

## Seek and you shall find

### *Dealing with Politico-Economic Hindrances in Myanmar for buttressing Trade Connectivity*

*Enhancing connectivity is largely concerned with effective political interventions. Peace and stability at the borders, harmonious and stable policies and government-to-government connections are ingredients for creating an integrated regional community. This Policy Brief identifies a number of issues relating to political economy on the basis of collection of ground realities in Myanmar.*

#### **Introduction**

Myanmar is strategically located in the Asian sub-continent and can bridge East Asia, South Asia and Southeast Asia. It lies between the two most thriving economies: China and India, and its geographic location has drawn the attention of the economic giants who are keen to stretch their economic arms to Southeast Asia. Myanmar on its part can also derive economic advantage by strengthening connectivity with its neighbours.

However, despite the proximity to India and Bangladesh, Myanmar's connectivity with these countries has been limited. While the products from China and Association of Southeast Asian Nations (ASEAN) have been flowing into Myanmar through land custom stations, the flow of products from India and Bangladesh has remained minimal. Thus, Myanmar has to pay attention to connectivity with the countries to its west.

#### **Current State of Political Economy: Facts from the Ground**

CUTS International in collaboration with Myanmar Marketing Research & Development (MMRD) conducted several discussions with key policymakers and other stakeholders to understand their viewpoints on the political economy of trade and connectivity. The following issues have emerged as the major challenges that need to be addressed on priority basis:

#### **Security issues**

Myanmar has security problems along its border points with India and Bangladesh. Trade along Myanmar-India border through Sittwe-Manipur corridor is affected by activities of the insurgent groups harbouring in the Indian state of Manipur. Activities of these insurgent groups often cause a shut-down of borders which affects the business of traders adversely.

## Bilateral coordination between trade and custom departments of Myanmar remains challenging. Bilateral communication between the border agencies of the countries is also limited.

The Indian government has to keep its border open for trade facilitation and this can only happen if the activities of the insurgency groups are curbed permanently. Likewise, Myanmar-Bangladesh border trade is not immune to security threats. Conflicts in Maungdaw cause the border trade with Bangladesh to remain suspended for months.

### **Limited bilateral coordination**

Bilateral coordination between trade and custom departments of Myanmar remains challenging. Bilateral communication between the border agencies of the countries is also limited. Border gates continue to get shut down without any prior notice in Tamu-Moreh stretch. Inconsistencies in trade information persist between Myanmar-India and Myanmar-Bangladesh. These factors will deter implementation of cross border transit.

### **Non-transparent Taxation system**

The government taxation has to be transparent to public. To encourage local exporters and importers to participate in cross-border trade, the government has to ease the taxation system and in return, the traders have to adopt good business practices by paying tax.

For example, in importing pulses from India, traders complained that they are not sure of how much tax they should pay to the government. The lack of clarity and instability in taxation often force traders to rely more on informal trade.

### **Limited Awareness on Sub-regional Connectivity**

Awareness among the public about the sub-regional connectivity is still at minimal level. Most respondents are not familiar with the term. The awareness is limited not only at the grassroots level, but also at higher levels among exporters and

importers, transport operators and business owners. Lack of awareness is more pronounced in the rural areas which are remote from the capital.

### **Livelihood concerns**

Stakeholders worry that if there is direct transportation of cargo by trucks from other countries to the mainland of Myanmar, the local businesses and employment opportunities will be negatively affected. The sub-regional connectivity would increase competition which could hamper the small-scale businesses. Seamless movement of cargo across borders is likely to phase out those traders and support service providers who are presently able to earn incomes at border crossing points.

## **Policy Recommendations**

The study concludes that there are several domains where political interventions are required for effective implementation of the sub-regional connectivity.

- Myanmar has no past experience in respect of cross-border transport agreements. Before committing itself full-swing to the sub-regional connectivity, Myanmar could initiate small beginnings towards bilateral cross-border transport agreements like between Myanmar and India, with the possibility of extension to other countries at later stages when feasible.
- Stakeholders proposed that Myanmar's trucks should be permitted to travel up to Guwahati, where there is a demand for Myanmar's products. Likewise, the trucks from India could be allowed to travel until Mandalay, the major trade centre in upper Myanmar. For this, it would be essential to establish local cross-border traffic rights and identify options to ease border trade restrictions.

For Myanmar-India corridor, pulses & beans have high potential for export through borders. Annually, Myanmar exports 900,000 tonnes of pulses and beans to India, mostly through maritime trade, which have high potential to be increased further.



- To ensure seamless trade and connectivity, it is essential to ease tariff barriers between the concerned countries. For example, areca nut is Myanmar's main export item to India. It has 150,000 acres of areca nut plantation. During 2016-17, areca nuts export accounted for US\$24.7mn out of the total export of US\$48mn through Tamu-Moreh border trade. However, areca nut exporters are currently facing losses as Indian authorities have raised the import duty on areca nuts up to 40 per cent, from late July 2017. This has diminished the volume of border trade between India and Myanmar, and a dialogue between two governments is urged to ease the situation.
- Another challenge to be addressed in Myanmar is ensuring equal participation of traders at all levels in border trade. The traders working in Tamu informed that Myanmar's export products to India involve areca nuts that are illegally imported from Indonesia via Myawaddy-Mae Sot border checkpoint. It is established that Myanmar can only produce an estimated 10,000 tonnes of areca nuts per annum. However, its export to India reaches 40,000 tonnes annually, indicating that 30,000 tonnes are not domestically produced nuts.

Large traders dominate the border export market to India with these informally imported products. For equal participation in the market, the government could consider restraining the illicit import of areca nuts from Indonesia in favour of domestically produced products for the benefit of local farmers and traders at the Tamu-Moreh border.

- Diversification of Myanmar's export productions has been recommended by several stakeholders. Other locally produced agri-products could be considered for export to India and Bangladesh through borders. For Myanmar-India corridor, pulses & beans have high potential for export through borders. Annually, Myanmar exports 900,000 tonnes of pulses and beans to India, mostly through maritime trade.

The Tamu-Moreh border trade post is only 340 km away from Monywa and 460 km from Mandalay, which are the major trade centres for pulses and beans in Myanmar. It is possible to transport goods from Tamu to New Delhi within one week, but it takes up to a month to send the same goods by ship via Yangon.

Similarly, although fishery products are the main export item to Bangladesh, rice which is grown in the Ayeyarwaddy region can also be

exported to Bangladesh via Sittwe and Maungdaw. Myanmar is one of the highest producers of rice in the world and it exports 1 million tonnes of rice annually to 62 countries. These alternative export products could benefit local farmers and foster greater movement of cargo through land border stations.

- An important step towards supporting formal trade through borders lies in awareness generation on taxation. Myanmar is in the midst of a democratic transformation and the government has initiated tax reforms with the objective of boosting its revenue earnings. However, Myanmar's tax system is complex, with several taxes collected by different agencies.

The traders involved in Myanmar-India and Myanmar-Bangladesh border trade informed that they have limited understanding on taxation. Therefore, it is necessary to adopt effective tax education to disseminate information in this regard. Improved understanding on taxation could encourage more traders to participate in formal trade.

- Temporary border passes could be issued for encouraging more people-to-people connectivity. Myanmar stakeholders complained that they are often denied for permission to legally travel to India through the border. Similarly, there are limitations on

Indian traders entering Myanmar through the border. This problem can be resolved by issuing border passes for short-durations (up to 7 days) at Myanmar-Thailand's Myawaddy-Mae Sot border gateway. Greater flexibility in border-crossing facilities could pave the way for improved people-to-people connectivity.

- Establishing an exchange rate arrangement for border trade can help traders to settle imbalances in trade in monetary terms, instead of using goods. This could pave the way for increased trade. Border trade between Myanmar and India involves barter, that is, an exchange of goods. Although authorities have called an end to barter system, it is still pervasive due to weaknesses in the banking systems of both countries. Exchange rate arrangements will open the possibility for banks in both countries to facilitate trade and terminating barter exchange.

Myanmar's border trade with India and Bangladesh has suffered due to the lack of clear and consistent policies among the countries of the region. An effort must be made to ensure that all relevant players participate in the process of trade. Furthermore, it is important to address local issues pertaining to political economy and infrastructure along the corridor for the people to fully benefit from connectivity initiatives, such as the MVA.

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D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India. Ph: +91.141.228 2821, Fax: +91.141.228 2485  
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