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The Effect of Trade Liberalization on Myanmar Foreign Trade with Selected Asian Countries

Minn Maung Oo

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The Effect of Trade Liberalization on Myanmar Foreign Trade with Selected Asian Countries

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List of Abbreviations

ADB	:	Asian Development Bank
AMS	:	ASEAN Member States
AFTA	:	ASEAN Free Trade Area
ASEAN	:	Association of South East Asia Nations
ATIGA		ASEAN Trade in Goods Agreement
CEPT	:	Common Effective Preferential Tariff
CMP	:	Cutting, Making and Packing
EL	:	Exclusion List
IL	:	Inclusion List
SL	:	Sensitive List
TIL	:	Temporary Inclusion List
UNCTAD	:	United Nations Commission on Trade and Development
WTO	:	World Trade Organization

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Abstract

This study examined the effect of trade liberalization on Myanmar foreign trade with selected Asian countries namely Singapore, Thailand and China from 1989-2010. The paper also analyzed trends of foreign trade volume between its major trade partners and the effect of trade liberalization on trade flow with ASEAN Member States (AMS), particularly Singapore and Thailand.

The main objectives of this research are to study the status of Myanmar Foreign Trade after joining ASEAN and to analyze the effect of trade liberalization on Myanmar Foreign Trade.

The impact of trade liberalization can be seen as significant and vital to overall exports and imports. Myanmar export/import and volume of trade have increased year by year due to the government practicing a market-oriented system since 1988 and is encouraging the development of the private sector. The government is facing a trade surplus after 2001 due to allowing imports and high export earnings. The government is attempting to uplift participation of the private sector by reducing trade by the government sector. The trade sector which has been liberalized has been performing very well in both exports and imports

1. Introduction

1.1 Overview

Foreign trade is an essential driver for economic prosperity of a country as well as an engine of growth for developing and developed countries. It is also a vital element of Myanmar's economic growth. Myanmar has opened its economy after 1988 and its trade volume has increased year after year ever since. Myanmar trades with many countries especially with bordering countries such as China, Thailand and ASEAN countries, particularly Singapore.

1.2 Research Rationale

Many developing countries have substantially liberalized their trade regime over the past three decades, either unilaterally or as part of a multilateral initiative. Nevertheless, trade barriers remain high in many developing countries.

In theory, trade liberalization results in productivity gains through increased competition, efficiency, innovation and acquisition of new technology. ***Trade liberalization can benefit a country*** in a number of important ways:

(a) Improved allocation of resources in activities that optimize social marginal benefits and minimize social marginal costs;
(b) The expanded market as a consequence of liberalization provides access to better quality technologies, managerial and organizational skills, inputs and intermediate goods that could facilitate the modernization and transformation of production and trading structures;
(c) By enhancing the economies’ ability to take advantage of economies of scale and scope;
(d) Improved disciplinary effect of domestic competition that forces local producers to move their production systems closer to world standards to survive;
(e) Positive growth and restructuring externalities, including the transfer of know-how.

The main purpose of trade liberalization over the period was to promote economic growth by capturing the static (reduced costs from economies of scale, efficiency gains from exploiting the comparative advantage, reduction in distortion from imperfect competition and increased product variety) and dynamic (benefits from trade that accumulate over time in addition to static gains from trade) gains from trade through a more efficient allocation of resources; greater competition; an increase in the flow of knowledge and investment and, ultimately, a faster rate of capital accumulation and technical progress.

There are many barriers to trade in Myanmar and these have hindered foreign trade performance. Myanmar's exporters and importers are faced with various policy constraints even after taking some liberalization measures and appeared not to have improved its foreign trade with major partner countries. Therefore, accelerated trade liberalization is needed to promote economic growth in Myanmar.

1.3 Objectives of the Research

The main objectives of this research are:

- To study the status of Myanmar Foreign Trade after joining the ASEAN,
- To analyze the effect of trade liberalization on Myanmar Foreign Trade Volume.

1.4 Research Questions

- To what extent has foreign trade performance improved through trade liberalization in Myanmar?
- Does trade liberalization affect Myanmar Foreign Trade?

1.5 Scope and Delimitations

This study will focus on Myanmar Foreign Trade with the selected ASEAN countries and China. This paper studies Myanmar foreign trade in two periods:-the period of 1988-1997 (before joining ASEAN) and the period of 1998-2010 (after joining ASEAN).

2. Review of Literature

2.1 Concept and Empirical Studies on Trade Liberalization

The debate over trade liberalization is part of a larger debate that deals with the impact on the economic growth of free movement of goods, capital and labor force across borders. Most economists agree that trade liberalization could positively affect economic growth, but the differences are at what stage of development a country should open its market.
Some developing countries have unilaterally liberalized trade in an attempt to integrate into the global economy and promote economic growth. Some economists consider that liberalization of trade leads to the economic development.

According to the World Bank (2001)**,** trade liberalization is defined as;

(i) The removal of or reduction in the trade practices that thwart a free flow of goods and services from one nation to another. It includes dismantling of tariffs (such as duties, surcharges, and export subsidies) as well as ***non-tariff barriers*** *(such as licensing regulations, quotas, and arbitrary standards);*
(ii) the removal of government incentives and restrictions from trade between nations; and
(iii) any acts that would make the trade regime more neutral (nearer to a trade system free of government intervention).

Since the mid-1980s there has been wide-spread and rapid trade liberalization that has become an increasingly common feature of economic policy in developing countries. Santos-Paulino and Thirlwall **(**2004**),** state that the developing countries have liberalized their trading regime with the hope of gaining static and dynamic gains from trade, and that liberalization will increase both the growth of exports and imports, and consequently improve welfare.

A crucial element of trade liberalization reforms in developing countries is the liberalization of import trade as a means of reducing the anti-export bias of the trade regimes. In this sense, many developing countries have made good progress in the last two decades in liberalizing their *trade policies by removing quantitative import restrictions and reducing tariffs* **(**Milner, 1990**).** However, most developing countries' tariffs are still high enough to create significant levels of anti-export bias.

Santos-Paulino (2000; 2002 and 2003) concluded that *trade liberalization emerges as a fundamental determinant of export growth in all the countries* in their sample. Multi-country studies that show *a non-significant impact* comprise UNCTAD's [*1989*] analytical assessment of the relationship *between trade reform and export performance;* ***(***Agosín, 1991)**;** quantitative and qualitative analysis (Clarke and Kirkpatrick, [1992**)** cross-sectional studies (Shafaeddin, 1994**)** analytical study; Greenaway and Sapsford's 1994 times series analysis and Greenaway and Sapsford's 1997smooth transitions analysis.

2.2 Utilization of Tariff Elimination under the CEPT Scheme for AFTA[1]

A central element of ASEAN's goal of a single market and production base that underpin the ASEAN Economic community is the free flow of goods within the region. Four foundations of the free flow of goods are (1) the elimination of tariff barriers, (2) the elimination of non-tariff barriers (NTBs) as well as the minimization of the trade barrier effects of non-tariff measures (NTMs); (3) more trade facilitative standards, conformance procedures and technical regulations; and (4) improved trade facilitation measures.

Tariff reduction by the AFTA member countries proceeded along the lines of the CEPT Scheme. Under the CEPT Scheme, products are initially classified into two groups; Inclusion List (IL) and Exclusion List (EL). Those products in IL were subject to tariff elimination while those in EL were excluded from tariff elimination. The Exclusion List was later subdivided into a Temporary Exclusion List (TL) and Sensitive List (SL) in 1995. The products in TL will become subject to tariff reduction or elimination in the future, and will be shifted to IL. The products under SL were exempted from tariff elimination.

For the original AFTA members, initially, tariff rates on the products in IL were scheduled to be reduced to between 0% and 5% by 2008. The tariff reduction schedule was revised in 1994 and 1998, and the due date of tariff reduction to 0-5% range for the products in IL was moved forward to 2002. For the new AFTA members, the due dates were set as follows: 2006 for Vietnam, 2008 for Lao PDR and Myanmar, and 2010 for Cambodia. Products in TL have

[1] "The impact of AFTA on Intra-AFTA Trade" ERIA Discussion paper series ERIA-DP-2013-05 , May 2013

been shifted to IL annually from 1996. For the products in SL, including unprocessed agricultural products, the tariff rates were to be reduced to the 0-5% range by the year 2010 for the original six members and by the period 2013-2017 for the new members.

The ASEAN-CEPT agreement was revised significantly by the ASEAN Trade in Goods Agreement (ATIGA) signed in December 2008. In the revised schedule, the tariff rates of the products in IL were to be reduced to 0% by the year 2010 for the original six members and by the year 2015 for the new members. ATIGA also redefined the detailed schedule of tariff reduction.

Intra-regional tariff rates in ASEAN have been reduced or eliminated steadily under the CEPT Scheme, which was revised several times. By 2010, the share of the total number of products with the 0% tariff rate, in terms of tariff lines, was around 99% for the original six countries, while the share of products with the 0-5% tariff rates were around 99% for Cambodia, Myanmar and Vietnam and 95% for Lao PDR.

Table (1) shows the progress of tariff elimination in each member country. Judging from these figures, the process of regional tariff reduction or elimination in the ASEAN member countries has proceeded strongly in the last 20 years, and has almost been completed.

Table 1. Progress of Regional Tariff Elimination in ASEAN by 2010

Share of tariff lines at 0%		**Share of tariff lines within 0-5%**	
Brunei	99.03	Cambodia	98.53
Indonesia	98.66	Lao PDR	95.18
Malaysia	98.68	Myanmar	99.28
Philippines	98.63	Vietnam	99.68
Singapore	100.00		
Thailand	99.84		

Sources: Calculated by authors based on tariff schedule under the ATIGA of each member published by the ASEAN secretariat

2.3 Trade Policy in Myanmar

Throughout history, the Myanmar foreign trade policy has changed occasionally. Before the membership of ASEAN and participation in AFTA, an institutional reform took place in 1988 in order to introduce the market-oriented economy after the change from a socialist economic system. In 1997, when Myanmar became a member of ASEAN and participated in AFTA, other institutional requirements like applying CEPT scheme in its tariff policy was initiated.

2.3.1 Changes in Myanmar Foreign Trade Policy

Before discussion of the trade policy reforms toward market-oriented economy in 1988, a brief historical path of Myanmar trade policies will be introduced. The ancient monarchic Burmese[2] society was abolished and introduced a laissez-faire free trade policy accompanied with British imperialism in 1885. Burma's foreign trade was commercialized by foreigners, especially British and Indian merchants. After independence, though Burma remained within the capitalist economic system, foreign controlled businesses were bound by national rules and regulations and were nationalized after 1962. After 1962, when the *Revolutionary Council* came into power, vital means of production, distribution, and external trade were nationalized in 1964.

The external trade was transformed and a regime of moderately high tariffs replaced the free trade of the colonial era. The government established the trade council in 1965 for formulating trade policy and all external trade was conducted solely by the state organization, the Myanmar Export Import Corporation (MEIC). In 1972, a long-term external trade policy was formulated. The import-substitution policy was pursued corresponding with the lack of foreign currency caused by the absence of foreign aid and investment (see Moe Moe Khaing, p. 106). The importance of export promotion was once recognized in 1983; however, it did not result in the formulation of a new policy (see Myat Thein, 2004, pp. 75-76).

Under the socialist regime, Myanmar relied heavily on the export earnings from primary products to import capital goods and machinery for domestic industries. The government protected domestic manufacturing by high levels of tariff barriers, controls on foreign investments, and overvalued exchange rates.

[2] Former name of Myanmar

When institutional reform began in 1988, the new institutional framework was constituted and permitted private business firms, both domestic and foreign enterprises, in the external trade sector. The Imports and Exports Act (1947) was revived. The rules and regulations were set to administer external trade conducted by the entrepreneurs.

The Ministry of Commerce was restructured as an administrative organization for external trade operations. The Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) was reorganized for the promotion of trade and industry in the private sector. Border trade was regularized in 1989 and the Directorate of Border Trade and its branches at the border area of India, China, Thailand, Bangladesh, and Laos were organized. The Myanmar Foreign Trade Bank (MFTB) and Myanmar Investment and Commercial Bank (MICB) dealt with financial transactions for overseas trade, and the branch offices of the Myanmar Economic Bank (MEB) handle the financial transactions for border trade.

To evolve the market-oriented economic system, which is one of the main economic objectives, the government formulated the three basic principles of trade as follows:

1. Trade activities should be directed towards the interest of the State and the people,
2. Trade activities should not be a burden to the people, and
3. Trade activities should envisage a long-term stable trading system rather than gaining a short-term profit.

Likewise, trade liberalization measures have been instituted. They are:

1. Encouraging wider participation of private and co-operative sectors in domestic as well as in foreign trade, which was previously monopolized by the State,
2. Regulating border trade in order to develop and strengthen bilateral trade relations with neighboring countries,
3. Forming joint-venture corporations with State-owned Economic Enterprises (SEEs) and local and foreign private enterprises as an initial step towards privatization,
4. Realignment of exports and import procedures,
5. Lowering technical barriers to trade and simplifying the export/import procedures geared towards trade facilitation and promotion,

6. Provide exemption of commercial tax and customs duty on imported items like fertilizers, agricultural machineries and implements, insecticides and pesticides, medicines and raw materials,
7. Issuing trade notifications and specifying necessary rules in conformity to the changing internal and external business environment,
8. Introducing import first and export later system to facilitate foreign trade,
9. Offering incentives to exporters by allowing 100% retention of export earnings for importation of goods,
10. Allowing foreign companies to import commodities for sale on consignment basis,
11. Allowing registered exporters to export specified commodities for sale on consignment basis,
12. Transit trade services are allowed to be carried out not only by the State but also by private entrepreneurs, companies and organizations.

To promote private sector participation in foreign trade, private companies have initially been allowed simultaneous transactions of exports and imports, an ***"import first and export later"*** scheme as well as exports and imports on a consignment basis. These schemes have varied from time to time according to the economic and political situation.

The exporters have the right to export all products, except some important agricultural products, forest products, petroleum products, precious stones, and minerals, which are solely exported by the SEE. Importers have the right to import all the products, except those, which are specifically prohibited by the SEE and by the Ministry of Commerce. Occasionally, the list of export items and import items are amended with or without explicit announcement.

Moreover, two priority lists of import items were determined in 1998. The priority list (A) includes agricultural machinery and farm implements, fertilizers, pesticides, high-yield quality seeds, edible oil, oil and fats for soap industry, and construction stores and building materials. The priority list (B) includes personal goods, household goods, foodstuffs, construction materials, textile products, electric and electronic products and general products. The imports have been restricted with the proportion of 80/20, that is, 80 per cent of export earnings after tax must be spent for the import items in the list (A) and 20 per cent of export earnings after tax can be spent for the import items in the list (B).

The Government of Myanmar changed its economic course from a centrally planned economy into a market oriented system in late 1988. Since then, a series of structural reforms have been implemented in the economy. The Government of the Union of Myanmar has recognized, in the context of the market-oriented economic system, the private sector as a prime-mover of the market mechanism and pays great attention in its development. All-out efforts are being made to encourage the active participation of the private sector in foreign trade and providing full support in every angle.

By these reasons, trade liberalization measures were introduced as follows:

- To be in line with the changing economic system, private individuals or enterprises are allowed to carry out the export and import business which was previously monopolized by the state.
- Border Trade was regularized in order to develop and strengthen bilateral trade relations with the five neighboring countries. The Department of Border Trade was established and its 11 branch offices providing a one - stop service for border trade matters in collaboration with various departments concerned.
- Export and Import procedures were realigned.
- Lowered technical barriers to trade and simplified export/ import procedures geared towards trade facilitation and promotion.
- Incentives are provided to exporters by allowing 100 % retention of export earnings for importation of goods.
- Trade notifications are being issued by specifying necessary rules in conformity to the changing internal and external business environment.
- Exemption of commercial tax and customs duty on imported items like fertilizers, agricultural machineries and implements, insecticides and pesticides, medicines and raw materials.
- The role of Chambers of Commerce and Industry reactivated and reorganized into the Union of Myanmar Federation of Chambers of Commerce and Industry - UMFCCI, for the promotion of trade and industry of the private sector.

2.3.2 Myanmar in AFTA: Changes of Tariff Policy in 1990s

Since the late 1980s, it has been accepted that the economic integration is a constructive way to achieve regional and global competitive advantage by means of attracting foreign direct investment and promoting trade. The formation of the Free Trade Area (FTA) is one of the economic integration stages. A free trade area can be established by means of removing all trade restrictions among member countries.

One of the influential regional economic integrations in the Asia-Pacific region is the ASEAN Free Trade Area (AFTA), which was established in 1992. The main objective of the creation of AFTA is to increase international competitiveness of ASEAN in terms of attracting the flows of foreign direct investment, thereby stimulating intra- and extra- regional trade. The critical instrument for accomplishing this objective is the Common Effective Preferential Tariff (CEPT) scheme. It is the mechanism to liberalize trade through the elimination of tariffs and non-tariff barriers among member countries.

Since 1997, Myanmar has potential to benefit from its membership in ASEAN by participating not only in AFTA but also in all areas of ASEAN economic cooperation. Myanmar's participation in AFTA may complement the ASEAN trade and may lead to trade creation. Myanmar's integration into ASEAN is anticipated to bring significant benefits to its economy such as greater trade and investment links within the region, increased attractiveness to foreign firms from outside the region and more secure access to the large ASEAN market.

Participating in AFTA requires certain levels of institutional changes to meet the fundamental rules for economic cooperation with member countries. Myanmar began its institutional reforms for transforming its market-oriented economy in 1988. In addition to these institutional reforms, Myanmar also needed to apply the CEPT scheme for participating in AFTA in 1997.

Although AFTA aims at attracting flows of investment and promoting regional and international trade, this study focuses on the latter reflected by changes and implications of the Myanmar trade policy. Therefore, this study intends to examine the changes in Myanmar trade policy in the line with changes of the political economy and with the participation in AFTA.

Regarding the tariff policies, the customs duty of Myanmar is basically a customs duty of a fiscal nature. Previously, the taxation of international trade was based on the Tariff Act (1953). The import tariff was organized into 193 items and distributed into 19 sections. The classification did not follow international standards. Tariff rates then were generally high, ranging from 5 percent for certain types of unprocessed foodstuffs to 500 percent for some alcoholic beverages.

Myanmar became the 109th member of the "Customs Cooperative Council" (CCC) in 1991. Steps were taken to realign the practices in the foreign trade sector with international standards. A new tariff law was enacted in 1992 to replace the Tariff Act (1953). Moreover, as a member of GATT, the "Harmonized Commodities Description and Coding System" (H.S) of import classification was introduced in Myanmar for the modernization and standardization of tariffs in line with international practice. It has 8 digits level and enables the collection of trade data precisely. The tax base has been widened while the tariff lines were extended to 5,472 items. The tariff rates have also been changed into the range of zero to 40 percent. Out of the total tariff lines, 68 percent of the items fall into the range of zero to 5 percent.

After becoming a member of ASEAN and participating in AFTA, the present tariff rates have been reduced to (0-5 percent) within 10 years starting from 1998 and ending in 2008. The CEPT scheme (see Fig. 1) is the key instrument and vehicle for achieving goals set by AFTA. In the CEPT scheme, products are classified as those belonging to the Inclusion List (IL), Temporary Exclusion List (TEL), Sensitive List (SL), and General Exception List (GEL).

The tariff lines of products in the Inclusion List had two programmes to reduce the tariff rates, Fast Track Programme and Normal Track Programme. According to the Fast Track Programme, tariffs currently above 20 percent will have to be reduced to below 5 percent within seven years (by 2005), and tariffs at or below 5 percent to zero percent within five years (by 2003). The Fast Track applies to the 15 products group including a large number of individual items and comprising about 32 percent of the ASEAN countries" total products. Under the Normal Track Programme, tariffs above 20 percent are to be reduced in two stages:

to 20 percent by 2001 in stage one, and to (0-5 percent) by 2008 in stage two: the normal programme of CEPT is accounted for 55 percent of total ASEAN products in terms of tariff lines.

In addition, the General Exception category includes goods excluded from the CEPT for the reasons of national security, public morals, health or safety. These products account for only about one percent of the total ASEAN products. Those commodities, which are of prime importance for the country (e.g. rice), are included in the Sensitive List. Commodities, where non-tariff barriers exist or the production of which the government is promoting (e.g. varieties of wood, fibers, and textiles) are included in the Temporary Exclusion List.

In the present situation, there are 5,472 tariff lines in Myanmar and tariff rates or 3,713 tariff lines or 68 percent of total tariff lines that are already within the range of 0-5 percent. The tariff rates will be reduced starting from the year 2000 and to soften the effect of tariff rates reduction, the present tariff rates will be reduced to only five percent. For those commodities, which are included in the Sensitive List, tariff rates will be reduced to (0-5) percent between 2003 and 2015.

To further accelerate implementation of the CEPT Scheme for AFTA, Myanmar is currently reviewing its General Exception List. The National AFTA unit, in consultation with the responsible economic ministries, has identified the products that may be transferred to the Temporary Exclusion List. Myanmar has put textiles and apparel, chemicals, and machinery and electrical appliances in the Temporary Exclusion List, which accounted for almost 59 percent of the tariff lines, and rice, cotton, coffee, tea, silkworm cocoons, and raw silk in the Sensitive List. The General Exception List includes telecommunication equipment, arms and ammunitions, explosives and works of art.

2.3.3 Export Policy in Myanmar

Myanmar’s export policy is to export all exportable surpluses and diversify foreign markets by using natural and human resources. The activities of increasing and diversifying exports and improving the quality of products have been attempted to increase the volume and value of export. The following are the main components of Myanmar’s export policy;

1. Export promotion is the main ingredient of Myanmar's external export policy,
2. The private sector is allowed to engage in external trade activities in accordance with the rules and regulations relating to export.
3. Export first is required in the case of the private sector, however, accounts transfer between different foreign currency accounts holder is also permitted.
4. The private exporters are allowed 100 percent export retention.
5. All commodities are allowed to be exported except certain restricted items like rice and rice products and other products which are prescribed to be solely exportable by the state owned economic enterprises, with a view to maintaining internal food security.
6. All exports of the private sector including foreign traders and state enterprises are subject to licensing.

Normally, registered exporters/importers have the right to export all commodities, except rice and rice products and other products which are prescribed to be solely exportable by the State-Owned Economic Enterprises.

2.3.4 Import Policies in Myanmar

The Government of Myanmar introduced various restrictive controls on trade in order to manage scarce foreign exchange in the 1990s. One such control is the so-called ***" export-first and import-second" policy*** that provides the issuance of import licenses on the possession of a sufficient amount of export-tax-deducted export earnings to cover the import bill. Regarding the import policy, imports are allowed against the export earning with a view to promote exports and to overcome the balance of trade deficit problem.

The purpose of these restrictions and controls was to reduce imports, particularly those that the government deemed to be non-essential. Essential goods are described in list A of the obligatory imports, the share of which should be more than 80 per cent of total imports, according to Ministry of Commerce notice No. 15/98 of October 1998. On the other hand, non-essential articles and/or luxury goods are set out in list B of non-obligatory imports. The share of this category is not permitted to exceed 20 per cent of total imports. The government urged private traders to reduce imports of non-essential and/or luxury goods and to give priority instead to essential goods, that is, goods determined by the government to be necessary for economic stability.

Private business firms are encouraged to import capital goods, industrial machineries including raw materials and other essential items while the consumer choices can be fulfilled equally at the same time. The following are the main components of Myanmar's Import Policy.

1. Activities pertaining to import substitution are the main ingredient of Myanmar's external trade policy.
2. Under the circumstances attempts have been made to substitute some import items with natural resource based industries and implementation of economic reforms, it can be expected to manufacture value added items like semi-manufactured or manufactured products.
3. The private sector is allowed to engage in external trade activities in accordance with the rules and regulations relating to imports;
4. All imports of the private sector including foreign traders and state enterprises are subject to licensing;
5. Agriculture; machinery and equipment, construction stores and building materials, etc., are given top priority for import.
6. The private sector is required to import a specified ratio of priority items.

Commodities which are restricted for the time being are a) Chewing gun, b) Cakes, c) Wafers, d) Chocolate, e) Liquor, f) Beer, g) Cigarettes, h) Others that are restricted in accordance with existing law.

Policy declaration as to imports is to fulfill the basic needs of the country's economic sectors, namely: agriculture, livestock breeding, fishery, forestry, transportation, manufacturing and mining.

2.3.5 Border Trade Policies in Myanmar

Myanmar is located to East Asia (China), Southeast Asia (ASEAN) and South Asia (India and Bangladesh). Among these various countries and region, there are differences in natural resource endowments and in industrial development stages. Border trade was regularized in order to develop and strengthen bilateral trade relations with the five neighboring countries.

In order to legalize Myanmar border trade, the department of border trade is undertaking the registration of exporting and importing bodies for exports and imports of the private sectors in the border trade. The bilateral border trade agreements have already been signed between Myanmar and all these neighboring countries;

a. Myanmar-India Border Trade Agreement on 21st January 1994,
b. Myanmar-Bangladesh Border Trade Agreement on 28 May 1994,
c. Myanmar-China Border Trade Agreement on 13 August 1994;
d. Myanmar-Thailand Border Trade Agreement on 17 March 1996;
e. Myanmar-Laos Border Trade Agreement on 6 December 2000.

2.4 Trends of Myanmar Export and Import

The liberalized institutions in the external trade sector in 1988 can be expected to have a positive economic performance to some extent because of private sector participation. An open-door policy substantially increased Myanmar’s external trade throughout the 1990s, up to 2005, although exports and imports did not grow in parallel. Imports grew more rapidly than exports in the 1990s.

As seen in table 4, the volume of foreign trade, both exports and imports, grew from 1988 to 2010. Imports grew more rapidly than exports in the 1990s. From 1988 to 2001, Myanmar had a foreign trade deficit. Since 2002, the foreign trade had a gradual surplus due to the expansion of natural gas exports.

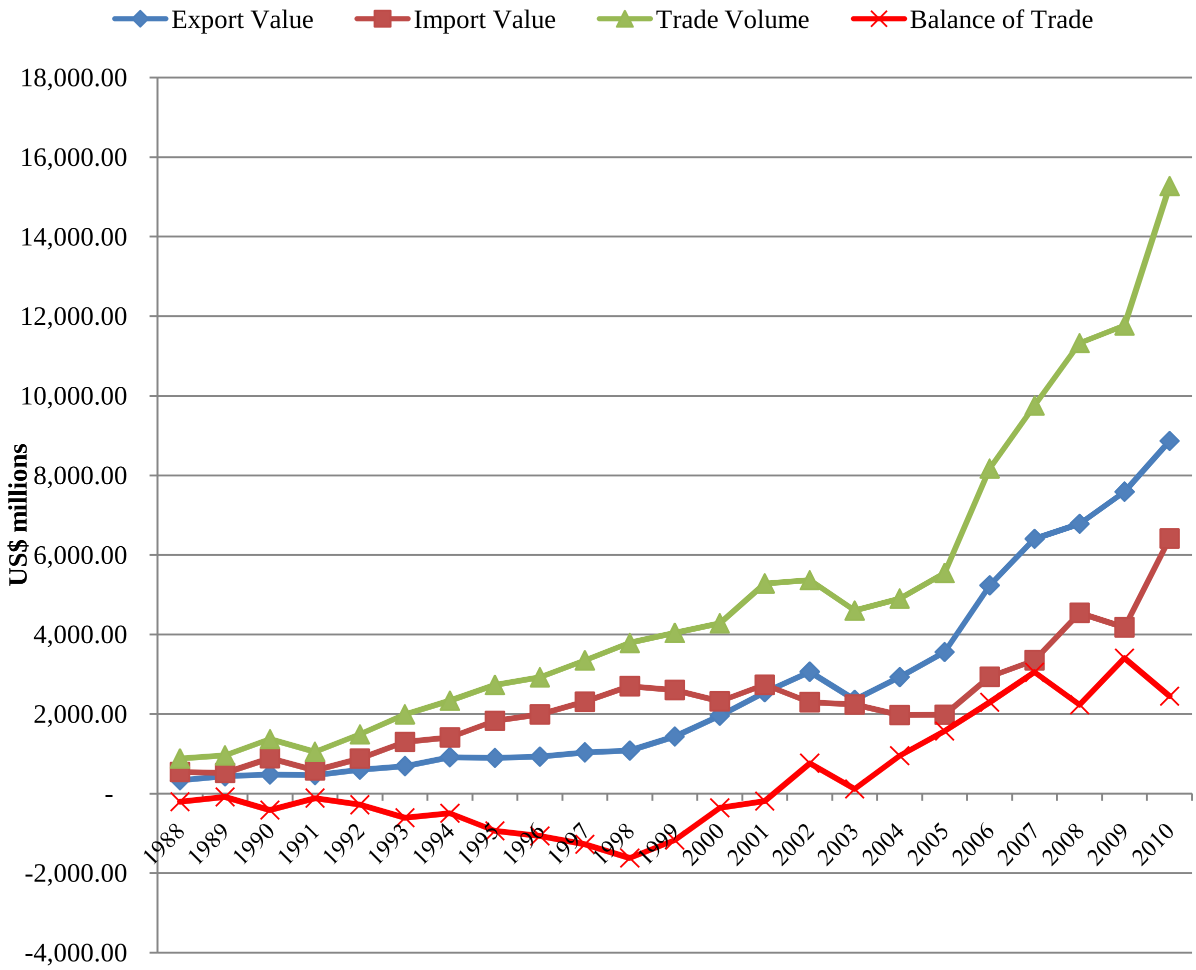

Figure 1. Myanmar Foreign Trade
Source: CSO Statistical Yearbook 2011

Table 2. Myanmar's Export Value, Import Value and Balance of Trade

Year	Export Value	Import Value	Trade Volume	Balance of Trade
1980	415.04	785.45	1,200.49	-370.41
1981	446.13	823.00	1,269.13	-376.87
1982	501.20	898.04	1,399.24	-396.84
1983	545.82	721.24	1,267.06	-175.42
1984	525.09	622.69	1,147.78	-97.60
1985	503.75	652.08	1,155.83	-148.33
1986	505.57	668.00	1,173.57	-162.43
1987	254.00	624.00	878.00	-370.00
1988	334.80	541.30	876.10	-206.50

Year	Export Value	Import Value	Trade Volume	Balance of Trade
1989	436.10	520.10	956.20	-84.00
1990	476.50	888.60	1,365.10	-412.10
1991	467.20	580.50	1,047.70	-113.30
1992	602.00	883.00	1,485.00	-281.00
1993	692.00	1,297.00	1,989.00	-605.00
1994	917.00	1,414.00	2,331.00	-497.00
1995	895.00	1,832.00	2,727.00	-937.00
1996	929.00	1,993.00	2,922.00	-1,064.00
1997	1,036.00	2,309.00	3,345.00	-1,273.00
1998	1,082.00	2,702.00	3,784.00	-1,620.00
1999	1,433.00	2,605.00	4,038.00	-1,172.00
2000	1,960.00	2,319.00	4,279.00	-359.00
2001	2,544.00	2,735.00	5,279.00	-191.00
2002	3,062.84	2,299.64	5,362.48	763.20
2003	2,356.82	2,239.97	4,596.79	116.85
2004	2,927.84	1,973.28	4,901.12	954.56
2005	3,557.21	1,984.41	5,541.62	1,572.80
2006	5,232.68	2,936.73	8,169.41	2,295.95
2007	6,401.71	3,353.42	9,755.13	3,048.29
2008	6,778.85	4,543.45	11,322.30	2,235.40
2009	7,586.94	4,181.40	11,768.34	3,405.54
2010	8,861.01	6,412.73	15,273.74	2,448.28

Source: CSO Statistical Yearbook 2011

2.4.1 Myanmar Foreign Trade with Singapore

Singapore is currently Myanmar's third largest trading partner. Bilateral trade reached US$ 3,624.27 in 2010, up from US$ 585.70 in 2000. But after trade liberalization, Myanmar foreign trade had a deficit until 2011.

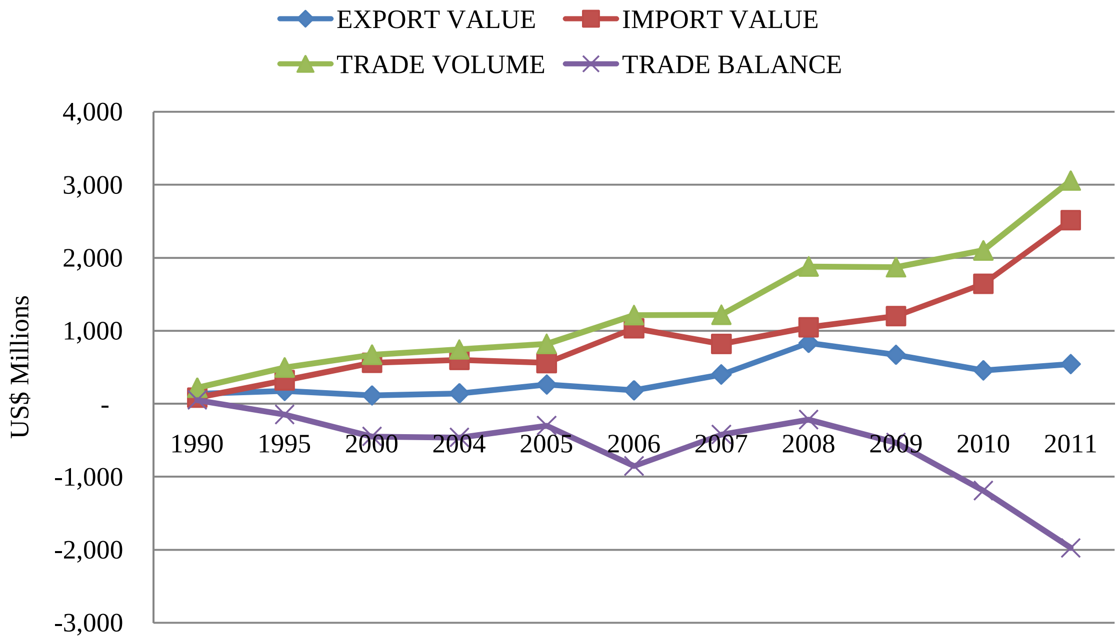

Figure 2 . Myanmar Foreign Trade with Singapore
Source: CSO Statistical Yearbook 2011

Table 3. Myanmar Foreign Trade with Singapore

Year	Export Value	Import Value	Trade Volume	Balance of Trade
1990	62.42	89.26	151.68	-26.84
1995	95.14	234.56	329.67	-139.39
2000	281.95	303.75	585.70	-21.80
2003	1,270.62	184.71	1,455.33	1,085.91
2004	1,360.95	237.37	1,598.32	1,123.58
2005	2,362.44	304.86	2,630.93	2,057.58
2006	2,809.65	383.44	3,193.09	2,426.21
2007	2,631.23	394.84	3,026.07	2,236.39
2008	3,215.68	378.68	3,594.36	2,837.00
2010	2,905.18	709.09	3,614.27	2,196.09

Source: CSO Statistical Yearbook 2011

Moreover, Singapore is currently the sixth largest source of foreign direct investments (FDI) for Myanmar with a cumulative FDI of S$ 4.4 billion of end 2011[3].

2.4.2 Myanmar Foreign Trade with China

Myanmar and China are historically friendship neighbors sharing the longest border of 1384 miles. After the military coup, China and Myanmar relations in diplomatic, political, security and economy have grown stronger than ever before and throughout the 1990s and up to now.

Beginning in December 1988, Myanmar set up border trade offices in Lashio, Muse, Namkham and Kunlong. In 1995, Muse area was selected and opened as a border trade point with a one stop service being introduced. Later, Myanmar transformed the border trade to a normal trade zone to enhance bilateral trade between the two countries. The trade zone is connected to China's Ruili in Yunnan province with Myanmar's border town of Muse. Border trade between the two countries has been legitimized, regularized and institutionalized since the adoption of the open-door policy by Myanmar's government. Bilateral trade and economic relations between China and Myanmar have continued to develop in recent years.

Table 4. Myanmar Foreign Trade with China

Year	Export Value	Import Value	Trade Volume	Balance of Trade
1990	63.76	193.94	257.70	-130.18
1995	34.70	254.98	289.68	-220.28
2000	175.98	285.11	461.09	-109.13
2003	290.90	489.65	780.55	-198.75
2004	366.95	468.24	835.19	-101.29
2005	615.13	730.28	1,345.41	-115.15
2006	697.68	994.99	1,692.67	-297.31
2007	617.67	1,208.16	1,825.83	-590.49
2008	617.16	1,258.10	1,875.26	-640.94
2010	1,203.56	2,168.52	3,372.08	-964.96

Source: CSO Statistical Yearbook 2011

[3]Department of Statistics Singapore.

China has enjoyed an important position in Myanmar's foreign trade and has consistently ranked high among Myanmar's trading partners. While Myanmar's exports to China increased by nearly 3 times from 1990 to 2000 and Myanmar's imports increased from US$ 193.14 million in 1990 to US$ 285.11 million in 2000 as shown Table 6. Myanmar's exports to China consist predominantly of timber.

China provided the main supply sources, and Chinese products flowed into the emerging consumer goods markets in Myanmar. Myanmar's imports increased from US$ 625.13 million in 2005 to US$ 1,203.56 million in 2010. Trade with China became successful to a significant degree so much so, that cross-border trade with China has become a main element of Myanmar's economy.

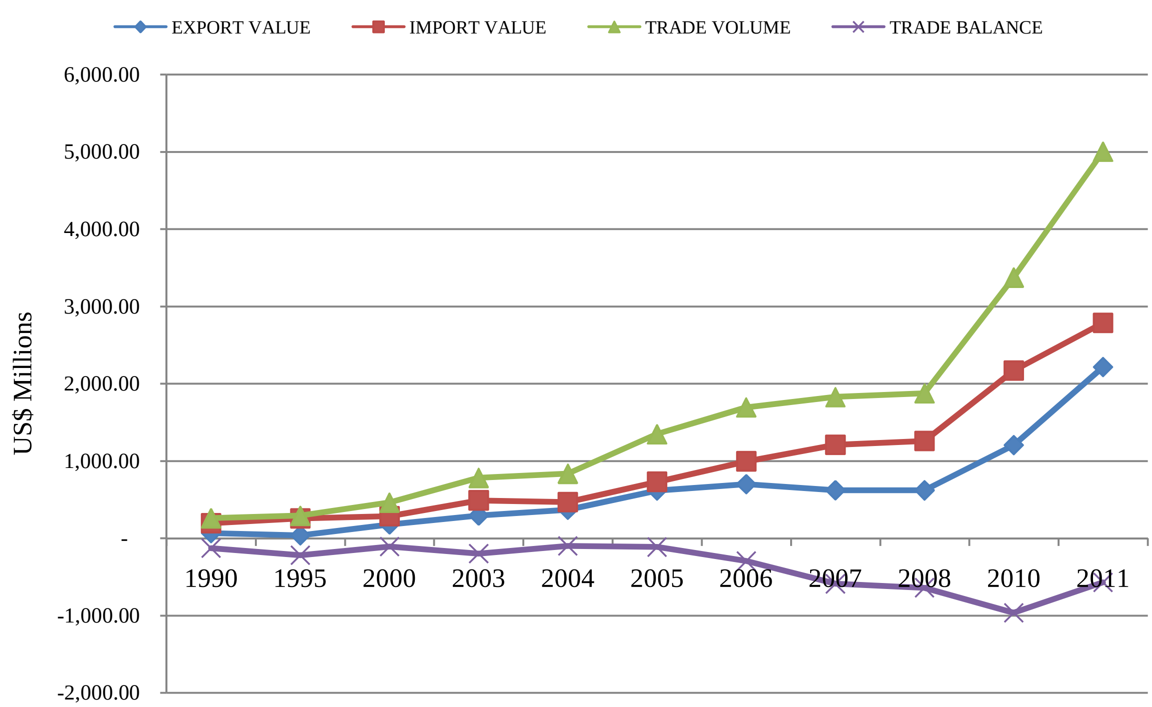

Figure 3. Myanmar's Trade with China
Source: CSO Statistical Yearbook 2011

2.4.3 Myanmar Foreign Trade with Thailand

Myanmar shares a 2400 kilometer border with Thailand. To comprehend the nature and complexity of Myanmar-Thai political and economic relationship we need to understand the transformation of their friendship over the past 500 years. Border trade between the two countries has a long history, but real regulated border trade occurred after Myanmar gained its independence in 1948. During the parliamentary era (1948-1962), the value of trade was marginal since the structure of trade and level of economy was similar. In this era, major traded items were rice, timber and other agricultural products.

After 1962, Myanmar turned to socialism. The relationship between the two countries was strained. All business enterprises were nationalized in Myanmar. However, the situation changed after 1988. Thailand also occupies an important position in Myanmar's external trade.

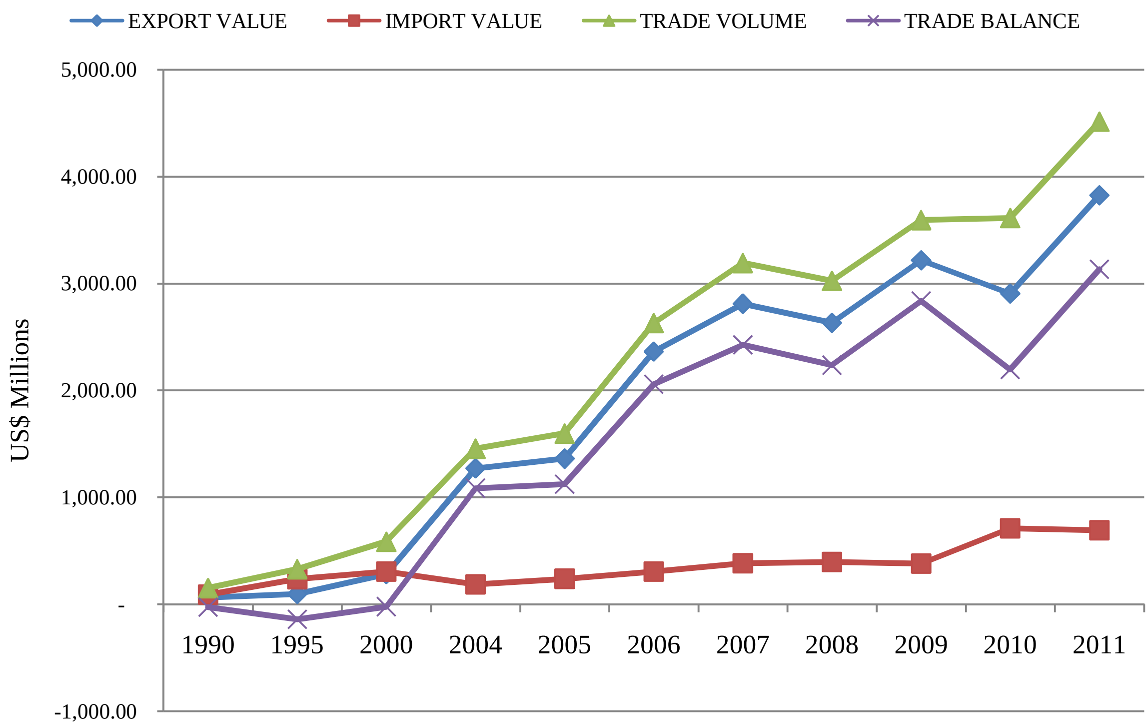

Figure 4. Myanmar Foreign Trade with Thailand
Source: CSO Statistical Yearbook 2011

Table 5. Myanmar Foreign Trade with Thailand

Year	Export Value	Import Value	Trade Volume	Balance of Trade
1990	62.42	89.26	151.68	-26.84
1995	95.14	234.53	329.67	-139.39
2000	281.95	303.75	585.70	-21.80
2004	1,270.62	184.71	1,455.33	1,085.91
2005	1,360.95	237.37	1,598.32	1,123.58

Year	Export Value	Import Value	Trade Volume	Balance of Trade
2006	2,362.44	304.86	2,630.93	2,057.58
2007	2,809.65	383.44	3,193.09	2,426.21
2008	2,631.23	394.84	3,026.07	2,236.39
2009	3,215.68	378.68	3,594.36	2,837.00
2010	2,905.18	709.09	3,614.27	2,196.09

Source: CSO Statistical Yearbook 2011

In 2003, Thailand accounted for 33.0 per cent of Myanmar's total exports and was ranked as the country's single most important export destination. Thailand supplied 16.1 percent of Myanmar's total imports in that year and was ranked second as a source of Myanmar's imports. Gas exports to Thailand increased from US$171 million in 2000 to US$ 1080 million in 2005 and US$ 2523 in 2010, and accounted for more than 80 per cent of Myanmar's exports to Thailand in that year. Myanmar's external sector has become increasingly dependent on gas exports and the ensuing revenue.

3. Research Methodology

3.1 Data Collection

This paper used methodologies such as descriptive analyses and various econometric models to analyze the data series of exports and imports. These data are collected from several sources such as the United Nations commodity trade statistics, Central Statistics Organization of Myanmar and the Directorate of Trade.

3.2 Method and Technique of Data Analysis

One of the major purposes of trade liberalization is to promote and accelerate economic growth by capturing the static and dynamic gains from trade. Therefore, an attempt has been made to formulate a statistical methodology for assessment of the impact of trade liberalization measures on foreign trade values through interrupted times series analysis, based on the time series from 1989/90 to 2009/10.

Interrupted Times Series (ITS) Analysis is a quasi-experimental method in which multiple observations are made at regular intervals before and after an intervention (the interruption in the time series). Statistical analysis can be used to determine whether there is a change in the scores of the observations after the intervention.

The statistical methodology of interrupted time series analysis is actually a regression analysis technique which employs the concept of dummy variables for intervention. In this study, interruption is trade liberalization measures taken by the Government. Most researchers refer to use of dummy variable and multiple linear regressions for their interrupted time series analysis for impact evaluation.

In many cases, governments or public managers or policymakers introduce and implement a new project or a new policy or a new law to change a pattern of behavior of a system. This statistical methodology, called interrupted time series analysis that is useful in evaluating impact of changes in policies or programs on the pattern of behavior. Interrupted time series analysis assumes that a researcher has collected a time series of observations such as the following:

$$O_1 \quad O_2 \quad O_3 \quad O_4 \quad O_5 \quad X \quad O_6 \quad O_7 \quad O_8 \quad O_9 \quad O_{10}$$

Where each O is an observation on an output variable Y of interest and X is the implementation of a new program or policy which is called interruption or intervention in the literature of time series analysis. In many cases, researchers simply compare five observations before X with five observations after X, using a comparison of a mean or proportion test. Such a comparison might be misleading, because the value of the output variable Y_t obtained from observation O_t might have been in the trend of increasing or decreasing before the introduction of the new program, and observation O_6 might just be the continuation of a trend.

In Figure A, observation O_6 falls along a trend line that is simply the continuation of the line from observation O_1 to observation O5. In this case, introduction of a new program or policy made no difference that would not have occurred if past practices had simply continued. The pattern in Figure A represents the null hypothesis in that there exists no impact of intervention in interrupted time series. This is not the only no impact pattern in Figure A, however, each of the trend lines in Figures A is also a trend consistent with the null hypothesis of no impact on output variable Y.

Using interrupted time series analysis is a matter of recognizing a few basic patterns, and then knowing how to use multiple linear regressions to provide a statistical test for the results obtained from the estimated regression models. One common pattern is a short-term impact (or what time series analysts call a change in intercept). Short-term impact is one in which the output variable Y makes an immediate change (drop or rise), but the underlying trend of the data remains the same.

The independent variable, called the program variable, is a dummy variable which is coded 0 if the introduction of a new program or policy or law is promulgated and to be in effect. Treating output variable Y of interest as the dependent variable and program variable as an independent variable, a regression model is run to get the required result:

$$Y = \beta_0 + \beta_1 \, TLib + \varepsilon$$

The effects of trade liberalization measures apply to the rate of change. A short-term effect should not be interpreted as a temporary effect. It is a permanent effect, but its impact is immediate (in the short-term).

4. Results and Discussion

The analysis of short-term and long-term impacts of trade liberalization on foreign trade is constructed as follows:

$$ExpV = \beta 1 + \beta_2 ExR + \beta_3 ToT + \beta_4 TLib + \varepsilon \quad \text{---------------} \ (1)$$

$$ImpV = \beta 1 + \beta_2 ExR + \beta_3 ToT + \beta_4 TLib + \varepsilon \quad \text{---------------} \ (2)$$

Where ExpV = Total Export Value (USD millions), ImpV= Total Import Value

ExR= Exchange rate (Market exchange rate, IMF Financial Statistics, Various Issues)

ToT= Terms of Trade (Market exchange rate, ADB Key indicators, Various Issues)

TLib= Trade liberalization dummy variable which is coded 0 before the year of 1998 (introduction of trade liberalization), and it is coded 1 after the year of introduction of the trade liberalization.

Table 6. Regression Results for Export after Trade Liberalization

Dependent Variable: ExpV

Independent Variable	Estimated Coefficient	Estimated Std. Error	Computed t-value	Significant P value	Remark
Constant	-1447.447	482.976	-2.997	.007	R^2= 0.860
ExR	2.811	1.033	2.722	.014*	R_a^2= 0.837
ToT	28.223	6.915	4.082	.001*	F=38.750
TLib	366.722	848.807	0.432	.671***	

*=significant at 1% level, **=significant at 5% level

The multiple linear regressions is estimated through the method of ordinary least squares (OLS), based on the export data. The coefficients are ExR,ToT,TLib.

The estimated regression can be expressed as followed:

$$\text{ExpV} = 1447.44 + 2.811\text{ExR} + 28.223\text{ToT} + 366.722\text{TLib}$$

(-2.9971) (2.722) (4.082) (0.432)

The dependent variable in this analysis is total exports (ExpV). The first independent variable is exchange rate (ExR). The second independent variable is terms of trade (TOT). The third independent variable (TLibLR) is used to assess any long-term changes.

The constant term (β_1) is significant. The constant term (β_1) has no useful economic interpretation and meaning in this case. Therefore, significance of β1 is not interested in this case. The estimated coefficients of ExR, TOT and TLibLR are statistically significant at 1%, 5% and 15% level, respectively.

Myanmar Exports are affected by changes in the exchange rate and terms of trade. As the exchange rate goes up, exports go up. The terms of trade are particularly important in influencing current domestic and foreign demand for export commodities. A rise in the terms of trade generates strong exports. When the terms of trade are more favorable, the incentive to invest in the export sector is greater.

The estimated coefficient of exchange rate (ExR) shows that an increase in the exchange rate would cause increases in exports. The estimated coefficient of terms of trade (TOT) shows that the increases in terms of trade would cause an increase in exports. The estimates show that the adjusted R^2 is high.

Moreover, the estimated coefficient of TLibLR indicates that Myanmar export increases by 366.722US$ millions per year with a significant t-value of 0.432 after the introduction of trade liberalization. It is concluded that there is evidence of a significant long-term impact on Myanmar exports due to enhancing diversification of exports. Upgrading the existing product to value added products to increase its value, utilizing the resources to effectively improve technology and expanding its share established market. Moreover, research and development should strengthen and develop cooperation among Asian countries and Myanmar should continue joint collaboration with advanced countries. The results suggest that trade reform has encouraged an increase in Myanmar export growth.

Table 7. Regression Results for Import after Trade Liberalization

Dependent Variable: ImpV

Independent Variable	Estimated Coefficient	Estimated Std. Error	Computed t-value	Significant P value	Remark
Constant	258.456	356.557	0.725	0.477	F=45.306
ExR	0.158	0.762	0.207	0.838**	R2=0.883
ToT	9.592	5.105	1.879	0.076	R^2_a=0.864
TLib	1644.868	626.631	2.705	0.014*	

*=significant at5% level **= significant at 10%level *** = significant at 15% level

The estimated regression can be expressed as followed:

$$ImpV = 258.456 + 0.158ExR + 9.592ToT + 1644.868TLibLR$$

(0.725) (0.207) (1.879) (2.705)

The dependent variable in this analysis is total imports (ImpV). The first independent variable is exchange rate (ExR). The second independent variable is terms of trade (TOT). The third independent variable (TLibLR) is used to assess any long-term changes.

The constant term (β1) is significant. The estimated coefficient of ExR, ToT and TLib are statistically significant at 5%, 10% and 15% level respectively. Myanmar imports are affected by a change in exchange rates and terms of trade. As exchange rates goes up, imports go up. A rise in the terms of trade generates strong imports from foreign countries. Moreover the estimated coefficient of TLib indicates that import increases by 1644.868 US$ million per year with a significant value of 2.705 after the introduction of trade liberalization.

It is concluded that there is evidence of a significant long term impact on imports due to trade liberalization.

5. Conclusions and Recommendation

In this study, it was found out that Myanmar's external trade has been encouraged by means of pursuing liberalized trade policy to transform its economy into a market-oriented economic system. Along with policy reform, Myanmar has gained an increase in the volume of external trade.

ASEAN became an important market for Myanmar since this market has absorbed a fifth of Myanmar's exports and supplied nearly half of Myanmar's total imports. Although Myanmar still relies on exporting agricultural products and natural resources, there are some possibilities to diversify export items such as textile products.

There are many direct and indirect barriers that trading partners can impose on a country's exports. An exporting country does not have much power to avoid those barriers except through trade liberalization agreements in multilateral, regional and bilateral initiatives. Most developing countries depend heavily on their exports of primary products. Export earnings instability has been experienced in developing countries due to the nature of both a low income elasticity of demand and price elasticity of demand for their primary commodities.

Historically, the prices of primary commodities have declined relative to manufactured goods, causing deterioration in the terms of trade.

The followings are the impediments to trade in Myanmar.

1. International Trade occupies a very important part of the national economy. However, there are many trade restrictions and practices which generate reverse effects for trade promotion.
2. Imposition of a ten percent tax (i.e. 8% commercial tax plus 2% income tax) leads to discouraging the private sector to export Myanmar products in the world competitive market effectively and efficiently.
3. The existence of a duel foreign exchange rate, ongoing practice of duel exchange rates (i.e. official rate and market rate) discourages inward investment and exports from Myanmar.
4. A restricted availability of information required for business operation in Myanmar. Frequent changes in the procedure of trade activities are not transparent to the public.
5. A positive political climate is also an important factor to promote trade performance of Myanmar.

As this study examined the reform in tariff policy to adopt CEPT scheme when Myanmar participated in AFTA, it was found out that Myanmar seems to be straightforward in the adoption of CEPT scheme since 68 percent of tariff lines in Myanmar have already reached in the range of the scheme.

Last but not least, although this study suggests some reforms for promotion of Myanmar foreign trade and achieving benefits from economic integration, reforms should be based on the integrated consideration for the overall economy. Since problems faced in each area are related and have interactive effects on each other, partial reforms may not solve the desired result and instead may produce unexpected new problems. Therefore, more comprehensive reforms should be carried out with the prospects of realizing the potentialities of regional integration and setting the country on a steady path of development.

Export is one of the essential economic sectors in Myanmar playing a significant role in the national economy. Apart from direct contribution to the growth of GDP, it is also a source of income, employment and foreign exchange earnings.

Further, the study emphasized calculations to analyze the determinants of growth in Myanmar export and imports after trade liberalization. According to in this study, the impact of trade liberalization can be seen as significant and vital to overall exports and imports. Myanmar export/import and volume of trade have been increasing year by year because the government is practicing a market-oriented system since 1988 and is encouraging the development of the private sector. The government is faced with a trade surplus after 2001 because it allows imports with export's earning. The government is attempting to uplift participation of the private sector by reducing government sector in trade.

A trade sector which has been liberalized can perform very well in both export and import. Although Myanmar trades with many countries, more than 80% of the country's trade is to ten countries (Thailand, China, India, Japan, Malaysia, Singapore, Korea, US, UK and Germany). Nevertheless Thailand is Myanmar's leading export market and China is Myanmar's leading import market. But Singapore possesses the major share of Myanmar export market because Singapore is not a neighboring country with Myanmar. That is why the largest foreign market is the closest to the domestic market and the greater the amount of trade. Therefore the main trading partners of Myanmar are neighboring countries that are not developed countries.

Myanmar's growth performance in future depends on altering its foreign investment, infrastructure development, technological improvements, strengthening domestic markets, liberalizing trade policy, increasing investment in SMEs (Small-Medium Enterprises), and investing in human capital. Myanmar depends on trade with other countries. She will face unstable conditions due to economic fluctuations of other countries. That is why Myanmar should produce towards its domestic market because Myanmar population is large enough to absorb domestic production.

There are two effects on trade due to trade liberalization: trade creation and trade diversion. Myanmar trade was promoted among members countries after introduction of trade liberalization. After opening up its trade, a country imports commodities from lower-cost member countries away from high-cost domestic industry. Trade liberalization may cause some trade diversion and shifting trade from more efficient non- member countries to less efficient member countries.

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MINZAS program is a partnership program of Mekong Institute and New Zealand Embassy in Bangkok. The objective of this program is to enhance research capacity of young GMS researchers by providing a structured learning and filed research application program for 36 master's degree students from provincial universities in Cambodia, Lao PDR, Myanmar and Thailand.

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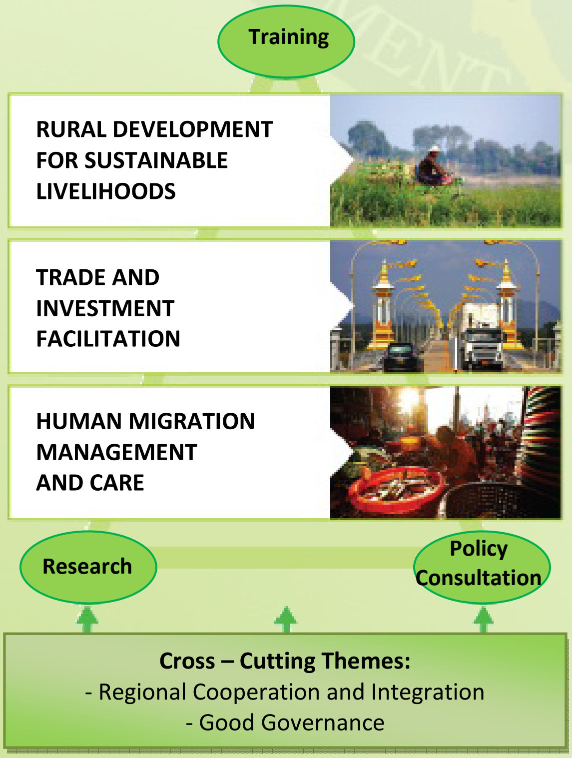

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