at the Daewoo factory	

Source: Prepared by the JICA study team, based on the field survey in Oct. 2001.

(3) Survey of the Actual Conditions of Export Companies

The NRI research team conducted a questionnaire survey in order to understand the actual conditions of export companies in Myanmar. Below is a summary of the survey.

The NRI research team requested UMFCFI for a list of large export companies. Among the companies that UMFCFI selected, questionnaires were sent to 137 companies in August 2001.

Table 4-37 Respondents of Questionnaire Survey

Industry	Number of companies questionnaires are sent to	Number of companies completed questionnaires	
Agricultural product company	123	5	<div style="display: flex; align-items: center;"> <div style="font-size: 3em; margin-right: 10px;">}</div> <div> Government-affiliated 4 Private enterprises 32 Total 36 </div> </div>
Aquatic product company	5	-	
Industrial product company	1	7	
Wood product company	5	2	
Textile company	2	3	
Mineral substance company	1	-	
Others (unknown)	-	15	

Source: JICA study team

Since overwhelming number of respondents are agricultural product companies, questionnaires were sent to 18 additional companies in agricultural industry. Of 155 companies questionnaires were sent to, 18 went bankrupt or were going through restructuring. 36 companies completed the questionnaire. Because the content of the questionnaire was not yet common among respondents, recovery rate was low and respondents' answers were not sufficient. UMFCI and the NRI research team conducted additional telephone interviews and paid visits to respondents in order to obtain more information.

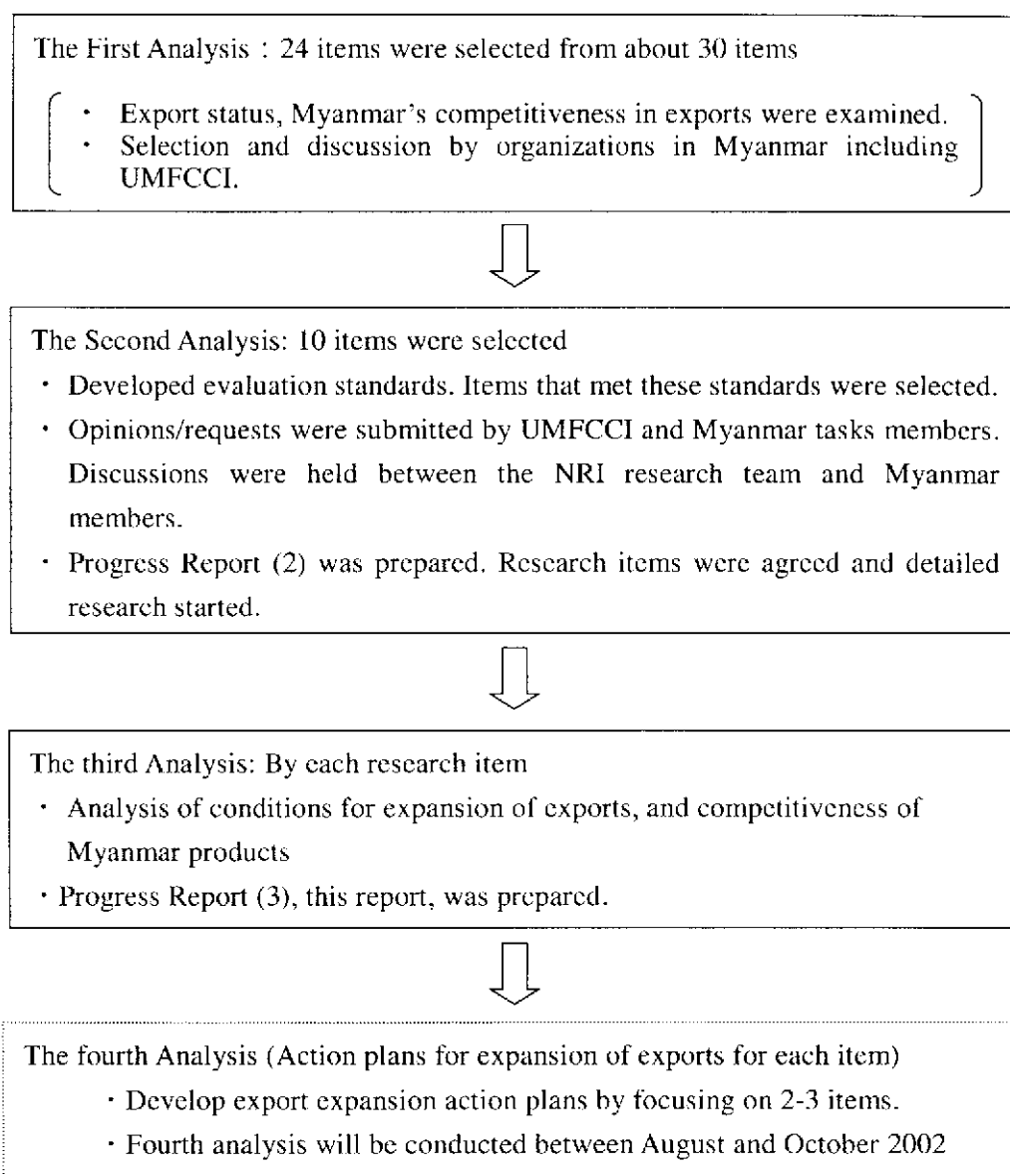
- Majority of companies did not disclose sales/profit figures.
- Some of private companies in apparel, industrial product, wood product and agricultural product industries were large. (Average number of employees was 630 in 12 companies.)
 - 20 companies were small with 2 to 20 employees.
 - In short, majority of the respondents were small companies.
- There are only four companies with annual sales of 100 million (JPY20 million) or more. This indicates that these Myanmar companies' current business size is quite small.

4.3.2 Analysis of Export Items with Growth Potential Selection and Characteristics of Items for Analysis

(1) Analysis and Selection Methods

In this research, selecting 5 to 6 items with short-term growth potential, and examining ways to expand export are considered critical in developing future master plans for Myanmar's export industry. Specifically, the following actions are important: a) identify current issues in export of these items and; b) analyze conditions for expanding export (particularly government support, areas that should be improved in the current government policies, and issues to be solved in order to strengthen Myanmar's competitiveness in global export market). However, it is not easy to select only a few items from numerous export items. Therefore, in the actual research, about 10 items were selected in order to examine their growth potential from broad perspectives. In addition, five existing export items (existing, core export items in Myanmar which are expected to grow further), and five new export items (items that Myanmar should try to expand) were selected respectively.

Figure 4-28 Analysis/Selection Process of Export Items with Growth Potential



Source: JICA study team

Research Items were selected based on their growth potential, including items selected for the fourth analysis (to be conducted between August and October 2002). All selections were not made based on standardized criterion. However, items were chosen considering three main factors outlined below:

- Opinion/requests from task members in Myanmar including UMFCCL (UMFCCL discussed with Myanmar government during the selection process.)
- Items with great export potentials, existing export items with certain export volume, and new items that have potential to grow considering Myanmar's natural/human resources.

- Items whose export volume to Japan can be expanded in a short period of time.

Specifically, the following six factors were considered when 24 items were selected.

(2) Selection of items with great growth potential from existing export items

- Items with large export value in the past ten years.
- Items, which have been exported for many years.
- Competitive items with growth potentials, and certain export volume.
- Items with existing supply routes, which ensures easy access to high-quality items in Myanmar.
- Items that Myanmar people know how to handle (have product knowledge).
- New items with considerate growth potential.

Table 4-38 The First Selection

Unit: 1million Kyat

Items	Total export value in five years	Average annual export value	1999/00FY	30 items considered in the first selection	24 items chosen in the first selection	Note
Rice	(95FY~99FY) 836	167.2	65	○	○	
Corns	368	73.6	54	○	○	
Matpe	2,314	462.8	426	○	○	
Green grams	1,668	333.6	346	○	○	
Other beans	2,365	473.0	407	○	○	
Sesame seeds	799	159.8	82	○	○	
Oil cakes	19	3.8	2	○	○	
Rubber	660	132.0	75	○	○	
Raw cotton	61	12.2	10	○	○	
Flax	19	3.8	0	○	○	
Coffee	73	14.6	16	○	○	
* Kenaf	5	1.0	0.6	○	○	
Livestock products	86	17.2	28	○	○	
Other agricultural products	729	145.8	135	○	○	
Fish	1,203	240.6	229	○	○	
Shrimps	2,624	524.8	529	○	○	
Other fishery products	368	73.6	49	○	○	
Teak	3,823	764.6	727	○	○	
Hard wood	777	155.4	198	○	○	
Plywood	311	62.6	101	○	○	
Copper	-	-	289	○	○	
Gems	871	174.2	217	○	○	
Apparel	2,486	497.2	877	○	○	
Others	8,259	1,651.0	2,296	○	○	
Footwear	-	-	69	○	○	
Computer software	-	-	-	○	○	
* Electronic assembly parts	-	-	-	○	○	
* Old rubber wood	-	-	-	○	○	
Lacquer, wood carving	-	-	-	○	○	
Food processing (Canning)	-	-	-	○	○	
Flooring	-	-	-	○	○	
Furniture	-	-	-	○	○	

* New, promising products

Source: Statistical Yearbook 2000

Ten items were selected from the above list based on the following factors.

- Export value is large.
- Have great growth potential.
- Growth is expected to continue in the future.
- Myanmar has specific technical capabilities in the subject area.
- One core item was selected from each sector.

Table 4-39 Ranking of Export Value: by Items

(In 1million Kyat)

Ranking	Item	Average in five years (95FY~99FY)	99/00 Export Value	Potential	Growth Potential	Volume	Competitiveness
1	Pulse and beans	1,269.4	1,179	◎	A	A	A
2	Apparel	497.2	877	◎	B	A	A
3	Teak	764.6	727	○	C	B	A
4	Shrimps	524.8	529	◎	A	A	A
5	Refined copper	0	289	◎	A	A	A
6	Fish	240.6	229	○	B	C	A
7	Gems, pearls	174.2	217	○	A	A	A
8	Plywood	62.2	101		C	D	C

A: Very strong

B: Strong

C: Moderate

D: Weak

Source: Statistical Yearbook 2000

Five items with a “◎” symbol (Shrimps, refined copper, footwear, pulse and beans, and apparel) are chosen from existing export items. These items require further analysis. Average annual growth rate of shrimp export has been stable in the past five years. However, shrimp was chosen because their export volume is large and, further growth can be expected in naturally grown shrimp. These five items account for about 75% of all exports to Japan from Myanmar.

Items with a “○” symbol are existing export items which requires further improvement. These items are analyzed within the scope of this research. Their growth potential and competitiveness are discussed in this report and attachments.

(3) Analysis of New, Promising Export Items

New, promising items were selected in the method below.

New items that Myanmar is capable of exporting include: sugar, honey, tea, coffee, pickles, ginger, green soybean, arum root, beer, buckwheat, dried/frozen/processed vegetables, turmeric, rice flour, threadfin bream, rattan, cooking vinegar, and plant dyeing. Based on the survey to government-owned enterprises and private enterprises, selections were made considering the four factors below.

- Items whose basic ingredients/materials are available in Myanmar.
- Relevant industry is underdeveloped.

- Large-scale investment is not necessary.
- Export value of US\$1 million annually or more is expected.

As a result, the following five items were selected.

- 1) Kenaf
- 2) Castings
- 3) Old rubber wood recycle project
- 4) Laminated wood
- 5) Electronic assembly parts

Additional investments are necessary to handle increased production, and improve production facilities, in order to manufacture products for export. However, above five items are chosen based on the assumption that large-scale investment will not be required.

Computer software was also considered as a research item. However, this was not selected as part of five new, promising items. Success of computer software industry in Myanmar depends largely on the volume of orders from overseas, and FDI to Myanmar. Also, a large number of software specialists who have been trained at Myanmar's higher educational institutions, found employment in other countries, including Singapore. Therefore, it was concluded that it would take for a while for Myanmar's software industry to be able to develop products for export.

Table 4-40 Current Export Promising Items

		(1) Kenaf	(2) Castings																		
1	Reasons these items are selected	<p>1) Characteristics/advantages of Kenaf</p> <ul style="list-style-type: none">- Kenaf (Hollyhock family, Hibiscus genus) is the annual that grows in Africa and Southeast Asia. This plant grows fast, and in 4-6 months.- Absorbs large amount of carbon dioxide and effective in preventing global warming.- Can be used for newspaper, currencies, construction material, auto parts, and animal food as non-wood pulp. Helps preserve trees.- Earn foreign currencies by importing Kenaf (pulp in particular).- Increase employment in agricultural/industrial areas. <p>2) Jute Industries in Myanmar is promoting kenaf export by five-year plans in order to enlarge growing area.</p> <p>3) Japan imports approximately 5,000 tons of kenaf from Thai and China.</p>	<p>1) Myanmar is a farming country. With technical assistance from Kubota, Myanmar Agricultural Machinery Industry (MAMI) has been manufacturing irrigation pumps and engines using its own capital. This effort has contributed to the automation of farming in Myanmar.</p> <p>2) Among various achievements by MAMI, production/export of castings is the only opportunity to earn foreign currencies at this point</p> <p>3) In 1981, with technical assistance from Kubota, MAMI established a casting factory, one of the best in Southeast Asia, through ODA. The factory exported approximately 600 tons of castings to Japan, including manhole covers, and parts for engines/pumps.</p> <p>4) All pig iron required for manufacturing castings is available from iron manufacturers in Maymyo. This is a typical, labor-intensive industry.</p>																		
2	Plan	<p>Five-year Plan for Kenaf Production (MJI)</p> <table><thead><tr><th>FY</th><th>Sawn Acre</th><th>Fiber Produced (Viss)</th></tr></thead><tbody><tr><td>2001/02</td><td>10,000</td><td>3,000,000</td></tr><tr><td>2002/03</td><td>15,000</td><td>4,650,000</td></tr><tr><td>2003/04</td><td>20,000</td><td>6,400,000</td></tr><tr><td>2004/05</td><td>25,000</td><td>8,250,000</td></tr><tr><td>2005/06</td><td>30,000</td><td>10,200,000</td></tr></tbody></table> <p>(Note)</p> <p>1) MJI requested for assistance from Japan in kenaf cultivation and pulp production.</p> <p>2) The Ministry of Agriculture, Forestry and Fisheries of Japan started to cultivate, harvest and process kenaf in July 1999 with a three-year plan.</p> <p>3) Toyota plans to commercialize kenaf as automotive interiors. The company is now test-growing kenaf.</p>	FY	Sawn Acre	Fiber Produced (Viss)	2001/02	10,000	3,000,000	2002/03	15,000	4,650,000	2003/04	20,000	6,400,000	2004/05	25,000	8,250,000	2005/06	30,000	10,200,000	<p>Production capability</p> <p>1981 (year of establishment) Approx. 4,000 tons</p> <p>1998 (year of overhaul assisted by Kubota) Approx. 3,500 tons</p> <p>Net raw material 2,500 tons</p> <p>Export expansion plan</p> <p>Of 2,500 tons, domestic use 1,500 tons and export 1,000 tons</p> <p>Of 1,000 tons export</p> <p>Raw material 600 tons</p> <p>Processed (value added) 400 tons</p> <p>First goal is to secure US\$ 1 million annually for export</p> <p>(Note)</p> <ul style="list-style-type: none">- Quality of castings manufactured in Myanmar is high and the price is competitive compared to China and Korea.- Casting industry is not a popular industry in Japan. Therefore, Japanese companies are expected to move their factories to Myanmar, rather than China or Korea, in the near future.
FY	Sawn Acre	Fiber Produced (Viss)																			
2001/02	10,000	3,000,000																			
2002/03	15,000	4,650,000																			
2003/04	20,000	6,400,000																			
2004/05	25,000	8,250,000																			
2005/06	30,000	10,200,000																			
3	Issues	<p>1) In order to use kenaf as pulp and to export pulp, pulp production plants have to be established (financial issues.)</p> <p>(Note) Price of kenaf pulp: US\$500~US\$800/ ton</p> <p>2) In Thai, there is a kenaf production plant called, Phoenix Pulp Co. Need to consider competition with Thai. Further feasibility study will be desirable.</p>	<p>1) Overhaul conducted in 1998 should be carried out again. New processing facilities/equipments should be built in order to produce more value added products for export (additional JPY200-300 million will be necessary.)</p> <p>2) Privatization of MAMI is desirable.</p> <p>Benefits</p> <ul style="list-style-type: none">- Acquisition of foreign currencies by expanding export will promote independence of MAMI, and vitalize farming machine industry.- Privatization of MAMI will support industrialization strategies in Myanmar.																		

Source: Myanmar Jute Industries, Kubota Corp.

		(3) Old rubber wood recycle project	(4) Laminated wood
1	Reasons these items are selected	<p>1) Objective of this project is to recycle old rubber wood that have been abandoned in rubber plantations since 1960's and to redevelop rubber plantations. Necessary technologies and facilities are implemented from Malaysia, since Malaysia has processing know-how of rubber woods. Rubber woods in Myanmar are processed and imported to Malaysia as a new export item to earn hard currencies, because the shortage of rubber woods has boosted its price in Malaysia.</p> <p>2) A joint venture called "Rubber Wood Development Corp." was established in 1993 to serve above objectives. (Capital: 600,000 Kyat. Shareholders: Myanmar private enterprises (34%), Malaysian enterprises (66%). Headquarters are in Yangon.)</p> <p>3) A factory was built in Myanmar in 1993, and export to Malaysia has already started (Average 3,000 to 4,000 H/Ton per year. Annual export volume is JPY80 million.) Rubber woods exported to Malaysia are made into furniture including dining room sets, which have received good reputation. Goal is to produce 50,000H/Ton and reach export value of JPY100 million in the future.</p> <p>4) Matsushita Electric Industrial exports rubber woods processed in Myanmar from Malaysia for furniture-type Kotatsu (Japanese fireplace with a cover).</p> <p>5) If production capabilities improve in the future, rubber woods can be exported to Japan, too.</p>	<p>1) Laminated wood consists of lamina and small pieces of wood, glued together in length, width and thickness by aligning direction of fiber. There are two types of laminated wood, one for furnishing use, and another for structural use.</p> <p>2) Laminated wood improves extraction rate of woods and produces high quality woods with less aberration.</p> <p>3) Fancy laminated wood by thin sheets of woods with beautiful fancy veneer such as teak wood, rosewood, and marblewood, creates greater added value.</p> <p>4) Since guaranteed quality is required in today's Japanese housing market, there are greater demands for laminated wood because of its standardized quality. In 2000, 368,000 square meters of structural laminated wood was used for furnishing use, while 1,067,000 square meters were red for structural use in Japan. Consumption for fancy use has been flat since 1993, while consumption for structural use increased by four times.</p> <p>5) Laminated wood processing is a labor intensive industry. It is an easy market to enter as long as quality that meets requirement for export to Japan is secured.</p> <p>6) In Myanmar, laminated wood should be used for staircase, banisters, counters, tables, floors, walls, quarter round and strips. In addition, fancy veneer teak board could be a good product to promote.</p>
2	Issues	<p>1) Existing factory is located in the north of Yangon where it is difficult to obtain rubber woods.</p> <p>2) New factories should be built near the Malay Islands since it has easier access to rubber woods.</p> <p>3) Currently, rubber plantations are governed by Tyre & Rubber Industries while rubber woods are governed by Myanmar Timber Enterprise. Transfer of rubber woods has been made difficult by turf rivalry between these two enterprises.</p> <p>4) At this stage, there is not enough capital to expand the existing factory.</p>	<p>1) Export to Japan will be subject to JAS standard. Therefore, quality control has to be thorough.</p> <p>2) JPY300 million investment should be made for furnishing laminated wood for decorative use. Goal is to produce 100 square meters per month.</p> <p>3) Large quantity of furnishing laminated wood made from dicotyledonous wood is imported to Japan from Indonesia, Malaysia and China.</p>

Source: Rubber Wood Development Corp., Japan Laminated Wood Products Association, et al

(4) Relationship between Export and Private Sector Initiatives/Government Intervention
(Reference items)

The diagram below shows expansion of exports to Japan expected for five existing export items with growth potential, five new, promising items and several other items with large export volume. The diagram also illustrates relationships of these products with intervention by private enterprises and the government. Horizontal axis illustrates growth rate of exports to Japan in the past five years. Longitudinal axis represents degree of government intervention based on the interviews conducted by the NRI research team. Due to the lack of actual data, this data is rather conceptual. The diagram shows that growth potential and the government involvement are trade-off. In short, there are significant differences in growth potential between export items led by private enterprises and those led by the government.

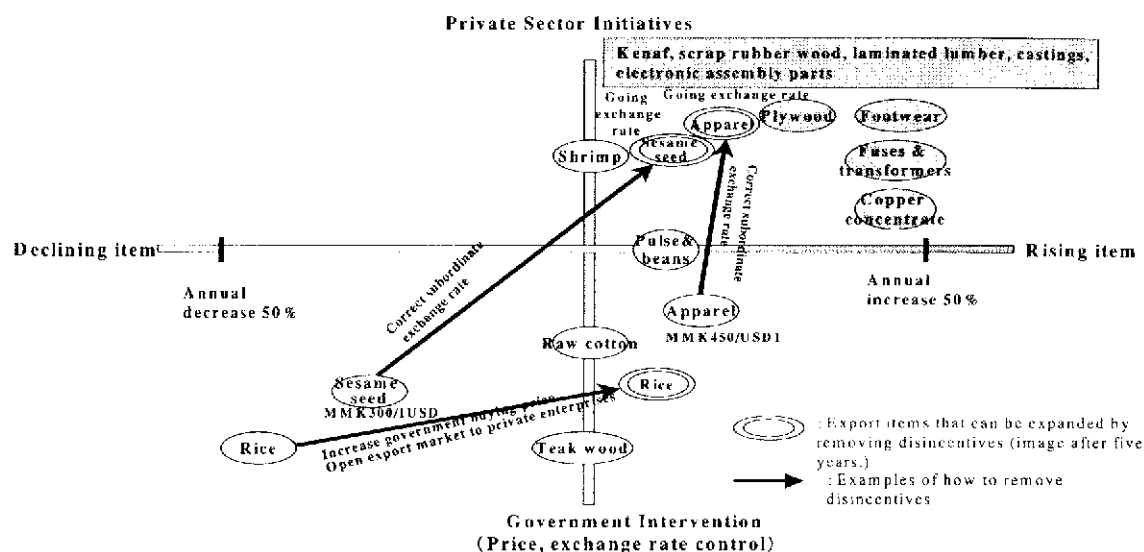
Types of export control currently placed by Myanmar government include, restrictions on export, price control, and restrictions on currency exchange. Significant expansion can be expected in export items such as sesame seeds and apparel, if only restrictions on currency exchange are removed (or disincentives on export are removed, viewing from exporters' perspectives.)

In addition, this diagram graphically illustrates the conclusion of this research, "Myanmar government should analyze how to increase export items driven by private enterprises and decrease items driven by the government, in order to promote export from Myanmar."

Also, diagram 2 presents examples of disincentives in export, and ideas for political strategies for three items, apparel, rice, and sesame seeds.

In particular, apparel is considered as one of future core industries for Myanmar. In addition to removing existing disincentives for exporters by correcting exchange rates, Myanmar should try to minimize its reliance on the United States, expand export markets, and adopt other strategies to develop apparel industry. Examples of strategies Myanmar should adopt include: to accept orders from Hong Kong and Singaporean dealers who have strong connection in European markets, (stop relying on Taiwanese dealers only and); improve product quality for Japanese market. Immediate issues in systems/programs that Myanmar government should consider are establishing technical training centers, and developing a system that supports prime contractors.

Figure 4-29 “Trade-off” Relationship between Private Sector Initiatives and Government Intervention (Myanmar’s Exports to Japan in the Past Five Years)



Source: Japan Custom Statistics

Figure 4-30 Examples of Disincentive in Export Political Options to Minimize Disincentives

Items	Examples of Issues	Political Options
Apparel	<ul style="list-style-type: none"> From August 2001, subordinated exchange rate (MMK450/USD1) is applied to foreign currencies gained from CMP export. Resulted in 30% exchange loss. Orders from the US declined significantly due to deliberation of bill to ban exports from Myanmar. 	<ul style="list-style-type: none"> Lower dependence on the US (currently approx. 80%) which has placed economic sanction on Myanmar. Diversify export market. Establish relationships with Hong Kong and Singaporean dealers who have access to European markets and not focus only on Taiwanese dealers who specialize only in the US market. In order to enter Japanese market, technologies to meet Japanese consumers' needs must be acquired. Developing technical training centers and principal contractor system will be effective.
Rice	<ul style="list-style-type: none"> Government buying price of rice has remained low and barely covers farmers' production cost. Domestic retail price is also low. Government dominates profits from export (Buying price is USD20/ton and exports for USD120/ton.) 	<ul style="list-style-type: none"> Increase government buying and loans to farmers for purchasing farming machines and fertilizers (currently loan limit is USD30 for one farmer for six month) in order to gradually minimize forficate differences among farmers. Import hybrid seeds or establish joint venture in order to improve productivity Open export market to private sector.
Sesame Seed	<ul style="list-style-type: none"> Since 1999, subordinate exchange rate (MMK300/USD1) has been applied to private enterprises' foreign revenue from sesame seed export, in order to export refined sesame oil. Resulted in 50% exchange loss. Sesame oil refining business is not profitable, either. 	<ul style="list-style-type: none"> Open sesame seed export market to private sector Sesame oil pressing business seems difficult to launch full operation because of extraction rate issues and aging facilities.

Source: JICA study team