

Chapter 5

Findings

5.1 Macro-Level Analysis

A. The Absolute Advantage Theory of Adam Smith (1991) is the ability of a country to produce goods using less resource than another country. Countries should specialize in the production of goods for which they have an absolute advantage and then trade these goods for goods produced by other countries.

Both countries would benefit from trade.

B. Comparative Advantage Theory: David Ricardo (1817) cited in (Pugel, 2007) explained that comparative advantage is the ability of a country to produce a good at a lower cost than another country. His theory mainly emphasized efficiency.

C. The Heckscher-Ohlin Theory cited in (Pugel, 2007) puts forth that a country's comparative advantage is determined by its initial resource endowments. When there is more abundance of this factor, the cost is lower.

The H-Ohlin theory predicts that countries will export those goods that make intensive use of those factors that are locally abundant, while importing goods that make intensive use of factors that are locally scarce.

5.1.1 Classical Trade Theories Analysis

According to Adam Smith, when two parties trade with one another both must gain from the exchange. Later, in contrast, Ricardo argued that international trade was not ruled by absolute advantage in price but by comparative advantage. There are two assumptions in Ricardo's theory. They are that the world has two countries and two commodities, and that firms produce under conditions of perfect competition.

Again in the Heckscher-Ohlin theory, it does not explain the two types of international trade which are based on natural resources like diamonds, copper, coal, coffee, oil, natural gas, and the export and import of similar goods. It does not satisfy the condition of importing goods for re-export as well.

The great strength of the theories of Adam Smith, David Ricardo and Heckscher-Ohlin is that they indentify with precision the specific benefits of international trade. Common sense suggests that some international trade is beneficial. For example, nobody, from the classical trade theories perspective, would suggest that Myanmar should build its own factories. Myanmar can benefit from trade by exchanging some of the products when it can produce some products at lower cost.

5.1.2 Revealed Comparative Advantage (RCA) Analysis

It is difficult to test either comparative theory of Ricardo or the factor endowment theory of Heckscher-Ohlin to measure the comparative advantage of Myanmar. Consequently, the economist Bela Balassa (1989) has suggested that it

may not be essential to contain all factors affecting a country's comparative advantage. Balassa proposed that the comparative advantage is "revealed" by observed trade patterns and the theory. Therefore understanding comparative advantage from observed data is called revealed comparative advantage (RCA). It is mainly used to analyze trade data with the Balassa Index which measures a country's comparative advantage. The RCA index explains whether a country has a revealed comparative advantage through the underlying sources of comparative advantage. The expression of RCA is as follows:

$$RCA = (X_{ij} / X_{nj}) / (X_{it} / X_{nt}); \text{ where}$$

X = exports

i = a country

j = a commodity

t = a set of commodities

n = a set of countries

It measures a country's exports of a commodity compared to its total exports together with the exports of a set of countries. This means that the RCA index identifies the relative importance of a particular commodity in the export performance of Myanmar. If the index is greater than 1, a comparative advantage is revealed. If the index is less than 1, it is believed to have comparative disadvantage in a particular commodity.

Myanmar's top five export commodities are natural gas, timber/wood products, bean and pulses, fishery products and garment products. The total value of natural gas accounts for nearly 60% of Myanmar's total value of exports in 2006. Myanmar is the only major exporter of natural gas in the GMS. The total value of natural gas and timber/wood products accounted for nearly 50% of Myanmar's total value of exports in 2007-08 of which natural gas export stands alone at almost 40%.

It is difficult to calculate RCA index due to the availability of data. Myanmar data is available on the fiscal year basis which starts in April 1st and ends at March 31st while most of the other countries have been using an annual basis which starts at January 1st and ends at December 31st. Since the monthly data of Myanmar's natural gas exports is difficult to acquire, it could not be adjusted on an annual basis to calculate with the total world export of natural gas. Therefore, a study, by (Aung, 2009) which was done by calculating RCA of the top five of Myanmar's export will be referred hereby.

Aung found that "It is evident that Myanmar has a strong comparative advantage in exports of both natural gas and timber wood. In 2006, RCA indices of these products were found to be much greater than 1 whereas those of precious minerals and metals/ores were less than this. Hence, Myanmar's comparative advantages in natural gas and timber/wood are strongly "revealed" whereas it has a comparative disadvantage in precious minerals and metal/ores"(Aung, 2009). Therefore it is obvious that Myanmar has a strong competitive advantage in the export of natural gas.

A large portion of agriculture, forest, and marine products have been dominating the structure of Myanmar export. Currently, Myanmar is expected to reveal a strong competitive advantage in primary product exports rather than in value added products.

In fact, there have been only a small fraction of exports of manufacturing products due to limited technical know-how to produce value added products and a limitation of financial capital to the private sector.

However there is a potential, if Myanmar focus on the industries for export diversification, to strengthen the competitiveness to penetrate the world market. As a long term view, Myanmar should emphasize the export promotion of industrial and manufactured products together with the advantage of lower labor costs compared to its neighboring countries.

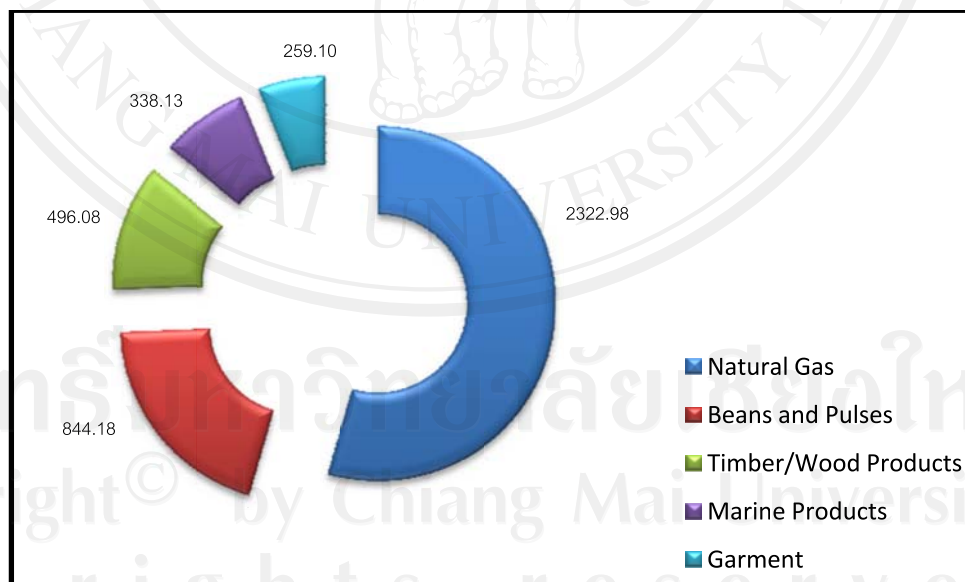
5.1.3 Porter's Diamond Model Analysis

In a competitive advantage of nation's theory, Michael E. Porter (1990) explains that a nation's competitiveness depends on the capacity of its industry to innovate and improve. Porter describes the competitive advantage of nation's theory as an example of a diamond. It consists of four extensive characteristics of a nation which attributes individually and as a system. They are factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry.

Factor Conditions

According to the economic theory, factors of production are land, labor, capital, natural resources, and infrastructure which determine the flow of trade. These resources can be highlighted based on their abundance, quality, accessibility, and cost of the nation's physical resources such as land, water, mineral deposit, timber, hydroelectric power, natural gas and fishing grounds. A nation's export goods are produced by using factors of which the nation is relatively well endowed. Myanmar's top five export items in 2007-08 (Figure 5.1) were natural gas, beans and pulses, timber/wood products, marine products and garments.

Figure 5.1 Myanmar's Top 5 Export Items in 2007-08 (US\$ in millions)



Sources: <http://www.commerce.gov.mm/eng/dot/statistics.html>

Author calculation (1USD = 6 Kyat)

The competitiveness of natural gas has been most significant among Myanmar's top five exports items followed by beans and pulses and timber/wood products.

Demand Conditions

As of October 1, 2009, the Myanmar population has reached over 59 million according to the local online newspaper (Desk, 2009). The size and growth rate of the home demand have been growing. The market demand of capital, intermediate and consumer goods have become higher. The top import items are shown in Table 5.1. They are chiefly capital goods and intermediate goods.

Table 5.1 Myanmar's Top Import Commodities and Value in 2007-08 (US\$ in millions)

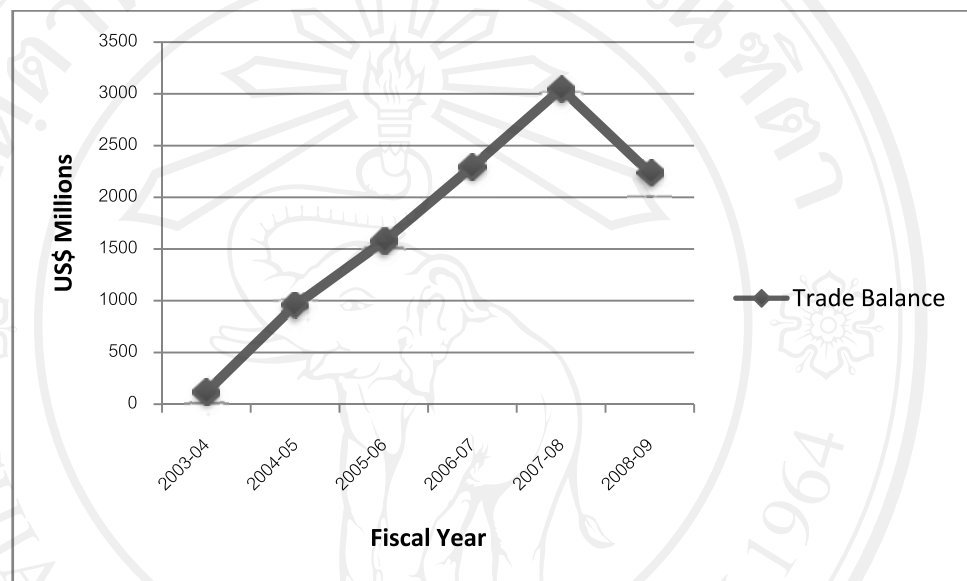
Top 5 Import Commodities of Myanmar	Value
Machinery non-electric and transport equipment	693.62
Refined mineral oil	339.00
Base metals and manufactures	201.03
Fabric of artificial and synthetics fabric	194.75
Edible vegetable oil and other hydrogenated oils	176.28

Source: <http://www.commerce.gov.mm/eng/dot/statistics.html>
 Author calculation (1USD = 6 Kyat)

Yet still Myanmar could offset the large portion of import, mainly with the export of natural gas and other top export items since it started to export natural gas in 2001-02. According to the Figure 5.2, there has been an

increase in the balance of trade until 2007-08. By the year 2008-09, the trade balance has decreased 27% due to the severe affect of Cyclone Nargis in 2008.

**Figure 5.2 Myanmar's Foreign Trade Balance (2003-04 to 2008-09)
(US\$ in Millions)**



Source: http://www.commerce.gov.mm/data_and_chart.html

Therefore the demand conditions of Myanmar have been growing throughout these years for capital, intermediate and consumer goods by offsetting the advantage in export of natural gas.

Related and Supporting Industries

The third attribute of the Porter Diamond is the presence of suppliers or supporting industries that are internationally competitive. Home-based related and supporting industries provide innovation and upgrading to an advantage based on close working relationships.

According to the recent local online newspaper, the energy sector, especially petroleum and natural gas production, has received the highest foreign direct investment (FDI), over US\$ 13 billion in July 2010. The FDI in the hydropower production sector stands for US\$ 6 billion and the mining sector has doubled into US\$ 2 billion in the middle of 2010 (News, n.d).

Related and supporting technologies came along with FDI and should benefit the competitive advantage in Myanmar's energy sector especially natural gas production. This process requires more extensive technologies and skilled human resource. Most companies have been supporting the development of human resource in this sector by providing scholarships for further study.

Firm Strategy, Structure, and Rivalry

The fourth broad determinant of national competitive advantage in an industry is the situation in which firms are shaped, organized, managed. It also includes the nature of rivalry. The goal, strategies and ways of organizing in industries vary widely among nations. Domestic rivalry creates demand on companies to innovate, develop and upgrade. Myanmar natural gas production's joint ventures with neighboring countries have been competitive inside Myanmar. The major trade partners of natural gas are Thailand and China.

There are domestic rivalries in Myanmar since it is part of the basic nature of economic activity. But the pattern of rivalry has not played a

profound role in the process of innovation and ultimate prospects for international success.

The Role of Chance

Chance events are significant because they create discontinuities that allow shifts in competitive positions. The nation with the most favorable “diamond” will be the most likely to convert chance events into competitive advantage. It was a ‘chance’ for Myanmar when it started to export natural gas in 2000. The natural gas export grew significantly within one decade from the export value of US\$ 185 million (2000-01) to US\$ 2322.98 million (2007-08).

The Role of Government

Porter explains the role of government as an important role in his four broad determinants. He also stated that government’s real role in national competitive advantage which influences the four determinants. The role of government’s impact can be positive or negative. He gave the examples that factor conditions are affected through subsidies, education policies, the regulation or deregulation of capital markets, the purchase of goods and services, tax laws, antitrust regulation, etc.

Government support and removal of the pressure on firms to improve and upgrade is counterproductive. According to Porter, successful policies work in those industries where fundamental determinants of national advantage are present and where government reinforces them. In this study,

the role of government in the energy sector, especially in natural gas production, has been bringing about positive effects.

As a conclusion to the discussion of the Porter's Diamond Model Analysis, Myanmar has strong national competitive advantage in export of natural gas. It has contributed to Myanmar's international trade in a situation of favorable trade since 2000-01. Myanmar could even offset its long-term international trade deficits.

Indeed almost all of the Myanmar's export structure has been ruled by primary products and natural resources but rarely value-added products. The fraction of import was larger than export for many years until 2001-02. Capital, intermediate and consumer goods have been the leading import items of Myanmar.

For a long period of time, Myanmar should not depend heavily on the primary sector for export orientation. It should emphasize more on value-added and manufactured products. The prices of primary products are usually highly volatile and for that reason, the government should seriously focus on the diversification of export products. However the energy sector has been growing faster in terms of value, but the employment opportunities are still slim. One consideration that should be taken into account is that the earnings gained from natural resources should be re-invested as a priority in the improvement and development of the public health sector, industrial sector, financial sector and education sector in order to attain skilled human resources and experts in each particular field. The government should

emphasize the manufacturing sector of both labor-intensive industries and resource-intensive industries. It would be better to have less government interventions in private sector economic activities as well.

Besides, it is also important to attract foreign direct investment (FDI) by relatively competitive factor potential - its strategic location, favorable regional transport linkages, abundance labor force, the advantage of labor costs and rich natural resources.

5.2 Micro-level Analysis (Border Trade Survey Results)

As per the proposal, this researcher was meant to conduct interviews with seven categories of people who were engaging in cross border trade. They are wholesalers, managers, company/shop owners, traders, broker companies, individual brokers and border inhabitants. Twenty persons from each group were to be interviewed. During the field research trip, the Myawaddy border town business pattern was not exactly the same as planned in proposal.

Myawaddy is a small border town and its estimated population was over 52,000 in 2006 with very low density apart from the area nearest to the Thai-Myanmar Friendship Bridge (MEMI, 2007). There are no wholesalers, actual trading companies and its owners who are based in Myawaddy. This study documents interviews with small and medium sized individual traders, broker trading companies' owners and its managers, local shop owners, transporters and border inhabitants in Myawaddy.

An in-depth interview survey was performed with ten small and medium sized individual traders, two broker trading companies' owners and with ten of their

managers. Ten local shop owners were interviewed. Individual brokers were hardly found as they have to relate with broker trading companies for the documentation process. Focus group interview surveys were carried out with fourteen transporters and ten local people.

Ten wholesalers and twelve retailers who have been specializing in selling Thai-imported goods at Mingalar Market and Bayint Naung Market in Yangon were subjects for in-depth interviews.

A. Geographic Location and Background Situation of Myawaddy

This study took place in Myawaddy Township, Myawaddy District, Kayin State, Myanmar. Kayin State is located on the east of Myanmar which has common borders with Mandalay Division and Shan State on the north, Kayah State and Thailand on the east and Mon state and Bago Division on the west. The area is 11,731 square miles. Its population is about 1,709,000 (CSO, 2007). Myawaddy Township is bordering on Mae Sot of Thailand and is the most active border trade area in Myanmar. The township is more than 1210 square miles and comprises of 15 village tracts, 50 villages and five quarters. Its population was over 52,000 in 2006 (MEMI, 2007). Thailand built an 18 km highway inside Myanmar connecting Myawaddy and Thin Gan Nyi Naung as part of the Asian Highway.

The cross border trade basically started with local consumption from the nearest neighboring countries and vice versa. Cross border trade with Thailand extensively grew in the Socialist Period from 1962 to 1988 mainly through Phya Thone Zu (Three Pagoda Pass). At that time, Myawaddy was dominated

by an ethnic insurgency group called the Karen National Union (KNU) and was an unsafe area to travel in. At Three Pagodas Pass in Mon State, the ethnic insurgency groups have been known to collect informal “toll fees” for passing through the border as one of their sources of income. The overall picture of the region was unsafe for the traders and travelers. The commodities imported from Thailand were set at a high price in the Myanmar black market due to risk matters. The risk of getting caught, having all of your goods seized by authorities and the risk of running into insurgency groups was high. Sometimes, the insurgency groups themselves engaged in cross border trade and then sold the products back to the traders.

The bulk of the border trade activities have shifted from local people trading for their own consumption to internal and external actors engaging as carriers and traders after the collapse of the socialist government. Since then people from nearby towns and major cities have been involved in cross border trade activities.

Myawaddy and its surrounding areas were dominated by the KNU¹ in the whole socialist period. The KNU, for many years, was able to fund its activities by controlling the black market trade across the border with Thailand, and through local taxation. In 1994, a group of Buddhist soldiers in the KNU broke away and established the Democratic Karen Buddhist Army (DKBA) which swiftly agreed to a ceasefire with the Myanmar government. It granted them business opportunities and, to some extent, authority in the region. With

¹ The Karen National Union (KNU) is a political organization with armed wing which operates in eastern Burma along Thailand border.

the advantage they have attained from the government, they could engage in illegal cross border trade activities, collecting taxes at border gates, and sometimes even taxing the transportation of goods to major cities.

Regardless of the current government legitimacy and ethnic conflicts across the country, the government have fought a series of battles with the KNU with the assistance of DKBA and finally seized Manerplaw, the headquarters of KNU in 1995. The KNU and DKBA have been involved in regular fighting since that time. The splinter group of the KNU, the DKBA, became influential in Myawaddy and the nearby area. Illegal trade has been carried out and they control the black market trade and local taxation like the charges to cross the gates.

Myawaddy started operating as a transit point in the late 1990s. It became the official border trade post through the signing of an agreement with Thailand on 16 September 1998 after Tachileik and Kaw Thaug Trade Posts have already opened in early 1996.

B. Entrepreneurship

The people who have been actively engaging in Myawaddy cross border trade could now be grouped as:

- Broker companies and their managers
- Small and medium-sized individual traders
- Transporters

Although Myawaddy is in Kayin State, most of the people engaging in border trade are not ethnic Kayin and are not native to Myawaddy. They have moved from nearby towns to Myawaddy.

Two of the broker company owners who were interviewed in this study are ethnic Burmese-Chinese, and the another person is Karen-Chinese. Both come from other cities and have settled in Myawaddy. One interviewee is a woman and the other is a man. There are some broker companies which are run by woman leadership. Most of the broker company owners are ethnic Burmese-Chinese, Karen-Chinese, and Burmese. According to the survey interviews, they have been involved in their broker service companies since as early as the 1990s. Their main customers are mostly from the major cities like Yangon and Mandalay. The types of customers are varying from wholesalers to factory owners. Chemical products, raw materials, machineries and its spare parts are chiefly ruled their import from Thailand.

Their managers are mostly from Pha-an and Kawkareik. They are educated for the nature of its job relating with government offices and documentation process. Their ethnicities are Mon, Karen, Burmese, Chinese, and Indian. Among their ten managers, six are male and four are female. The rest of the workers are mostly Myawaddy natives. The transporters are mostly ethnic Karen with eight people, one is Burmese-Indian, and the other six are Burmese.

The initial capital for broker trading companies, wholesalers and retailers in Yangon, and the small and medium-sized individual traders is based on the owners' own financial resources. They have started engaging in

Myawaddy border trade as early as 1990 and some started later in 1998 when the Myawaddy border trade became legalized. The average age of these respondents are varying from 20 to 50.

C. The Role of Transportation

Transportation is very important as one the fundamental features of cross border trade. There are about 12 transportation businesses in Myawaddy but most of them are owned and managed by broker companies. Other transporters are using private cars or motorcycles for passengers only. Some motorcycles carry both goods and passengers.

Table 5.2 Distances and Transportation Cost between Myawaddy and Yangon

Route	Road Facility	Distance (Km)	Time (Hour)	Cost (US\$)
Myawaddy – Thin Gan Nyi Naung	2 lane AH1 standard	18	45 mins	1000 to 1500 per truck
Thin Gan Nyi Naung-Kawkareik	2 lane Bituminous Road	38	4	
Kawkareik-Yangon	2 lane/6 lane	379	10	
Total		435	Max. 15 hours	

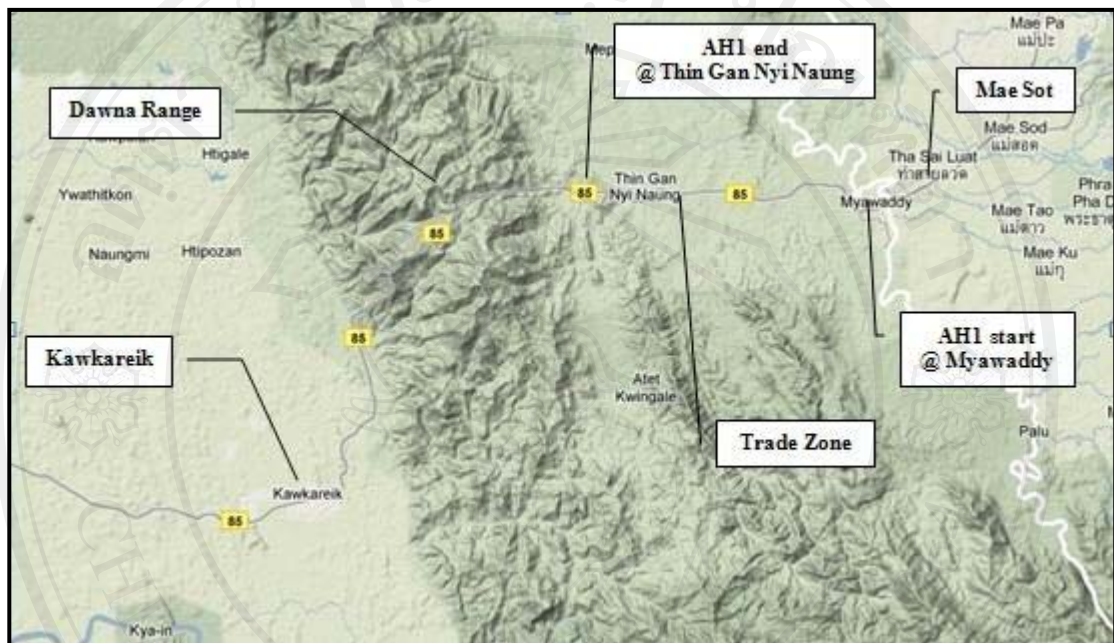
Source: (MEMI, 2007) and author modified

It used to cost about 9000 Kyat (equivalent to 9 US\$) for one passenger to travel from Myawaddy to Yangon, the biggest commercial city of Myanmar.

For commodities, it costs 1,500,000 Kyat (equivalent to 1,500 US\$ with an average market exchange rate of 1000 kyat per US dollar) for a full load of a twelve wheeler truck and 1,000,000 Kyat to 1,200,000 Kyat for ten-wheel truck

as of March 2010 (survey interview). The transportation charges may vary depending on the type of commodities being transported.

Map 5.1 The Route Map from Myawaddy to Kawkareik



Source: Google Map and modified by Author

The Asian Highway (AH1) extends 18 km inside Myanmar from Myawaddy to Thin Gan Nyi Naung which is well developed. However the road passing through Dawna mountain range is too narrow for a two way lane. It has two parts of the route from Thin Gan Nyi Naung to Kawkareik. One are covers hilly sections of road which cross the Dawna Range and the other area crosses the plains around Kawkareik. The highest peak of the Dawna Range is 3700 feet above sea-level and is covered with hillocks and ridges (MEMI, 2007). The hilly road, which can be seen in Map 5.1, is a one lane narrow road with sharp curves and switchbacks. The road also borders along a steep drop into the valley. It is a risky and adventurous route. Hence, there is a restriction of only one way traffic for one day. The local agreement says that on odd numbered

days, vehicles can travel up the road and for even numbered days, vehicles can travel down the road. Accordingly, motorcycles have become the most popular means of transportation for people since they are able to navigate the narrow lane through the Dawna Range.

According to the survey interviews, not only people involved in cross border trade activity but also the local people mentioned their difficulties in passing through the Dawna Range. Transporters and drivers complained that if the Dawna Range lane were wider and better, they could drive to Yangon in ten hours. Moreover, there are many toll gates along the Dawna Range route, mostly run jointly by the DKBA and various government authorities. This mountain lane is indeed very risky in terms of road facilities and security. Since there are other insurgency groups in that area, it is generally unsafe. If there is tension between groups or with the government in this area, it will affect to the flow of goods and people.

Almost all of the interviewees would like to have a better and wider road infrastructure in the Dawna Range since the current state of the road delays their travel and the flow of their goods. They would also like less toll gates. There are many other toll gates after Dawna Range and on the way to Yangon. Among them the toll fees for the Kawkareik Bridge is comparatively high.

5.2.1 Characteristics of Cross Border Trade at Myawaddy Border Areas

Myawaddy is a very small border town with its population estimated at 52,000 people (MEMI, 2007). It's population is comparatively higher than Mae

Sot which has approximately 44,563 inhabitants (Mongabay.com, 2006). There are no actual trading companies which are conducting buying and selling of goods directly in Myawaddy. Wholesalers who have been distributing to the rest of the country do not exist in Myawaddy. There are big and small shops for daily retail basis to the local people and nearby town and villages. Also, the local people are allowed to cross the border and buy things for themselves via a one day border pass ticket. The shop owners operate their business by buying goods from the Thai side and then selling them in Myawaddy for local use. Small individual traders are also buying and selling goods (from Mae Sot to Myawaddy and vice versa) to other nearby villages, towns and rarely to major cities. The other border inhabitants are government servants, local business and local people.

Broker Trading Companies - Currently about ten companies are active in Myawaddy. Some of them are stronger than other companies because they have a better financial situation and because they have a good relationship with the DKBA and local authorities. The role of the DKBA is significant in Myawaddy.

The actual owners of the broker companies overlap among the ten active companies. There are only a few people who really control the behind-the-scenes of those companies. Moreover the actual company managing directors are not usually listed in their company's formal documents. Instead they use the front of their manager's name or some other name. They usually have many staff to engage in the day to day procedure of export/ import documentation at Myawaddy and Nay Pyi Daw. Ten-wheeler and twelve-wheeler trucks are

important as a mode of transportation between Myawaddy and Yangon. The type of currency in use in border trade is typically the baht but on occasion, the kyat. These companies transfer money directly to manufacturers from Bangkok via L/C (Letter of Credit), T/T (Telegraphic Transfer) and Hundi (Informal Money Transfer)². The exchange rate is calculated on a daily basis depending on the market. The major destination cities of the companies are Yangon chiefly, Mandalay and Nay Pyi Daw. The routes are Mae Sot, Myawaddy to Yangon and then to the other cities. Their service mostly finishes in Yangon.

Map 5.2 Trade Routes from Mae Sot (Thailand) to Yangon (Myanmar)



Source: Google Map, modified by Author

Small and Medium-sized Individual Traders can be classified depending on their financial capital. Basically, they buy consumer goods from Mae Sot and sell it inside Myanmar since Thai consumer goods are in high demand in the Myanmar market. These individual traders bring back some commodities from

² Hundi (Hawala) informal money transfer

Myanmar to sell in Mae Sot but not many in terms of volume or value. They buy and carry goods themselves but the documentation process is usually fulfilled by broker companies and sometimes the individual traders themselves.

Warehouses are mostly located within three to five kilometers from the Thai-Myanmar Friendship Bridge. These warehouses can be hired from private local people and broker trading companies. Broker companies can also arrange their own warehouses.

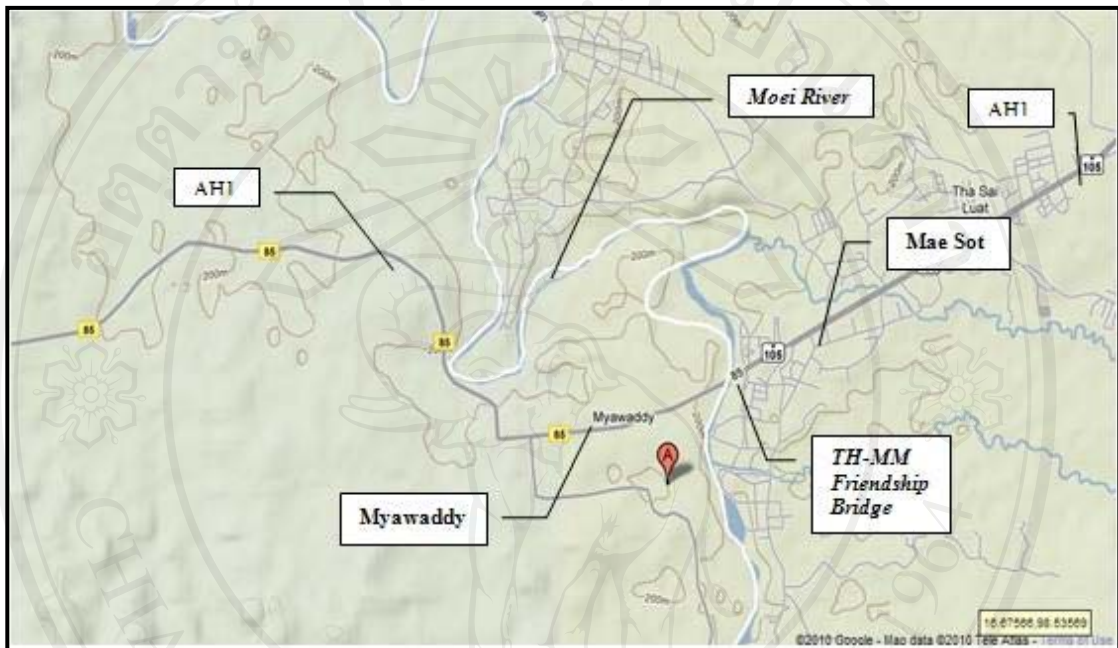
The Myawaddy Trade Zone has been constructed since 2006. The total area of the Zone is 315 acres. It is located 12 kilometers from Myawaddy on the way to Thin Gan Nyi Naung. It has been in working status starting from early 2010 along with the service of Border Trade Departments and Zone Warehouses. From March 2010, private warehouses inside Myawaddy Township were not allowed to store commodities anymore. From now on, all new warehouse activity has to be within the Myawaddy Trade Zone.

Illegal Trade - there is one legal check-point between Myawaddy and Mae Sot via Thai-Myanmar Friendship Bridge. The commodities passing through via the Thai-Myanmar Friendship Bridge check-post will be legalized. The presence of illegal check posts on the Myanmar side, most set up informally without any infrastructure and sometimes facilitated by DKBA troops, is not frequently documented but generally assumed.

In Map 5.3, the detailed picture of Myawaddy and its surrounding areas can be viewed. The Moei River is the natural boundary between Myanmar and Thailand. The illegal border trade is believed to occur along the Moei River,

especially the places where the river is narrow and the two opposite banks are close together.

Map 5.3 The Flow of Moei River between Myawaddy and Mae Sot



Source: Google Map and Modified by Author

In reference to the Tak Province border trade data, only one-third of the Myanmar total trade volume was constituted as legal border trade in 2005 (JODC, 2005). While Myanmar's actual export to Tak province was nearly three times less than its documented export, in terms of imports, it was six times larger than its actual trade. The difference of the terms of trade seems to be illegal.

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5.2.2 Buying and Selling at Myawaddy Border Area (Procedures of Export/Import)

Buying and selling across the border for individual people is not complicated. Anyone can cross to Mae Sot and buy things via a One Day Border Pass which costs 1000 Kyat (equivalent to the average market exchange rate per 1 US\$). For the small and large export and import companies, it should also be done legally, but there are many steps to be prepared in order to get approval to export/import from Department of Border Trade both at Nay Pyi Daw and Myawaddy. This process normally takes at least two weeks. These lengthy steps discourage traders from engaging directly with government bodies. Broker trading companies have appeared to fill this gap.

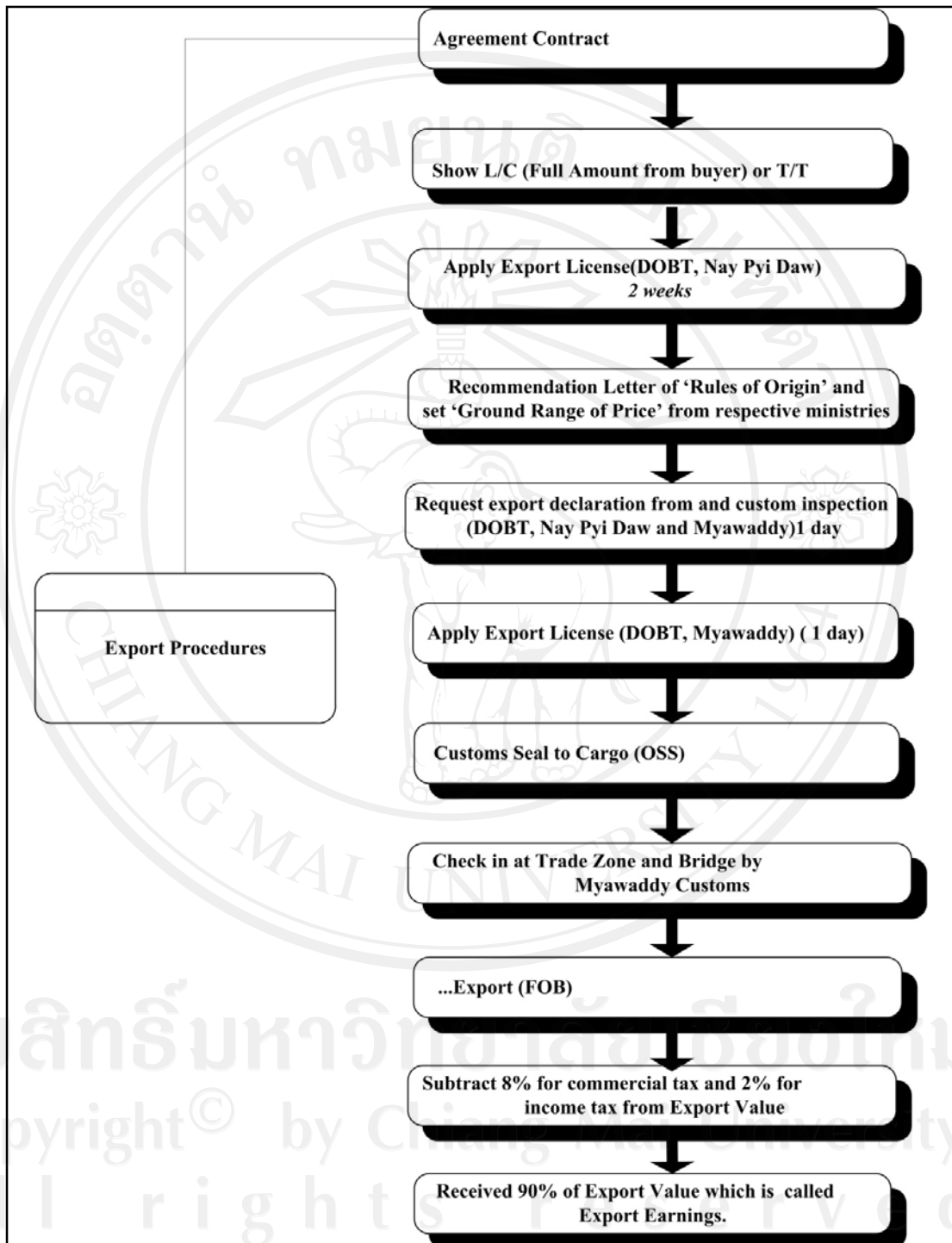
Broker trading companies have play a prominent role in trade facilitation of Myawaddy cross-border trade. Broker companies provide one stop services legally to the people who engage in border trade. The services can be divided into two parts;

1. Export/Import at the border
2. Transportation to the destinations

One stop services means that they apply for the license; pay the custom duty, commercial tax, income tax; obtain all documents; gain approval for trade activities; and handle export earnings for normal goods and restricted goods.

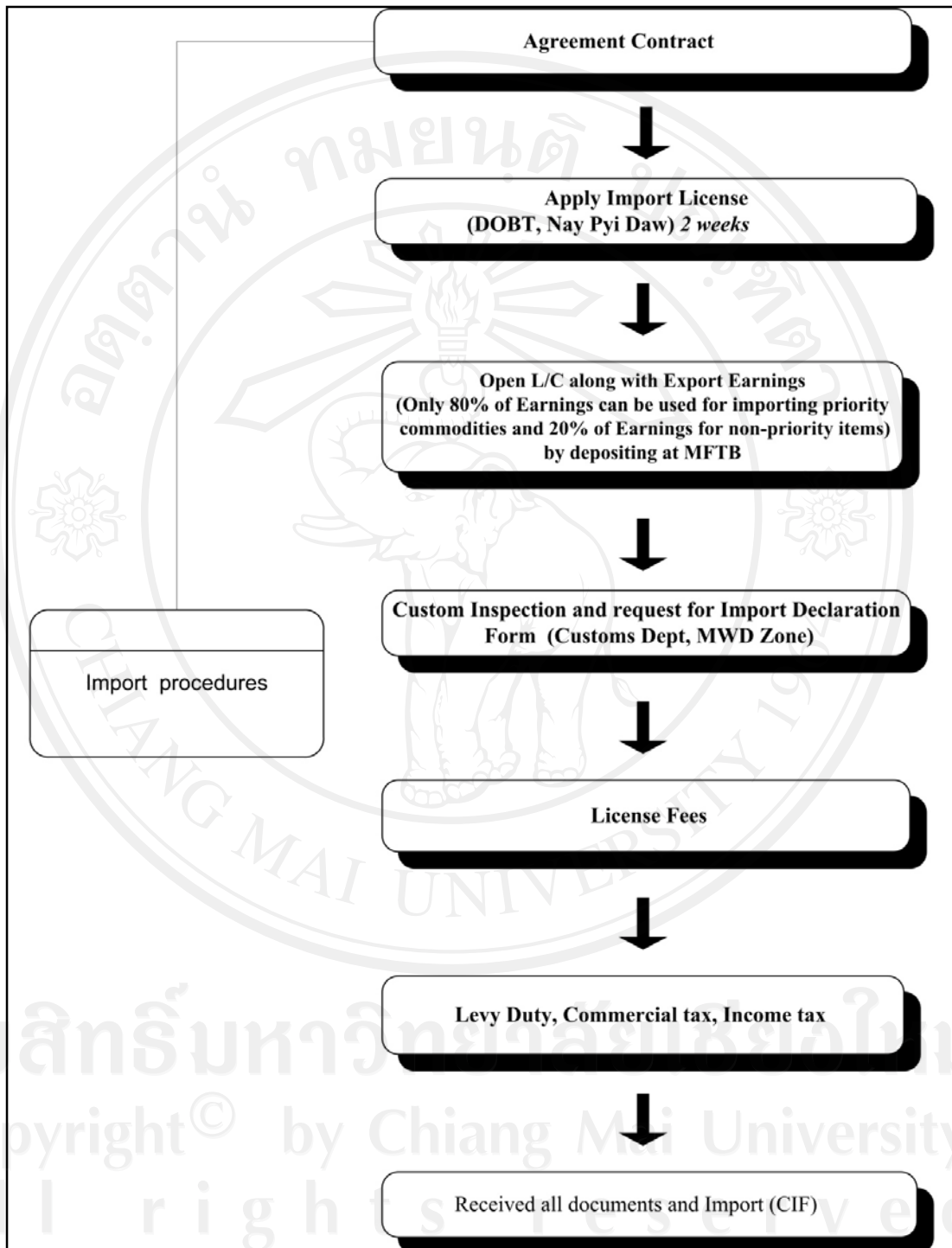
Those companies also provide transportation service from Myawaddy to Yangon and vice versa.

Figure 5.3 Step by Step Legal Procedure of Engaging Export



Source: Ministry of Commerce, Myanmar

Figure 5.4 Step by Step Legal Procedure of Engaging Import



Source: Ministry of Commerce, Myanmar

Most of the buyers and sellers do not want to go through the lengthy procedures of export and import with the border trade department. If they applied

themselves, it will take at least two to four weeks to complete all the documents which are required for exporting or importing legally. Traders would like to skip this stage by using broker companies which have already prepared all the documents and will even apply on behalf of the traders by using their company name.

By law, traders must have a company and must register as an exporter or importer. Setting up a company in Myanmar is estimated to cost about 1,000 USD initially, plus an extra 500 USD. The total price of 1500 USD for registration as an exporter or import is certainly prohibitive for many traders. There are many detailed procedures that need to be done to keep the company alive by paying respective taxes regularly. But in the border area what has been mostly been done is that the broker companies' hold many company names. Sometimes, when a particular company was shut down for not paying taxes regularly, they simply closed that company and quickly began work under another company name. It is often hard to know the actual owner of the company due to the underhanded nature of their business.

There is also the additional issue that those broker companies perform as transporters as well. For example, if someone would like to import 1000 rice cookers from Thailand, what those people usually do is to call a broker company and inquire how much the price of a rice cooker (including service charge per one cooker) and how long it will take to reach the destination.

If price and time is satisfactory, then that person simply transfers the money to the broker companies via Hundi (an informal money transfer system)

or using a government bank. The broker companies will complete every procedure needed to import the rice cookers by using their company name but of course, there is a proper charge for the service and transportations.

For the small and medium sized traders, they normally buy commodities themselves and send them to destination cities through other transporters. Only the documentation part is usually done by broker companies.

The main problem in exporting to Thailand via border trade is that traders usually get a lower price than the market price. They bring goods into Thailand and show the wholesalers there. If there is no buyer of their goods, especially marine stock, at the price they are expecting, they have to sell it at whatever price the buyers demand. This is the one of the reasons behind the building of the trade zone and warehouses. They are meant to attract Thai traders to come inside Myanmar and buy commodities there.

Imports of several goods are restricted by the Myanmar trade authorities depending on the domestic market situation. In addition, only 20 percent of a company's export earnings can be used in imports for restricted items whereas 80% of export earnings can only be employed for the imports of priority items such as industrial, agro-industrial goods, etc. As a result, import restrictions tend to encourage small and medium-sized traders to carry out undocumented trade transactions.

5.2.3 The Pattern of Traded Goods through Myawaddy Transit to Final Consumers in Myanmar

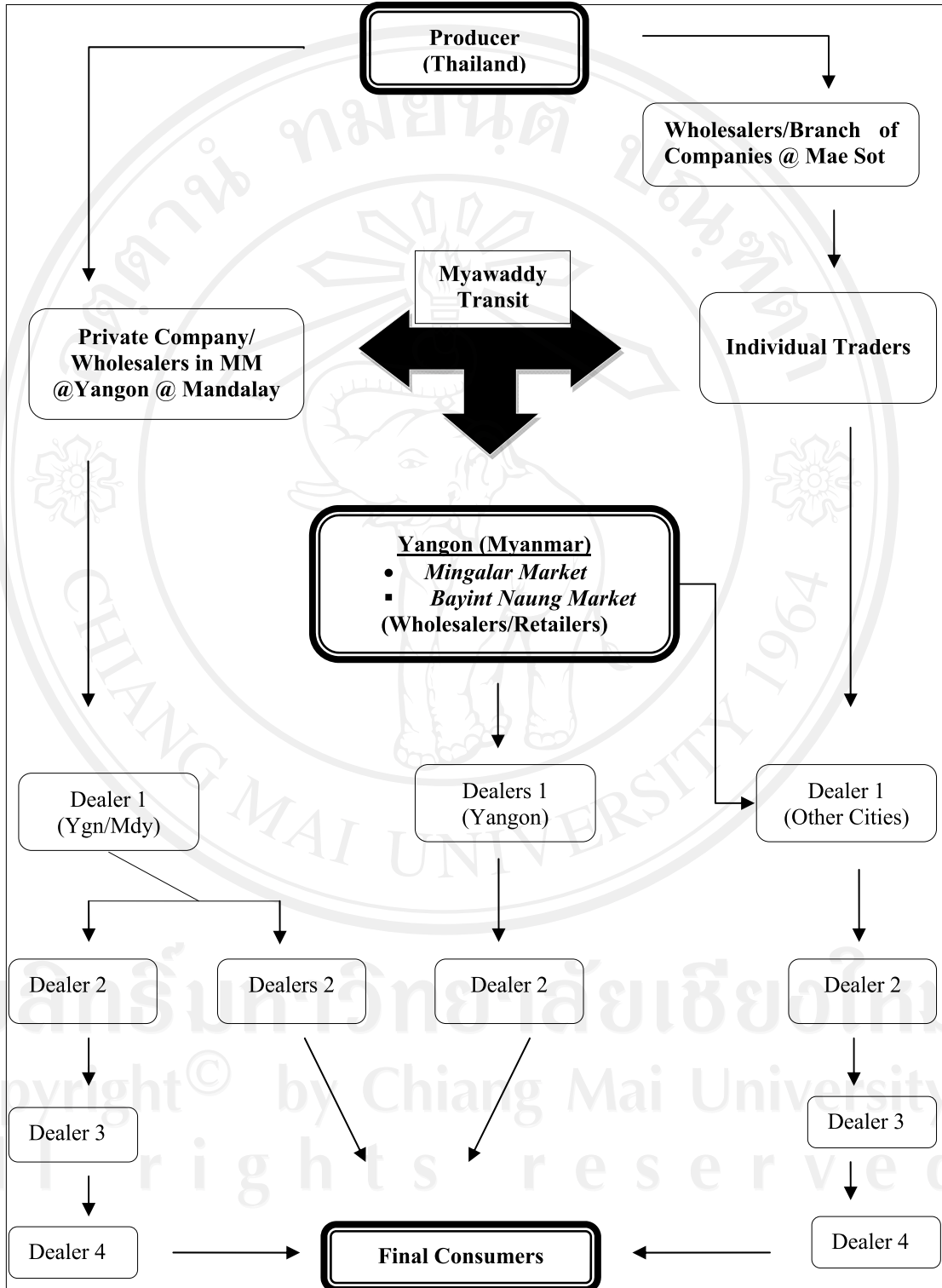
The detailed procedure of buying and selling in Myawaddy has been documented. This pattern will be illustrated from the perspective of imported commodities from Thailand that flow inside Myanmar. In this pattern, some of the wholesalers and companies in Yangon usually buy directly from the producers or factories in Bangkok with the direct financial deal via L/C, T/T or Hundi. Yet broker trading companies are used as a buffer for either the documentation process or transportation. Sometimes, broker trading companies buy commodities directly from the producers in Thailand on behalf of wholesalers in Yangon. Individual traders or small and medium-sized traders buy consumer goods from branches of the factory, dealer or wholesalers base at Mae Sot.

Export/Import procedures at Myawaddy has already been described in particular. This pattern illustrates clearly how imported goods from Thailand flow into Myanmar and to its consumers (Figure 5.1).

Imported Thai goods from private companies, wholesalers and individual traders through Myawaddy transit can be classified into two groups which are:

- consumer goods
- raw materials, machineries and its spare parts

Figure 5.5 The Pattern of Imported Goods Flow to Final Consumers in Myanmar



Source: Author

Mostly, all imported consumer goods go to Mingalar Market in Yangon, the biggest consumer goods wholesale/retail market in Myanmar. Each price of the consumer goods is determined by this market on a daily basis depending on local market demand, the availability of the goods, the exchange rate, and the cross border trade situation. If cross border closures occur, the price of all imported goods will be higher or retailers will be selling goods on a quota basis.

The Ba Yint Naung Market in Yangon is the largest market in terms of the capital goods, intermediate goods wholesale, and retail market in Myanmar. It deals with imported raw materials, machineries and spare parts for industrial use in Myanmar. The prices of capital goods and intermediate goods are determined by this market on daily basis as well.

For the consumer goods, Dealers 1 buy goods from Mingalar Market to sell to individual consumers within Yangon and to other cities. The private companies and individual traders may sell and distribute their goods in other cities, but they still need to rely on the Mingalar Market daily market price. The farther the final cities or towns, the more middle men are used before the good reaches the final consumer.

But for capital goods and intermediate goods, there are not usually many dealers like in the trade and transport of consumer goods. This is due to the nature of commodities, its usage and its value.

The pattern of Myawaddy cross border trade is the functioning of transit trade. There is no small and medium enterprise which chiefly focuses on export

to Mae Sot. There is no evidence to be found in Myawaddy of wholesalers to the whole country.

The border trade pattern of Myawaddy will be analyzed with Porter's diamond model as follow.

From the point of view of factor conditions alone, Myawaddy exists in a considerably strategic location. It also hosts significant players in cross border trade such as broker trading companies and transporters as trade facilitators. Its population is estimated over 52,000 and nearby towns could fulfill the labor requirements when necessary. For the capital, the traders employ their own capital to set up and run their business and companies without any assistance from the other financial sources like bank loans or government subsidies. As for the demand condition, the local population size of 52,000 is too low to generate demand itself. There is no evidence of existing related and supporting industries for export orientation in Myawaddy. It is also difficult to analyze the patterns of firm strategy, structure and rivalry.

The role of chance is present in Myawaddy as it exists in a strategic location to collaborate along with regional trade route in the near future. As for the role of the government, the sudden changes of international trade policy are expected to steady and greater transparency is expected to emerge.

As a conclusion, Porter diamond model mostly do not reflect the border trade pattern in Myawaddy. An analysis using the Porter Diamond Theory reveals that the pattern of Myawaddy cross border trade does not have a profound outcome in the Porter Diamond Model.