

BIMSTEC – Japan Cooperation in International Trade

Myanmar Perspective

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BIMSTEC- Japan Cooperation in International Trade: Myanmar Perspective

Maung Aung* and Min Min Than**

Executive Summary

Global trade of the BIMSTEC countries is still insignificant, accounting only two percent of total world trade in 2004. Although, all the BIMSTEC member countries have formed RTAs in recent years, the intra-BIMSTEC trade volume has not yet increased substantially and most of the member countries are having higher trade with extra-bloc countries.

By using Revealed Comparative Advantage and Trade Intensity Indices, this paper identifies the intra-regional trade potential. BIMSTEC countries show comparative advantages in differentiated products thereby indicates high trade potentials in the region. The perspective of Myanmar's foreign trade and FDI reflects the importance of economic cooperation not only with BIMSTEC countries but also with other Asian countries including Japan. Although the structure of export has slightly changed from agricultural products to non-agricultural products and emergence of industrial exports, the primary products still dominate Myanmar's export structure. In addition, the growth rate of exports, in terms of gross per capita, Myanmar records the highest growth rate thus showing high potential

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of trade in future. This paper recommends that trade promotion measures among the BIMSTEC countries are seriously in need of revitalization and the border trade improvements should be considered especially for India, Bangladesh, Thailand and Myanmar.

Myanmar-Japan relations in trade, investment, and cultural linkages demonstrated that Japan always stood as the largest ODA supplier as well as the main exporter to Myanmar. Thus, socio-economic relation between these two countries remarked the deepest and closest among the Asian countries. When Myanmar adopted market oriented system, the relationship should conceptually be stronger than before, and more economic corporations are hopefully expected. But, in practice, economic cooperations deteriorated gradually due mainly to political reasons. In fact, the ODA and FDI from Japan substantially decreased since 1988, and it reached only marginal level in every aspects.

Myanmar possesses comparative cost advantage in labour and huge potential of industrialisation in Asia. Moreover, it is strategically located between two very large countries, China and India, and also acts as corridor between ASEAN and SAARC. This paper suggests that labour intensive manufacturing like garment, toy, footwear, agro-based processing industries, and resource based processing industries, marine products processing industries and electronic and automobile industries should be promoted in Myanmar mainly because of its abundant resources and cheap labour, on one hand, and rising wages in Southeast Asia, on the other. Especially, food-processing industries, such as fast food, canning of agro-based and marine product, etc., are beneficial for both the sides. There are ample opportunities for Japan to cooperate with and invest in Myanmar and also in its BIMSTEC members.

This paper suggests that Japanese FDI should be guided towards the infrastructure development of the BIMSTEC countries. Special attention should be given to emphasize the growth of potential industries and trade with bilateral approach in particular. In order to attract Japanese FDI, BIMSTEC countries should strengthen macro

economic condition, liberalize trade, harmonize investment regime, and adopts prudent financial and capital market.

1. Introduction

BIMSTEC was originally formed in 1997 to promote regional economic cooperation in the areas of trade and investment, transport and communication, technology, energy, tourism, agriculture, fisheries and human resource development. The emergence of regional trading blocs has been one of the major developments in the international relation in recent years. The main purpose of the regional trading blocs is to reduce trade barriers and to promote trade and investment. Now-a-days, many countries in the world belong to at least one or more regional trading blocs. Moreover, rapid globalization has accelerated the growth of regional trading blocs based on proximity to ensure economic efficiency through larger markets, increased competition, and access to foreign investment and technology.

This paper first aims to present recent trade pattern of the BIMSTEC countries in brief and to analyze the trade potential of the countries with the help of Revealed Comparative Advantage (RCA) Index. RCA measures the comparative advantage of each country in each product for export. In addition, modified RCA is applied to compare comparative advantage among the BIMSTEC countries.

In order to understand the Myanmar perspective, this paper then reviews the role of foreign trade in Myanmar in general and the current economic cooperation between Myanmar and Japan in particular with a special focus on trade and investment. We use Trade Intensity Index (TII) to analyze Myanmar's trade with BIMSTEC countries and Japan and to focus the future trade potential.

2. Trade openness of BIMSTEC Countries

Most of the BIMSTEC countries, except Thailand, were inward-oriented. Consequently, they used to belong to the group of low income and economically backward countries. At present, they can be seen as the economies in transition from closed economies to open economies. Among the seven economies in BIMSTEC, Thailand, an outward-

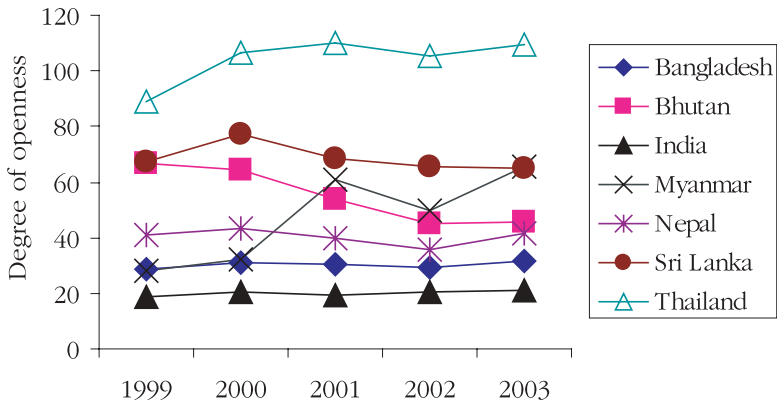
Table 1 Openness and RTAs of BIMSTEC Countries

Year	Bangladesh	Bhutan	India	Myanmar*	Nepal	Sri Lanka	Thailand
1999	28.62	66.95	18.49	28.25	41.21	67.41	88.92
2000	31.28	64.41	20.53	32.41	43.46	77.19	106.73
2001	30.72	53.95	19.39	60.73	39.54	68.52	110.07
2002	29.42	45.25	20.74	50.02	35.73	65.30	105.25
2003	31.83	45.94	21.09	65.50	41.29	64.69	109.36
RTA	BIMSTEC, BA, SAARC	BIMSTEC, SAARC	BIMSTEC, BA, SAARC	BIMSTEC, BA, SAARC, ASEAN	BIMSTEC, SAARC	BIMSTEC, BA, SAARC	BIMSTEC, ASEAN

Notes: * Taken from ASEAN Statistical Yearbook 2005. The degree of openness of the respective economies is measured by trade-GDP ratios.

Source: WTO

Figure 1: Trade-GDP Ratio of BIMSTEC Countries (2003)



Source: WTO

oriented country since 1960s, has become one of the High Performing Asian Economies (HPAEs) and is now considered in the middle-income group at the global level. The geographically disadvantage location caused Nepal and Bhutan to be low-income countries.

In the 1990s, regional trade agreements (RTAs) in Asia emerged, just like other regions. Presently, the BIMSTEC countries also enjoy at least two or three RTA membership for the promotion of economic cooperation within the region (Table 1). The economic structure of the BIMSTEC countries, with the exception of Myanmar, more or less follows a similar pattern. Myanmar shows no substantial change within 1980-2003. Thailand appears to be the only country in BIMSTEC which has undergone a significant structural change from agriculture to industry to service sectors during 1980 to 2003 (Table 2 and Figure 2).

In fact, in most of the countries, except Myanmar and to a certain extent Sri Lanka, sectoral change occurred along with development: the relative share of agriculture declined and that of industry and service sectors increased within a span of about two decades. In Sri Lanka, the share of industry in GDP declined somewhat exhibiting an abnormal trend among the BIMSTEC countries. Unlike in other

countries, the slow growth in industry highlighted the urgent need for industrialization in Myanmar.¹

Openness of BIMSTEC countries reflects the development level in general and role of trade in particular. Thailand possesses the highest trade - GDP ratio, accounting more than 100 percent since 2000, followed by Sri Lanka between 1999 and 2003. The growing openness ratio among the BIMSTEC countries indicates greater trade cooperation. Surprisingly, the openness ratio of Bhutan declined in the same period whereas the growth rates appeared to be static in Bangladesh and India. Myanmar shows the highest growth rate in openness in recent years (Figure 1).

3. Trade Pattern of BIMSTEC Countries

International trade of the BIMSTEC countries is still insignificant and to very low compared to ASEAN countries. Although the combined population of BIMSTEC is 1.32 billion, accounting for more than one fifth of world population, their combined international trade was only about 2 percent of total world trade in 2004.² However, recent study by Bhattacharya (2005), based on gravity flow model developed by Frankel *et al* (1993), states that if more PTAs and FTA apply in the member countries, intra-regional trade will grow faster than before in BIMSTEC.³

Tables 3 and 4 show the export and import value of Japan and BIMSTEC countries between 1994 and 2004. Most of the BIMSTEC countries, except Thailand, faced the deficit balance of trade during the period. However, only Myanmar could change from perennial deficit to surplus after 2002. As expected, Japan enjoyed surplus terms of trade with all the BIMSTEC countries over time.

According to Tables 3 and 4, Thailand presents the largest volume of export, followed by India and Bangladesh, among the BIMSTEC countries. Most of the countries expanded their export significantly. In BIMSTEC, the annual growth rate of export in Myanmar was highest growth, accounting 13.5 percent per annum. However, per capita export of Nepal, Myanmar, Bangladesh, India,

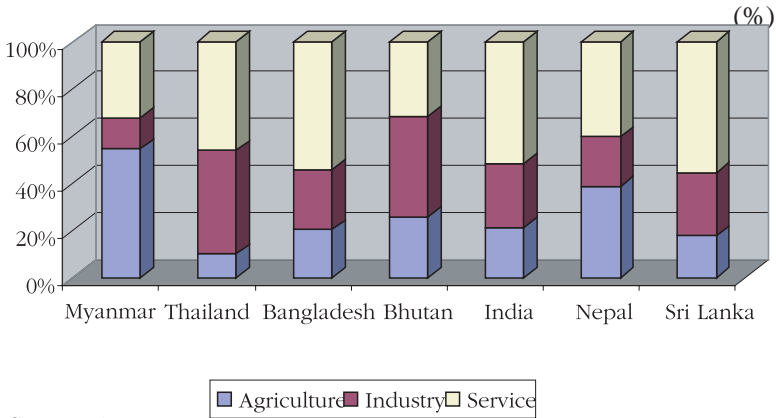
Table 2: Sectoral Share of GDP in BIMSTEC Countries

(%)

Country	Agriculture				Industry						Services				
					All			Manufacturing only							
	1980	1990	2000	2004	1980	1990	2000	2004	1980	1990	2000	2004	1980	1990	2000
Myanmar	46.5	57.3	57.2	54.6	12.7	10.5	9.7	13	7.8	7.2	9.2	40.8	32.2	33.1	32.3
Thailand	23.2	12.5	9.0	9.9	23.7	37.2	42.0	44.1	27.2	33.6	35.2	48.1	50.3	49.0	46.0
Bangladesh	41.2	29.4	24.6	20.2	16.3	20.9	24.4	25.5	12.7	14.7	15.5	42.5	49.7	51	54.3
Bhutan	56.7	43.2	28.5	26.1	12.2	25.3	38.3	43.5	8.2	8.5	7.4	31.1	32.7	34.2	32.3
India	38.1	32.3	24.6	21.1	25.9	27.6	26.6	27.2	17.1	15.9	16.1	36.0	41.1	48.8	51.7
Nepal	61.8	50.6	39.6	38.7	11.9	15.9	21.5	20.9	6.0	9.2	7.7	26.3	33.5	38.9	40.4
Sri Lanka	26.2	22.9	19.9	17.8	29.8	27.3	27.3	26.8	17.3	16.8	15.3	44.0	49.8	52.8	55.4

Source: ADB, Key Indicators of Developing Asian and Pacific Countries, 2005.

Figure 2: Sectoral Share of GDP in BIMSTEC Countries in 2003



Source: ADB

and Bhutan are very low, compared to Sri Lanka and Thailand. The growth rate of per capita export of Myanmar was highest, registered about three-fold increase, followed by India and Nepal. Likewise, the pattern of per capita import is similar (see Table 5). The gap in per capita export between Thailand and other BIMSTEC countries highlights the urgent need of effective export promotion measures and consequently more foreign investment in export oriented industries in these countries.

Top three major export commodities of BIMSTEC countries during 2000 and 2004 are described in Table 6. Textiles and clothing (garment) appears as the major export commodity in most of the BIMSTEC countries. However, the exports of computers and automobile parts by Thailand indicate a comparatively more developed industrial structure in this country, compared to others.

Direction of export can be generally classified into two parts; the first one concerns with intra-regional trade flow and the second one is about intra- and extra- BIMSTEC shares in trade, respectively. The ranks of intra-regional trade flow in 2004 are presented in Table 7. India and Thailand have been playing vibrant role in promoting intra-regional trade in 2004. Table 8 shows countrywide intra and extra-

Table 3: Export of Japan and BIMSTEC Countries (Million US \$)

Year	Bangladesh	Bhutan	India	Japan	Myanmar	Nepal	Sri Lanka	Thailand
1994	2934	66	25022	397005	798	362	3208	45261
1995	3501	103	30630	443116	860	345	3798	56439
1996	4249	100	33105	410901	754	385	4095	55721
1997	4832	118	35008	420957	874	406	4639	57374
1998	5121	108	33437	389927	1077	474	4809	54456
1999	5497	116	35667	417610	1136	602	4594	58440
2000	6389	103	42379	479249	1646	804	5430	69057
2001	6080	106	43361	403496	2381	737	4816	64968
2002	6149	113	49250	416716	3046	568	4699	68108
2003	6990	133	57085	471817	2483	662	5125	80333
2004	8150	165	75595	565807	2850	756	5757	97414

Sources: ADB, Asian Development Outlook 1995 (Hong Kong: Oxford University Press 1995); ADB, Asian Development Outlook 2002, Manila; ADB, Key Indicators for Developing Asian and Pacific Countries, Manila, 2004; Ministry of National Planning and Economic Development, Yangon.

Table 4: Import of Japan and BIMSTEC Countries (Million US \$)

Year	Bangladesh	Bhutan	India	Japan	Myanmar	Nepal	Sri Lanka	Thailand
1994	4602	92	26843	275235	886	1115	4767	54459
1995	6694	112	34707	335882	1364	5333	5306	70786
1996	7032	128	37942	349152	1371	1398	5442	72332
1997	7263	137	41432	338754	2056	1693	5864	62854
1998	7495	134	42980	280484	2685	1246	5905	42971
1999	8331	182	46979	309995	2323	1422	5961	5032
2000	8863	175	51523	379511	2401	1573	7177	61924
2001	9018	191	50392	349089	2877	1473	5973	61962
2002	8592	197	56517	337194	2368	1419	6105	64645
2003	10427	249	71238	382930	2091	1754	6672	75805
2004	12026	400	79339	454543	2220	1870	7973	95353

Sources: ADB, Asian Development Outlook 1995 (Hong Kong: Oxford University Press 1995)

ADB, Asian Development Outlook 2002, Manila.

ADB, Key Indicators for Developing Asian and Pacific Countries, Manila, 2004.

Ministry of National Planning and Economic Development, Yangon.

Table 5: Per Capita Export of Japan and BIMSTEC Countries (US \$)

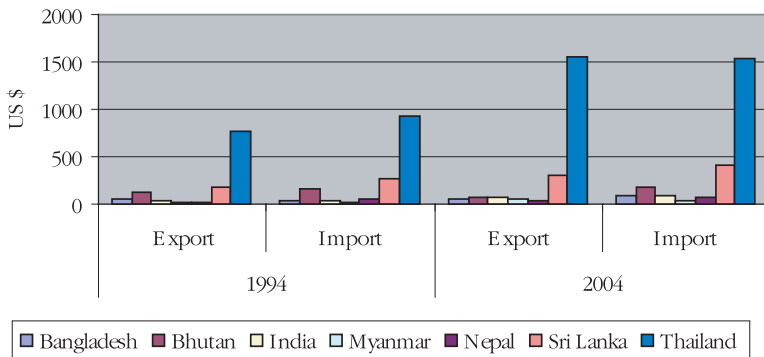
Countries	1994		2004	
	Export	Import	Export	Import
Bangladesh	47.73	38.79	58.01	85.59
Bhutan	117.85	164.29	73.99	179.37
India	27.80	29.83	70.01	90.15
Myanmar	18.17	20.17	54.80	42.69
Nepal	18.22	56.14	30.00	74.26
Sri Lanka	179.51	266.76	296.75	410.98
Thailand	770.92	927.59	1561.12	1528.09

Sources: ADB, Asian Development Outlook 1995 (Hong Kong: Oxford University Press 1995) ADB, Asian Development Outlook 2002, Manila. ADB, Key Indicators for Developing Asian and Pacific Countries, Manila, 2004. Ministry of National Planning and Economic Development, Yangon

BIMSTEC shares in trade during 1995 and 2003. Most countries performed very low level of trade in BIMSTEC, while a huge trade has been carried out with the extra block.

Export-oriented garment products of most BIMSTEC countries going to West could probably be one of the reasons for explaining larger shares with extra block in the recent years. Although, extra

Figure 3: Per Capita Export of Japan and BIMSTEC Countries (US \$)



Source: Same as Table 5.

Table 6: Three Main Export Commodities of BMSTEC Countries in 2000 and 2004

Country	2000	2004
India	1. Textile & Clothing 2. Jewelry/jewelry items 3. Petroleum products	1. Jewelry/jewelry items 2. Textile & Clothing 3. Petroleum Products
Thailand	1. Computer parts 2. Automobile/ parts 3. Garments	1. Computer & parts 2. Automobile parts 3. Natural rubber
Bangladesh	1. Garment 2. Frozen food 3. Jute& jute products	1. Garment 2. Frozen food 3. Jute & jute products
Sri Lanka	1. Garment 2. Tea 3. Machinery	1. Garment 2. Tea 3. Machinery
Myanmar	1. Garment 2. Beans and pulses 3. Natural gas	1. Natural gas 2. Teak 3. beans and pulses

Source: WTO, 2005

Table 7: Ranks of Intra-regional Trade Flow in 2004

Country	Rank	Export	Import
India	1	Bangladesh	Thailand
	2	Sri Lanka	Nepal
	3	Thailand	Myanmar
Thailand	1	India	Myanmar
	2	Myanmar	India
	3	Sri Lanka	Sri Lanka
Bangladesh	1	India	India
	2	Thailand	Thailand
	3	Sri Lanka	Myanmar
Sri Lanka	1	India	India
	2	Thailand	Thailand
	3	Bangladesh	Bangladesh
Myanmar	1	Thailand	Thailand
	2	India	India
	3	Bangladesh	Bangladesh

Source: WTO, 2005.

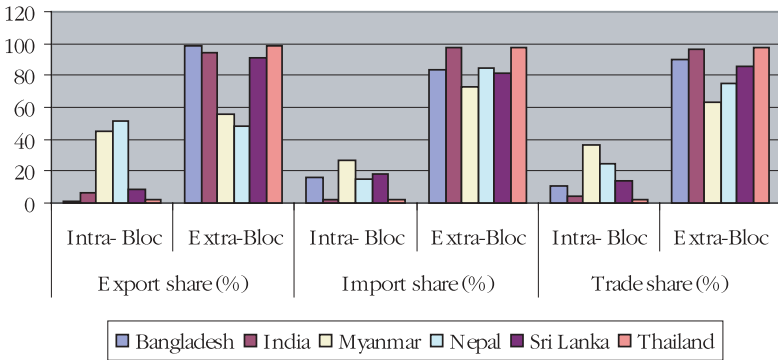
Table 8: Countrywide Intra- and Extra - BIMSTEC Shares in Trade

Country	Export share (%)				Import share (%)				Trade share (%)			
	Intra- Bloc		Extra-Bloc		Intra- Bloc		Extra-Bloc		Intra- Bloc		Extra-Bloc	
	1995	2003	1995	2003	1995	2003	1995	2003	1995	2003	1995	2003
Bangladesh	2.05	1.12	97.95	98.88	16.84	16.46	83.16	83.54	12.03	10.30	87.97	89.70
India	6.37	5.97	93.65	94.03	1.35	2.28	98.65	97.72	3.71	3.92	96.29	96.08
Myanmar	15.7	44.7	84.31	55.29	1.07	26.92	98.93	73.08	6.02	36.58	93.98	63.42
Nepal	8.26	51.5	90.74	48.49	35.33	15.00	64.67	85.00	27.59	25.00	72.41	75.00
Sri Lanka	1.68	8.40	98.34	91.60	13.19	18.44	86.81	81.56	7.80	14.07	92.10	85.93
Thailand	1.45	1.92	98.55	98.08	0.97	2.42	99.03	97.58	1.18	2.16	98.81	97.84

Source: Prabir De (2004).

block trade share dominated all over the time, intra-BIMSTEC trade share of Myanmar is substantially large due mainly to imposition of economic sanction.

Figure 4: Country wide Intra- and Extra - BIMSTEC Shares in Trade (2003)



3.1. Japan-BIMSTEC Trade

Japan-BIMSTEC trade has registered only at marginal level with stagnant growth between 1999 and 2004. The export of Japan to the BIMSTEC countries considerably increased but share of export showed marginal growth in the same period. Although the import value of Japan from the BIMSTEC countries increased, the share of total imports remains unchanged over the time. Japan's trade with Asian countries is nearly half of its total exports and imports, but BIMSTEC's share, if Thailand excluded, is negligible and no significant improvement in recent years. Among the BIMSTEC countries, Thailand has the largest trade with Japan's accounting more than 80 percent of total BIMSTEC exports and imports in 2004.

In addition, Thailand plays a significant role by showing more than 20 percent of total imports from Japan and approximately 15 percent of exports to Japan, respectively. Other BIMSTEC countries' trade with Japan show a declining share in trade during 1999 and 2004. All the BIMSTEC countries commonly suffers deficit balance of trade with Japan over time.

3.2 . Revealed Comparative Advantage (RCA) Index of the BIMSTEC Countries

For the identification of the level of comparative advantage of each BIMSTEC countries in different products, compared to the trade flow of the same products in the world market, it begins to choose the most common products, which provides greater comparative advantage. Thus, relatively high share of exports are selected in the BIMSTEC countries. Among the seven BIMSTEC countries, Nepal and Bhutan are not included due to data availability problem. Dynamics of comparative advantage of each country in each selected major products are calculated based on Revealed Comparative Advantage Index (RCA). RCA index is calculated as follows:

$$RCA_{ij} = (x_{ij} / X_{it}) / (x_{wj} / X_{wt})$$

where x_{ij} = the value of country i 's export of product j , x_{wj} = World exports of project j , X_{it} = Country's total exports, X_{wt} = World total exports. A value less than unity implies that the country has a revealed comparative disadvantage in the product and if the index exceeds unity, the country is said to have a revealed comparative advantage in the product.

It is evident from the estimated index that Thailand possesses higher comparative advantages in electronic data processing and office equipment, followed by agricultural products. In addition, high comparative advantage in textile and clothing products appeared in the beginning but declined gradually over time. Unlike other countries, India possesses the higher comparative advantage in jewelry and jewelry items and RCA of this item show slight increase within four years. It is followed by textile and clothing products and fuel and mining products. It is also noted that comparative advantage in textile and clothing products declined gradually and RCA in fuel and mining products increased sharply over time. Bangladesh is a special case because over 70 percent of its exports are textile and clothing products. Thus, RCA index of textile and clothing products in Bangladesh is the highest among the BIMSTEC countries. In Sri Lanka, among the selected products, it has higher comparative advantages in textile and

Table 9: Japan's Trade with BIMSTEC Countries (1994 and 2004)

	Export						Import					
	1994			2004			1994			2004		
	Value	%	% of the total import of recipient country	Value	%	% of the total import of recipient country	Value	%	% of the total import of recipient country	Value	%	% of the total import of recipient country
World	417,442	100		563,039	100		309,745	100		454,669	100	
Asia	155,541	37.3		273,708	48.4		122,773	39.6		205,305	45.2	
BIMSTEC	14,684	3.5		24,228	4.3		11,467	3.7		17,228	3.8	
Thailand	11,292	2.4	22.43	20250	3.6	21.24	8838	2.9	15.12	14088	3.1	14.46
Myanmar	185	0	8	105	0	4.72	101	0	8.9	179	0	6.28
India	2417	0.6	5.14	3040	0.5	3.12	2239	0.7	6.28	2611	0.6	3.45
Bangladesh	325	0.1	3.66	450	0.1	3.74	115	0	2.1	141	0	1.73
Sri Lanka	433	0.1	7.26	338	0.1	4.24	168	0.1	3.66	197	0	3.42
Nepal	26	0	1.83	23	0	1.23	5	0	0.83	8	0	1.06
Bhutan	6	0	3.3	2	0	0.5	0.3	0	0.26	3	0	1.82

Source: Ebashi, Maschiko (2005), Deepening BIMSTEC-Japan Economic Relations: Task Ahead, International Conference Paper, p 2, WTO, International Trade Statistics, 2005.

clothing products, agricultural products, and jewellery and jewellery products. Myanmar has highest comparative advantage in fuel and mining products showing a rising trend in recent years. Next comes, textile and clothing and agricultural products. Although Myanmar performed well in textile and clothing products, the declining trend emerges due mainly to economic sanction of US in 2003.

Among the five countries in BIMSTEC, all the countries are showing higher comparative advantages in textile and clothing products, whereas the same in four out of five countries in agricultural products come as second. The comparative advantage of Thailand in electronic data processing and office equipment is the highest while India has the highest comparative advantage in jewellery and jewellery products. Also, Sri Lanka possesses the highest comparative advantage in agricultural products and Bangladesh has comparative advantage in textile and clothing products. Myanmar has also significant comparative advantage in fuel and mining products within the recent periods (Table 10). Thus, five BIMSTEC countries belong to the highest comparative advantage in the five different major export items respectively. It is strongly supported that all five BIMSTEC countries will certainly expand their trade on the basis of RCA products in near future.

3.3. Comparison of the dynamics of comparative advantages by country and product

A slight modification to conventional RCA is hereby made to estimate the level of comparative advantages of different BIMSTEC countries in each major products. The modified RCA is calculated as follows:

$$\text{Modified RCA} = (x_{ij} / Y_{st}) / (X_{wj} / X_{wt})$$

where x_{ij} = The value of country i 's exports of product j , X_{wj} = World export of product j , Y_{st} = The total exports of all selected countries in BIMSTEC, X_{wt} = World total exports.

While the dynamics of conventional RCA measures the level of comparative advantage of each country in each product, the dynamics of the modified RCA compare the level of comparative advantages of different countries in each product (Table 11).

Table 10: RCA Scores by Commodity and Country

Country	Export products	RCA Scores				
		2000	2001	2002	2003	2004
Thailand	Agricultural products	2.07	2.08	1.96	2.08	1.95
	Textile & clothing products	1.52	1.53	1.46	1.34	1.39
	Fuel & mining products	0.33	0.30	0.31	0.28	0.28
	Electronic data processing & office equipment	2.21	2.30	2.27	2.12	2.06
	Jewellery/ Jewellery items	-	-	-	-	-
India	Agricultural products	1.76	1.61	1.58	1.54	1.39
	Textile & clothing products	5.26	4.54	4.45	4.24	3.21
	Fuel & mining products	-	0.38	0.38	0.44	0.61
	Electronic data processing & office equipment	-	-	-	-	-
	Jewellery/ Jewellery items	-	18.99	20.02	24.05	-
Bangladesh	Agricultural products	0.78	2.85	0.71	0.74	0.82
	Textile & clothing products	13.83	13.87	13.61	13.95	-
	Fuel & mining products	-	-	-	-	-
	Electronic data processing & office equipment	1.46	1.49	1.45	1.55	1.45
	Jewellery/ Jewellery items	-	-	-	-	-

Table 10 continued

Table 10 continued

Country	Export products	RCA Scores				
		2000	2001	2002	2003	2004
Sri Lanka	Agricultural products	2.35	2.46	2.05	2.43	2.43
	Textile & clothing products	9.89	9.57	9.35	9.36	9.86
	Fuel & mining products	-	-	-	-	-
	Electronic data processing & office equipment Jewellery/ Jewellery items	-	-	-	-	-
Myanmar	Agricultural products	1.68	1.97	1.56	1.78	1.25
	Textile & clothing products	5.44	3.16	2.71	2.60	1.49
	Fuel & mining products	0.45	1.10	2.24	2.52	2.48
	Electronic data processing & office equipment Jewellery/ Jewellery items	-	-	-	-	-

Source: Calculated based on WTO data.

Table 11: Modified RCA Scores of Selected Products

Country	2000	2001	2002	2003	2004
Textile & Clothing products					
Thailand	0.84	0.81	0.73	0.71	0.71
India	1.78	1.62	1.67	1.59	1.28
Bangladesh	0.62	0.70	0.62	0.59	0.51
Sri Lanka	0.45	0.39	0.35	0.33	0.31
Myanmar	0.09	0.07	0.07	0.04	0.02
Agricultural products					
Thailand	1.15	0.11	1.02	1.10	1.00
India	0.60	0.58	0.59	0.58	0.55
Bangladesh	0.04	0.04	0.03	0.03	0.03
Sri Lanka	0.10	0.09	0.09	0.08	0.07
Myanmar	0.04	0.05	0.04	0.03	0.02
Fuel and mining products					
Thailand	-	-	0.51	0.51	0.55
India	-	0.14	0.15	0.18	0.26
Bangladesh	-	-	-	-	-
Sri Lanka	-	-	-	-	-
Myanmar	0.01	0.05	0.06	0.03	0.04
Electronic data processing products					
Thailand	0.81	0.80	0.76	0.81	0.75
India	-	-	-	-	-
Bangladesh	-	-	-	-	-
Sri Lanka	-	-	-	-	-
Myanmar	-	-	-	-	-
Jewelry and Jewelry items					
Thailand	-	-	-	-	-
India	-	6.77	7.51	9.03	-
Bangladesh	-	-	-	-	-
Sri Lanka	-	0.22	0.23	0.24	-
Myanmar	-	-	-	-	-

Source: Calculated based on WTO data

The modified RCA of textile and clothing products shows that India has definitely the highest comparative advantage among five BIMSTEC countries, followed by Thailand, Bangladesh, Sri Lanka and Myanmar. However, we find a declining trend of modified RCA

in all five BIMSTEC countries. Regarding the agricultural products, the modified RCA in Thailand represents certainly the highest but gradually declines over time. It is followed by India, Bangladesh, Sri Lanka and Myanmar, respectively. Moreover, the modified RCA of fuel and mining products indicates that Thailand has the highest RCA, followed by India and Myanmar. Similarly, Thailand has absolute comparative advantages in electronic data processing and office equipment in BIMSTEC. India also has the highest comparative advantage in Jewellery and Jewellery products followed by Sri Lanka. In sum, Thailand possesses the highest comparative advantage in agricultural products, fuel and mining, electronic data processing and office equipment, while India has comparative advantage in textile and clothing and jewelry and jewelry products, among selected five BIMSTEC countries.

4. The Role of International Trade in Myanmar

The trade sector (domestic + external) in the national economy, according to national income statistics of Ministry of National Planning and Economic Development (MNPED), accounts for about 22 to 23 percent of GDP. Up to 2000/01, the trade shares in GDP remained generally unchanged and a sharply increased in the later period of 2000/01.⁴ According to the official data, exports constitute mere one percent of GDP. In fact, official statistics of external trade grossly understated the true situation because of valuation via the distorted overvalued exchange rate as well as some amount of unrecorded trade across the borders⁵. However, regression analysis shows fairly positive relationship between GDP and export value within 1997/98 to 2004/05.

According to the *ASEAN Statistical Yearbook 2004*, by using parallel exchange rate as applied in IMF and WTO 2004, foreign trade plays on essential role in national economy and export-GDP ratio shows about more than 40 percent as of 2004. Moreover, export-GDP ratio increased rapidly form nearly 8 percent in 1999 to 42.9 percent in 2004,⁷ while import-GDP ratio increased slightly in the same period (Table 12). Moreover, the value of exports in

Table 12: Export and Import/GDP Ratios of Myanmar

Year	Export/GDP ratio (%)	Import/GDP ratio (%)
1999	7.9	20.3
2000	11.3	21.0
2001	26.8	33.9
2002	26.8	23.2
2003	46.5	19.2
2004	42.9	21.3

Source: Calculations based on ASEAN Statistical Yearbook, 2005.

1987/88 accounted only US\$ 219 million but it reached US\$ 3063 million in 2002/03. Likewise, import grew from US\$ 268 million in 1987/88 to US\$ 2300 million in 2002/03, nearly eight times growth in last 16 years (Table 13). Import policy of foreign trade up to 2001-02 seriously caused the perennial deficit trade balance and shortage of foreign currency. Thus, the government changed to current 'export first procedure' in foreign trade with the aim to control foreign exchange and to maintain surplus balance of trade. As expected, persistent surplus balance trade since 2002/03 because of export first policy and quantitative import restriction led to surplus balance of foreign currency budget.

4.1. Pattern of Trade

Under the market-oriented system, diversification of export items emerged considerably due to active private participation in foreign trade. Now-a-days, private and state sectors have equal share in foreign trade. State enterprises operated only in important 12 commodity items such as rice, teak, petroleum, natural gas, gem, jade, pearls, etc., but the share of gas export grew rapidly, and consequently State sector exports became nearly half of total export. Although export and import pattern generally remain unchanged, the natural resource based exports substituted the traditional agricultural exports like rice, beans and pulses and forest products. Natural gas export is the main export having share of 34.8 percent in total export in 2004-05. Manufacturing export is having a share of only 7.4 percent in total exports. Export

Table 13: Export and Import of Myanmar (Million US \$)

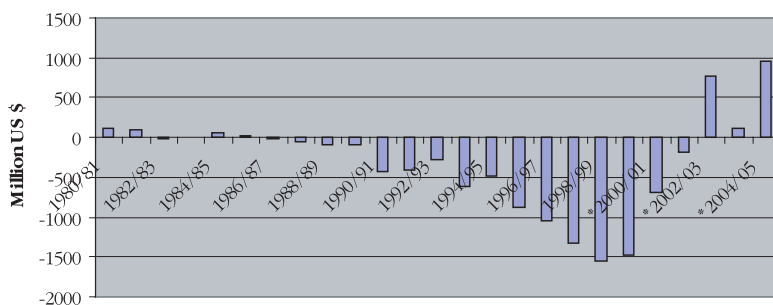
Year	Export	Import	Balance of Trade
1980/81	472.0	353.0	119.0
1981/82	462.0	373.0	89.0
1982/83	391.0	409.0	-18.0
1983/84	278.0	268.0	10.0
1984/85	301.0	239.0	62.0
1985/86	303.0	283.0	20.0
1986/87	288.0	304.0	-16.0
1987/88	219.0	268.0	-49.0
1988/89	147.0	244.0	-97.0
1989/90	474.1	565.8	-91.7
1990/91	493.6	920.5	-426.9
1991/92	488.6	889.5	-400.9
1992/93	609.2	894.2	-285.0
1993/94	704.6	1320.5	-615.9
1994/95	900.8	1388.7	-487.9
1995/96	840.6	1718.9	-876.3
1996/97	914.6	1963.1	-1048.5
1997/98	1048.3	2376.2	-1327.9
1998/99	1278.7	2823.5	-1544.8
1999/00	1172.0	2642.1	-1470.1
*2000/01	1569.0	2291.0	-695.0
*2001/02	2439.0	2632.0	-193.0
*2002/03	3063.0	2300.0	763.0
*2003/04	2357.0	2240.0	117.0
*2004/05	2928.0	1973.0	955.0

Sources: Ministry of National Planning and Economic Development and CSO

*Ministry of Commerce, Yangon, Myanmar (at official rate of exchange)

diversification from traditional agriculture and primary goods to others, such as garment and gas exploitation, appeared in the composition of trade under the market-oriented system.

In 1990-91, timber and agricultural products presented the largest portion in total export, accounting over 65 percent of total export. Although, the value of agricultural products has increased

Figure 5: Trade Balance of Myanmar (1980-2005)

Sources: Ministry of National Planning and Economic Development and CSO
 *Ministry of Commerce, Yangon, Myanmar (at official rate of exchange)

sharply, its relative share in total export declined substantially, accounting about 32 percent of total exports in 1990-91 to only 10 percent in 2004-05, due mainly to rapid growth of gas and garment exports (Table 15). Likewise, the import pattern also remained unchanged. Machinery, transport equipment and electrical machinery and apparatus dominated in Myanmar's import accounting nearly 40 percent of total import in 1990-91, but declined to about 27 percent of total in 2004-05 (Table 16). Thus, Myanmar exports low price commodities and imports high price.

Table 14: Top Ten Export and Import Items of Myanmar (2004-05)

No.	Export	Import
1	Gas	Machinery non-electric & transport equipment
2	Teak	Refined Mineral Oil
3	Beans and Pulses	Base metal and manufactures
4	Garment	Electrical machinery & apparatus
5	Hardwood	Fabric of artificial and synthetics fabric
6	Fish & dried prawns	Edible vegetable oil & other hydrogenated oils
7	Base metal and ores	Plastic
8	Fish & fish products	Pharmaceutical products
9	Rice	Paper, paperboard and manufactures
10	Maize	Rubber manufactures

Source: CSO Myanmar, Monthly Economic Indicators July 2006

Table 15 Myanmar's Exports by Commodity (Kyats in Million) - (90/91 to 04/05)

No	Commodity	90-91	%	95-96	99-00	00-01	01-02	02-03	03-04	04-05	%
1	Agricultural Products	962	32.48	2321	1602	2312	3121	2808	2276	1782	10.67
	Rice & rice products	172	5.80	440	65	208	754	633	130	180	1.08
	Pulses	515	17.29	1358	1178	1658	1898	1760	1732	1281	7.67
	Maize	13	0.44	46	54	92	59	139	93	165	0.99
2	Animal Products	5	0.17	7	28	37	42	22	11	13	0.07
3	Marine Products	165	5.57	615	807	934	861	1116	963	1033	6.19
	Fish	36	1.22	159	229	291	310	445	351	410	
	Prawn	114	3.85	407	529	598	519	623	589	597	2.46
4	Timber	999	33.73	1048	925	803	1880	1871	2049	2239	13.41
	Teak	740	24.98	903	727	651	1423	1388	1492	1514	9.07
	Hardwood	259	8.74	245	3198	152	457	483	557	725	4.34
5	Base metal and ores	72	2.43	70	289	324	288	282	340	547	3.28
6	Precious and semiprecious minerals	86	2.90	137	219	363	127	249	-	-	-
7	Gas	-			31	1110	4247	5919	3478	5812	34.81
8	Garment	8	8.27	300	2722	3785	2985	2976	1965	1236	7.40
9	Other Commodities	685	23.13	546	2324	3068	3680	4712	3037	4035	24.17
10	Total	2962		5044	8947	12736	17131	19955	14119	16697	

Source: CSO, Monthly Economic Indicators July 2005.

Table 16: Myanmar's Imports by Commodity (Kyats in Million) - (1990-91 to 2004-05)

No	Commodity	90-91	%	95-96	99-00	00-01	01-02	02-03	03-04	04-05	%
1	Milk, Condensed and Evaporated	46	0.83	119	170	143	108	137	100	117	1.03
2	Edible Vegetable oil and other hydrogenated oil	406	7.35	1184	478	475	551	353	448	474	4.18
3	Tobacco products	1	-	45	101	110	185	153	103	122	1.08
4	Chemical element and compounds	45	0.81	192	156	185	202	184	157	134	1.18
5	Pharmaceutical products	94	1.70	108	303	413	402	352	272	315	2.78
6	Fertilizers manufactures	27	0.49	131	329	2.55	141	158	135	20	0.18
7	Fabrics of artificial & synthetics fabric	1	-	46	898	1554	1563	1598	1131	823	7.26
8	Paper & paper board	77	1.39	152	344	344	453	429	361	315	2.78
9	Rubber manufactured	50	0.90	88	205	243	255	299	200	171	1.50
10	Refined mineral oil	201	3.64	32	1046	955	2103	1164	1783	1361	12.00
11	Scientific instrument	81	1.47	94	179	180	191	156	167	129	1.14
12	Base metal & manufactures	463	8.38	971	1723	1438	1386	936	1206	899	7.93
13	Machinery non-electric & transport equipments	1547	28.01	2402	3289	2631	4000	2801	2791	2165	19.09
14	Electrical machinery & apparatus	499	9.03	598	1578	1123	1109	756	644	874	7.71
15	Crude Oil	55	1.00	-	555	96	1555	873	-	-	
16	Others	1930	34.94	4140	4911	4928	4173	4560	3891	3537	31.19
17	Total Imports	5523	100	10302	16265	15073	18378	14910	13398	11339	100

Source: CSO, Monthly Economic Indicators July 2005.

4.2. Major trading partners

Since mid 1990's, Myanmar foreign trade had been undertaken mainly with Asian countries in general and neighboring countries in particular. This trend became clear after Myanmar joined ASEAN and BIMSTEC in 1997. However, EU and the rest of the world have very slim portion in trading with Myanmar. The declining role of EU and the rest of the world could be traced to imposition of economic sanction against Myanmar by United States since 1997 and then, intensive sanction again in 2003. Economic sanction of US seriously deprived garment industry of access to its international market, and consequently, the garment exports in 2003-04 and 2004-05 recorded only 52 percent. Moreover, the reduction in garment export slowed down Myanmar's total export, accounting to 74 percent in 2004-05.⁷

As a result, Myanmar's major trading partners are presently from ASEAN and BIMSTEC countries, such as Thailand, Singapore, India and China in export and Singapore, China, India and Thailand in import. At the beginning of market-oriented policy of 1990-91, Singapore was Myanmar's largest trading partner. However, due to stagnant export growth, relative share declined overtime and presently moving around 5 percent.

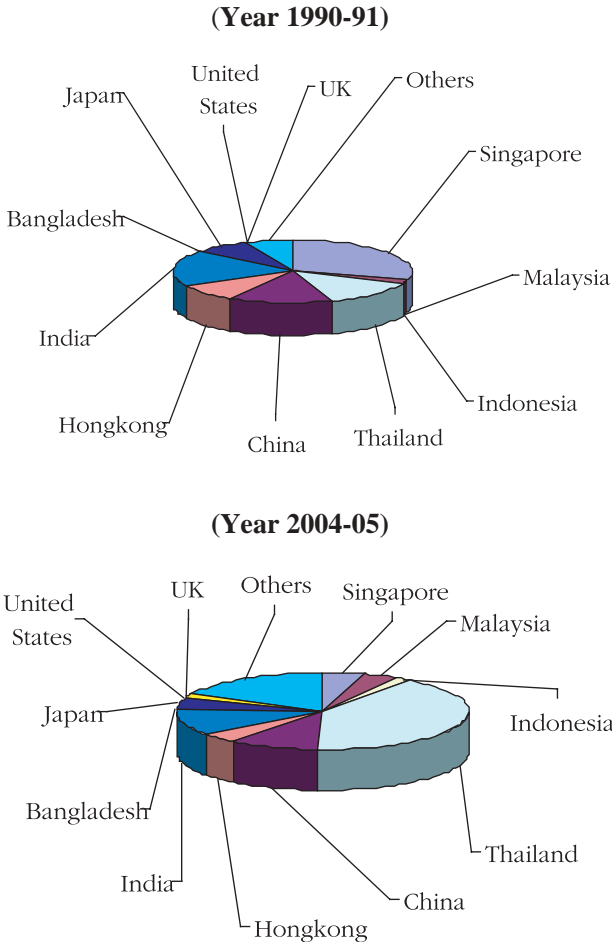
In 1990-91, the rest of Asia was Myanmar's largest export destination, followed by Southeast Asia. However, Southeast Asia occupied the top place because of Myanmar's huge export to Thailand since 2001-02. In sum, Myanmar's export substantially increased about more than five times within 1990-91 and 2004-05 (Table 17).

Similarly, the source of Myanmar's import mainly was from Asia, accounting 43 percent of total import in 1990-91. However, Southeast Asian countries substituted this place in 2004-05 showing greater economic cooperation and trade among the member countries. Singapore became the largest import source form about 10 percent of total in 1990-91 to over 30 percent in 2004-05, followed by China, accounted nearly 22 percent of total in 1990-90 to nearly 25 percent in 2004-05. Then, Thailand and Japan were also appeared important as sources of import within 15 years (Table 18).

Table 17: Myanmar's Export by Country (Kyats in Million)

Country	90-91	%	95-96	99-00	00-01	01-02	02-03	03-04	04-05	%
South East Asia	1275		2106	1932	3333	7694	8923	-	-	
Singapore	846	28.56	987	812	737	1100	882	786	807	4.83
Malaysia	41	1.38	147	335	471	785	485	412	620	3.71
Indonesia	-		300	188	222	344	363	234	309	1.85
Thailand	388	13.10	535	552	1831	5392	7096	4676	6719	40.24
Rest of Asia	1500		2026	3391	4559	5440	6857	-	-	
China	396	13.37	195	847	1143	1545	3070	1343	1944	9.85
Hong Kong	248	8.37	359	428	531	377	389	475	656	3.93
India	524	17.69	1036	1346	1702	2324	2108	2166	1956	11.71
Bangladesh	-		57	243	344	415	497	-	-	
Japan	223	7.53	256	362	542	451	522	716	737	4.41
United States	4	-	216	563	1594	1865	2082	583	1.5	-
UK	4	-	39	90	221	347	394	388	293	1.75
Others	179	6.04	557	2971	3029	1784	1700	2340*	2959*	17.72
Total	2962	100	5044	8947	12736	17131	19955	14119	16697	100

Figure 6: Share of Myanmar's Export by Country



Now-a-days, Thailand is the most essential trading country of Myanmar, followed by China, Singapore and India, respectively. Myanmar's largest export item, natural gas, is a joint venture with Thailand, dominated in Myanmar's export since 2002-03. It is recorded that only 13.1 percent of total export to Thailand in 1990-91 increased substantially to about 40 percent in 2004-05, while import from Thailand kept approximately 10 percent of total in the same period.

Table 18 : Myanmar's Import by Country (Kyats in Million)

Country	90-91	%	95-96	99-00	00-01	01-02	02-03	03-04	04-05	%
South East Asia	1498	26.96	4121	8686	7064	8820	8018	-	-	-
Singapore	532	9.63	1820	4559	3646	3918	4134	4048	3471	3061
Malaysia	383	6.93	616	1211	794	2434	1887	892	666	5.87
Indonesia	17	0.30	350	655	534	575	416	352	289	2.55
Thailand	555	10.04	1319	2063	1970	1798	1503	1143	1054	9.3
Rest of Asia	2386	43.20	4986	6173	6727	8013	5908	-	-	-
China	1205	21.82	1434	1568	1855	2068	2350	2817	2819	24.86
Hong Kong	32	0.58	169	561	838	512	407	222	130	1.15
India	37	0.66	345	455	540	553	693	652	480	4.23
Japan	903	16.35	2505	1808	1317	2390	1391	1579	920	8.11
S. Korea	199	3.60	403	1488	1874	2261	838	660	515	4.54
United States	678	12.28	360	576	153	223	143	-	-	-
UK	149	2.70	52	45	91	122	59	60	31	0.27
Others	821	14.87	783	785	1038	1200	782	955*	964*	8.50
	5523		10302	16265	15073	18378	14910	13398	11339	100

* Including Asian countries

Source: CSO, Yearbook 2003, and Selected monthly economic indicators, July 2006

As a result, Myanmar certainly gained enormous trade surplus with Thailand.

4.3. Trading with Japan

Myanmar and Japan enjoyed a sound economic relationship since the socialist regime. Japan regularly provided ODA, and it was the largest exporter to Myanmar. Moreover, most of the imports from Japan were manufactured goods such as manufacturing parts, transport facilities and electrical goods which accounted over 30 percent of total imports in the years of centrally planned economy.⁸ However, under market-oriented system, share of manufactured imports gradually declined and consequently bilateral trade with Japan resulted only marginal status in recent years (Table 19).

Table 19: Japan's ODA to BIMSTEC Countries

(Total commitment as of the end of 2003 fiscal Year) (100 million Yen)

Country	ODA			Total	Population	Per capita Japan's ODA (Yen)
	Yen loan	Grant	Tech. coop		2003 (Million)	
Thailand	20093	1582	1919	23594	64.0	369
Myanmar	4029	1746	295	6070	53.2	114
India	22401	818	219	23436	1073.0	22
Bangladesh	5615	4504	443	10562	134.6	78
Sri Lanka	6225	1652	509	8386	19.3	436

Sources: Masahiko Ebashi, Deepening BIMSTEC-Japan Economic Relations: Tasks Ahead, conference paper on "Towards BIMSTEC-Japan comprehensive Economic cooperation: Vision and Tasks Ahead". CSIRC P4.

Myanmar's export value to Japan increased more than three times between 1990-91 and 2004-05. However, Japan's share in total exports gradually declined from 7.53 percent of the total to only 4.41 percent in 2004-05. In addition, export items to Japan are mainly fish and seafood, woven apparel and footwear, respectively. Although, fish and seafood always dominated in exports to Japan, the share of woven apparel and footwear which were FDI affiliated firm products also witnessed by rising trend since 2000. All these three export items

increased from about 55 percent of the total in 2000 to nearly 80 percent in total exports to Japan in 2004.⁹

Myanmar's major imports from Japan are manufactured products in general and machinery, vehicles and transport equipments and electrical products in particular. However, the share of machinery value gradually declined, while the share of vehicles and transport equipment increased moderately after 2000. All these three items always dominated in imports from Japan, accounting over 60 percent of total from Japan.¹⁰

In case of import, Myanmar's, imports from Japan also significantly decreased in 2000 mainly due to new restriction on import by imposing 80:20 import regulation in 2001-02. In sum, the shares of export to Japan and import from Japan showed a declining trend but import value was usually larger than export value, as a result Myanmar faced deficit balance of trade with Japan.

4.4. The Role of Border Trade

Since Myanmar has adopted the market-oriented system and the cross-border trade has been formalized, Myanmar has signed trade agreements with China in August 1988, Thailand in June 1988, and India and Bangladesh in 1994, respectively. Myanmar intends to utilize border trade as a mechanism for further development of bilateral relations with the neighboring countries. Due to long borderline with China (Yunnan Province) and Thailand, Myanmar's border trade with those two countries constitutes the largest portion of Myanmar's border trade. The government formed the Department of Border Trade under the Ministry of Commerce and opened 13 border trade offices in the following border areas:

- | | |
|-----------------------------|--|
| (1) Myanmar - China border: | (i) Muse (ii) Lwejel (iii) Laiza (iv) Kanpeiktee (v) China Shwehaw |
| (2) Myanmar – Thai border: | (i) Tachileik (ii) Kawthaung (iii) Myawadi (iv) Myeik |
| (3) Myanmar – India border: | (i) Tamu (ii) Rhil |
| (4) Myanmar – Bangladesh: | (i) Maungtaw (ii) Sittway |

Apart from the above, new border posts at Dawei, Maung Taung, Nadaung Taung and Pegathonsu along the Myanmar – Thailand border are going to be opened for acceleration of border trade as well as better cooperation in various activities like mobility of labour, investment, tourism, prevention of illegal trade, drug and human trafficking, etc.

Myanmar border trade is recently growing but the comparative volume of other BIMSTEC countries such as Thailand and India is far larger than Myanmar. Thailand's border trade was about 6 billion US\$ in 2002-03. Commodity pattern of border trade is also similar to normal trade: exporting agricultural and primary products and importing processed manufactured goods.

Table 20 shows the Myanmar's border trade situation from 1995-96 to 2004-05. Ever since the socialist regime, the border trade imports have been always larger than exports, and traditionally Myanmar's export items consisted of agricultural and primary commodities, while imports were various processed consumer goods, foot wears, organic chemicals, vehicles, electrical products, textile products, car engine, tractors, pharmaceuticals, etc. The border trade export grew steadily from 1997-98 to 2002-03. However, the rapid growth of export volume occurred only

Table 20 Exports and Imports of Border Trade (million US\$)

Year	Export	Import	Trade Balance
1995-96	43.151	292.798	-249.647
1996-97	58.404	298.721	-240.317
1997-98	154.972	102.091	52.881
1998-99	146.300	153.869	7.567
1999-00	196.402	147.992	48.411
2000-01	235.401	176.339	59.062
2001-02	292.995	212.659	86.336
2002-03	272.635	187.937	84.698
2003-04	307.307	224.492	82.815
2004-05	409.985	277.899	132.086

Note: At official rate of exchange

Source: Ministry of Commerce. : www.commerce.gov.mm/

after 2002-03 due to intensive effort of government. However, the increase of border trade could not cover the declined value in total export owing to imposition of economic sanction by the US.

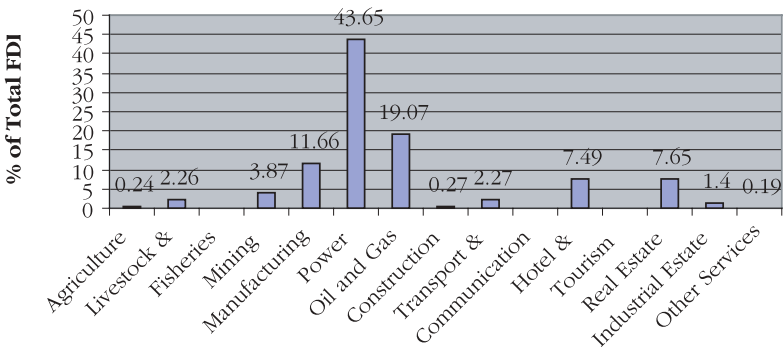
The substantial growth in border export led the growing importance of border trade in total export accounting about 10 percent in 2000-01 to 14 percent in 2004-05. After the completion of Thailand-Myanmar- India and China - Myanmar highways, it is expected that the volume of border trade as well as other economic activities will certainly improve in the immediate future.

4.5. FDI Inflows to Myanmar

FDI inflow to Myanmar increased significantly and the approved amount of FDI in 1996-97 recorded the largest FDI inflow before the Asian financial crisis. FDI has been playing an essential role in Myanmar economy in general and export sector in particular. Since 2000-01, FDI firms overwhelmed the export sector by providing the largest share of the export. The garment industry dominated the largest export, accounting about 30 percent of total export in 2000-01. However, since 2000/01, offshore discovery of gas and subsequent export of gas to Thailand contributed the largest export value item. As a result, FDI firms of gas exploitation and garment industries

Figure 7: Yearly Approved Amount of FDI Inflows into Myanmar by Sector

(Cumulated as of 2006 March)

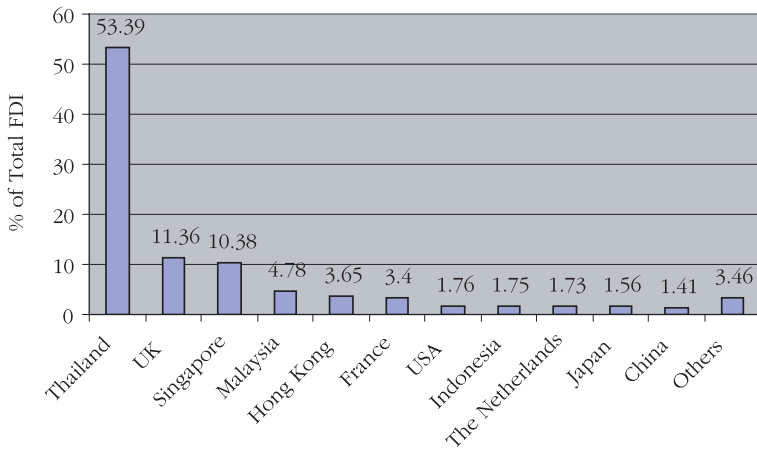


Source: Myanmar Investment Committee (MIC).

appeared as leading industries in the export sector of Myanmar since 2000-01(Figure 7).

Approved amount of FDI by countries is shown in Table 21. According to the latest information, Thailand is accounting 53.39 percent of total cumulative approved FDI form 1989-90 to 2005-06. It is followed by the United Kingdom, 11.36 percent , Singapore 10.38 percent respectively (Figure 8).

Figure 8 Yearly approved FDI Inflows into Myanmar by country
(Cumulated as of 2006 March)



Source: Myanmar Investment Commission (MIC)

FDI inflow by sector from 1989 to 2005-06 is shown in Table 22. Although oil and gas industry received the largest amount of FDI up to 2004-05, power sector unexpectedly substituted the place of oil and gas in 2005-06. Thus, presently power sector received 43.65 percent of total FDI, followed by oil and gas 19.07 percent, manufacturing 11.6 percent, real estate 7.65 percent, hotels and tourism 7.49 percent, respectively. Agriculture sector, which is still the most important sector in terms of production and employment, had the lowest share 0.24 percent of total cumulated FDI.

Table 21: Yearly Approved FDI Inflow in Myanmar by Country

Country	1989-90 to 94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06 (March)	Cumulated as of 06 Mar	% of Total FDI
Thailand	410.906	10.212	605.690	210.360	10.785	16.500	25.750			22.000	29.020	6034.44	7375.623	53.39
UK	632.218	271.246	539.790	47.549	4.433	15.130	30.612	1.546		27.000			1569.524	11.36
Singapore	316.509	176.468	608.662	270.613	14.210	4.736	36.915		6.100				1434.213	10.38
Malaysia	69.569	157.700	235.100	124.800			9.832	1.500	62.246				660.747	4.78
Hong Kong	64.443		338.500	56.880.	8.028	5.742	13.229	1.516	12.880	3.000			504.218	3.65
France	465.000		5.370										470.370	3.40
USA	226.265	14.800	2.500										243.565	1.76
Indonesia			210.950	25.420	1.050.1.377	1.200	1.500						241.497	1.75
The Netherlands	83.000		154.835		1.000								238.835	1.73
Japan	100.490	19.383	47.148	26.850	8.914	5.095		4.690			2.713		215.283	1.56
China	5.499	0.150	23.110	0.500	2.662		28.980	3.250		2.280	126.550	0.700	194.221	1.41
Others													476.453	3.46
Total	2569.217	668.166	2814.245	1012.917	54.396	58.150	217.688	19.002	86.948	91.170	158.283	6065.675	13815.857	100

Source: Myanmar Investment Committee (MIC)

(US\$)

Table 22: Yearly Approved FDI Inflow in Myanmar by Sector

(US\$)

Sector	1989-90 to 94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06 (Mar)	Cumulated as of 06 Mar	% of Total FDI
Agriculture	2.690		5.991	5.670			20.000						34.351	0.24
Livestock & Fisheries	238.968	13.067	17.503	5.819	4.755	3.261			26.386	2.600			312.358	2.26
Mining	163.957	155.779	178.299	3.331	4.885	16.000	1.112		3.382	1.450	6.000	0.700	534.890	3.87
Manufacturing	172.242	21.292	923.561	319.215	43.296	18.139	77.391	15.752	13.180	2.820	3.520		1610.408	11.66
Power												6030.000	6030.000	43.65
Oil and Gas	1420.620	14.800	695.603	172.100	5.250	5.250	47.550	3.250	44.000	54.300	142.550	34.975	2634.998	19.07
Construction			17.267				20.500						37.767	0.27
Transport & Communication	2.300	118.922	47.865	106.300			7.885			30.000			313.272	2.27
Hotel & Tourism	568.445	79.190	86.324	274.892	1.460	15.500	5.250				3.500		1034.561	7.49
Real Estate		251.450	652.100	122.190			28.000				2.713		1056.453	7.65
Industrial Estate		12.000	181.113										193.113	1.40
Other Services		1.666	8.620	3.400			10.00						23.686	0.19
Total	2569.217	668.166	2814.245	1012.917	54.396	58.150	217.688	19,002	86.948	91.170	158.283	6065.675	13815.857	100

Source: Myanmar Investment Committee (MIC)

4.5.1 FDI Inflows into Myanmar from Japan

Although, Japan had occupied the largest ODA supplier to Myanmar, since socialist period, declining trend of FDI flow to Myanmar appeared since 1999-00. Japan's FDI inflow to Myanmar could be classified into two periods: the first period was consistent and regular flow went up to 2000, and the second period was irregular and marginal status covered after 2000 to up to now. Consequently, among the FDI inflow to Myanmar by country, Japanese firm's FDI stood the sixth place up to 1994-95 and it gradually declined to 10th place in 2005-06 (see Table 21). Now-a-days, most of Japanese firms showed less interest to invest in Myanmar after 2002-03. The declining of Japanese FDI to Myanmar can be traced with intense economic sanction of west block, in one hand, and relatively poor investment climate of Myanmar as well as macro-economic instability and import restriction, on the other hand.

4.5.2 FDI inflows into Myanmar from BIMSTEC countries

Intra-FDI inflow from BIMSTEC countries can be regarded as a common positive sign of economic cooperation. In this regard, the

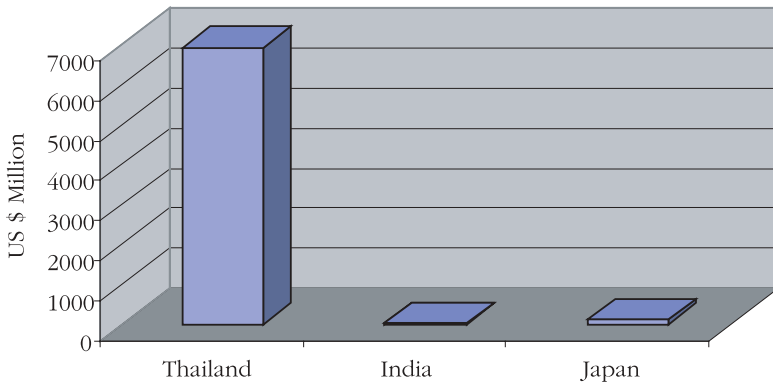
Table 23: FDI of Myanmar by BIMSTEC Countries and Japan
(US\$)

Year	Thailand	India	Japan
95-96	10.212	-	19.383
96-97	605.69	-	47.148
97-98	210.36	-	26.85
98-99	10.785	4.50	8.914
99-00	16.50	-	5.095
00-01	12.75	-	-
01-02	-	-	4.69
02-03	-	-	-
03-04	22.00	-	-
04-05	29.02	-	2.712
05-06	6034.00	30.575	-
Cumulated FDI (1995-2006)	6951.317	35.075	114.793

Source: Myanmar Investment Commission (MIC).

large amount of Thailand's FDI to gas exploitation has generated the huge export volume of Myanmar in recent period. Thailand invested consistently almost all the years since 1995/96, and over 6 billion US\$ of investment has been agreed to invest in power sector. It, unexpectedly, becomes the biggest FDI inflow to Myanmar very recently. In addition, India had already made some investment in gas exportation in 1998/99 and, again in 2005/06. A very few investment from Bangladesh and Sri Lanka have been found in Myanmar before 1995. Thailand has the closest and deepest economic corporation in investment and trade (Table 23).

Figure 9: FDI Inflows into Myanmar by BIMSTEC Countries and Japan (1995-2006 March)



5. Myanmar's Trade Intensity with BIMSTEC and Japan

Trade intensity indices of Myanmar with other BIMSTEC countries and Japan are estimated for the realization of the present trade condition as well as for the potential and prospect of trade in the future. The estimation of trade intensity over only three BIMSTEC countries and the rest are insignificant trade with Myanmar. Yearly estimation of trade intensity of Myanmar between 1999 to 2004 are shown in (Table 24). It is calculated by the following formula.

Table 24 : Trade Intensity Index of Myanmar with other BIMSTEC Countries and Japan.

Country	Export Intensity Index					Import Intensity Index						
	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
Thailand	7.24	20.09	38.89	40.38	32.41	39.12	15.24	12.80	9.93	8.69	6.31	7.47
India	18.9	22.56	22.87	13.72	16.15	8.81	5.20	5.68	4.57	6.45	6.36	4.34
Bangladesh	19.14	26.62	20.64	20.92	-	-	0.55	0.55	0.92	0.89	-	-
Japan	0.70	0.97	0.56	1.56	0.98	0.71	1.77	1.23	2.12	1.54	2.01	1.11

Source: Estimated from WTO, International Trade Statistics, 2005 and CSO (Myanmar), Statistical Yearbook 2003 and various selected Monthly Economic Indicators, 2005, Yangon.

Export Intensity Index:

$$X_{ij} = \frac{X_{ij} / X_i}{M_j / M_w - M_i}$$

X_{ij} = export of country i to trading partner j

X_i = total exports of country i

M_j = total imports of country j

M_w = total world imports

M_i = total imports of country i

Import Intensity Index:

$$M_{ij} = \frac{M_{ij} / M_i}{X_j / X_w - X_i}$$

M_{ij} = import of country i to trading partner j

M_i = total imports of country i

X_j = total export of country j

X_w = total world exports

X_i = total exports of country i

The indices value of more (or less) than unity of these indices indicate that a country is exporting/importing more (or less) to another country than might be expected from the country's share in world (export/import) trade.

Myanmar's trade intensity with BIMSTEC countries show dominant role in recent years. Among them, Thailand performs the most export intensive market for Myanmar. Thailand becomes the most important country for export. In contrast, Import from Thailand declined from 15.24 in 1999 to 7.47 in 2004.

Similarly, export intensity index for India declined gradually from nearly 19 in 1999 to nearly 9 in 2004. As a result, it can be expected that the export to India will not grow in the immediate future. Moreover, import intensity index shows moderately substantial but sluggish

growth in import and this trend is not likely to change. The export to Bangladesh also signs a major export destination but with stagnant growth and there may be no obvious change in the future. Also, import from Bangladesh appears less important but the growing index means the good potential to expand more import form Bangladesh.

Export intensity to Japan present only marginal role with stagnant growth in export to Japan in recent years. Myanmar cannot fully expect to increase its export to Japan. In contrast, import form Japan plays an essential role, but there is substantial change within six years. However, it is expected that import from Japan will be growing in the coming future.

Thus, Myanmar concentrates largely on Thailand for export as concentration ratio is extremely high. According to the growing trend, more export to Thailand can be expected in the future. It is meant that growing trade with Thailand is certainly in good shape on one hand, but it is also dangerous for instability of export on the other hand due to high concentration ratio of trade to Thailand only.

The export to Japan in recent period appears, generally, the same trend and seems no essential progress in the near future. Although, import from Japan is still dominant in Myanmar economy, the relative share declines sharply in 2004. More than unity of Import intensity index means that the Japan export to Myanmar is still promising and moderately good potential for the future.

6. Unsolved Issues in Trade and Investment

Although the trade sector has already performed the rapid growth under the market-oriented system since 1988-89, Myanmar still has unsolved problems hampering private sector development and the following problems generally concerned with trade and investment.

- (1) Existing 10% export tax directly reduces the competitive power of Myanmar exporters.
- (2) Over valued exchange rate likely favours the importers rather than exporters and causes misallocation of resources and retards the domestic production.

- (3) Lack of financial institution for trade
- (4) The state intervention and control on the import commodities weaken the role of private sector.
- (5) Lack of transparency due to frequent policy changes.
- (6) Inefficient trade procedure causes more transaction costs and time consuming.
- (7) The negative effect of economic sanction by US and west block reduces trade as well as export market.

Among the BIMSTEC countries, border trade with Thailand, India, Bangladesh are important. However, border trade of Myanmar has faced the following practical problems:

- (1) Existence of informal and illegal border trade
- (2) Existence of Corruption and smuggling mostly in border trade
- (3) Recent change in import-duty rates based on parallel exchange rate (1 US \$=850 Kyats) causes more difficulties in border trade.
- (4) Primary exports of border trade weaken the bargaining power of Myanmar's exporters and then, likely to accelerate the depreciation of Myanmar currency.

In addition, comparatively low level of FDI in recent years directly relates with the gradual deterioration of investment climate of Myanmar and the main reasons are as follows:

- (1) Lack of revision to FDI law along with practical operation difficulties of FDI firms
- (2) More liberalization measures on remittance of profit and capital and stopping FDI firms without notice.
- (3) More simplification procedure of FDI firms
- (4) High transaction cost mainly due to low infrastructure development as well as corruption.
- (5) Tight foreign currency control and lack of foreign currency market.
- (6) Lack of macro economic stability due to high inflation rate, deficit budget, and rising cost of living aggravate investment climate over the time.
- (7) Delay in promulgating of Special Economic Zone law for bonded area in Myanmar.

In sum, the government should keep in mind the importance of FDI and effective measures for creation of an enabling investment climate and incentives for FDI.

7. Conclusion

Trade of the BIMSTEC countries is still insignificant, accounting only two percent of total world trade in 2004. Although, all the BIMSTEC member countries have formed RTAs in recent years, the intra-BIMSTEC trade volume has not yet increased substantially and most of the member countries are still trading with extra-bloc countries. Thus, it would seem that trade promotion measures among the BIMSTEC countries are seriously in need of revitalizing now and border trade improvements should be considered especially for India, Bangladesh, Thailand and Myanmar.

The recent intra-trade and potential within BIMSTEC countries are analyzed by RCA and modified RCA of five BIMSTEC countries. The estimated RCA scores of five BIMSTEC countries highlight the highest comparative advantage in major export items among the member countries. It is evident that RCA of textile and clothing products and agricultural products are relatively highest in five BIMSTEC countries. Especially, India enjoys the highest comparative advantage in jewellery/jewelry products, Thailand in electronic data processing and office equipment, Sri Lanka in agricultural products, Bangladesh in textile and clothing products and Myanmar in fuel and mining products respectively.

The export potential for five BIMSTEC countries are likely to remain unchanged and appear positive growth trend in their most comparative advantage products in immediate future. However, based on estimated modified RCA of five BIMSTEC countries, Thailand possesses the highest comparative advantage in agricultural products, electronic data processing and office equipment, and fuel and mining products while India dominates textile and clothing products and Jewellery/ Jewelry items among the selected BIMSTEC countries.

The perspective of Myanmar's foreign trade and FDI reflects the importance of economic cooperation not only with BIMSTEC countries but also with other Asian countries including Japan. Although the structure of export has slightly changed from agricultural products to non-agricultural products and emergence of industrial exports, the primary products still dominates in Myanmar's export structure. In addition, the growth rate of exports, in terms of gross and per capita, Myanmar records the highest growth rate and high potential for future growth in recent years. However, the existing per capita export, accounting about US\$ 60 is still far behind that of Thailand with the highest per capita export in the BIMSTEC countries. Thus, export promotion policy and measures are urgently required for strengthening foreign trade of Myanmar. It is evident that the growth of export and inflow of FDI are closely interrelated to each other and presently FDI firms of gas and garment industries take the leading role in Myanmar's export.

The estimated trade intensity index indicates that Thailand is the largest partner for Myanmar's export and expects more exports in the near future. Consequently, Thailand becomes the largest FDI supplier to Myanmar due to recent huge FDI in power sector. Also, India and Bangladesh appear as good destination for future export of Myanmar.

Myanmar-Japan relations in trade, investment, and cultural linkages demonstrated that Japan always stood as the largest ODA supplier as well as the main exporter to Myanmar. Thus, economic relation between these two countries remarked the deepest and closest among the Asian countries. When Myanmar adopted market oriented system, the relationship should conceptually be stronger than before, and more economic cooperation are hopefully expected. But, in practice, economic cooperation deteriorated gradually due mainly to political reasons. In fact, the ODA and FDI from Japan substantially decreased since 1988, and it reached only marginal level in every aspects.

Actually, most of the BIMSTEC countries with the exception of Thailand are transitional economies characterized by low economic growth and low savings and investment. They are relatively poor countries in Asia where sustainable development of these countries depends largely on availability of foreign investment and relatively effective promotion of trade. Although investment climate of these countries may be comparatively poor, good opportunities and potentials for development still exist in abundance.

Myanmar still possesses comparative cost advantage in labour and huge potential for resource using or based industries in Asia. Moreover, as it is strategically located between two very large countries, China and India as well as corridor for ASEAN and SAARC countries. Now-a-days, labour intensive manufacturing like garment, toy, footwear, agro-based processing industries, and resource based processing industries, marine products processing industries and electronic and auto-mobile assembly industries should be considered to establish in Myanmar mainly due to abundant resources and cheap labour on one hand and rising wages of near NICs of Southeast Asia on the other. Especially, food-processing industries such as fast food, canning of agro-based and marine product etc., are exactly beneficial for both sides. Thus, there are ample opportunities for Japan to cooperate with and invest in Myanmar and its BIMSTEC members.

This in turn would require Japan to focus on the infrastructure development of the BIMSTEC countries, and special attention should be given towards the growth of industries and trade with bilateral approach in particular. At the same time, individual member country should further strengthen macro economic condition, liberalise trade, harmonize investment regime, and accept prudent financial and capital market for deepening economic cooperation BIMSTEC countries.

Endnotes

- ¹ Poor quality and reliability of data may partly be the cause of relative decline in industrial sector in Myanmar. For details see Myat Thein, "Thoughts on an Overview of Manama's Economy", Mimeo, March 2006.
- ² WTO, World Trade Organization, 2005
- ³ Swapan K. Ghattacharya (2005); Does BIMSTEC-Japan Economic Cooperation Increase Intra Regional Trade? The case for Free Trade Arrangement, International Conference Paper on "Possibility for a Comprehensive Economic Partnership between BIMSTEC Countries and Japan", Organized by CSIRD, Kolkata, December 2005, p 24.
- ⁴ MNPED
- ⁵ Myat Thein, Economic Development of Myanmar, ISEAS, 2004
- ⁶ Calculations based on ASEAN Statistical Yearbook 2005, used parallel exchange rate of 330 kyats per one US dollar instead of fixed exchange rate, 6 kyats per US dollar.
- ⁷ CSO, Monthly Economic Indicators 2005.
- ⁸ MNPED, Report to Pyithu Hlut Taw, various issues 1970 to 1986.
- ⁹ M Ebashi, Deepening- BIMSTEC- Japan Economic Relation: Task Ahead. pp 25-26.
- ¹⁰ Ibid

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Appendix I

The Role of UMFCCI

As a market-oriented system, the role of privatization is growing important in every sector and chambers of commerce appear as the leading role for the development of private sector. Generally, the development of economic cooperation and trade, better regional trade information network, dissemination of information, better linkages between domestic entrepreneur and foreign businessmen on the long-run stable basics are urgently required in Myanmar. In addition, Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) should establish the cluster group based on various commodities and industries for efficient utilization of inputs, production, and then, trade. The arrangement of trade shows, in both inside and outside of the country, contributes likely to expand the existing trade. Moreover, openings of commodity show centers in the main cities will help definitely to promote trade and investment. Thus, chambers of commerce, not only of Myanmar but also of others, should, hopefully, participate in the vital role in this regard.

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