Trade Policy Reform in Myanmar

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Abstract

Myanmar initiated a series of gradual and radical changes of economic reforms since 2011 aimed at comprehensive economic development. Liberalization of trade and foreign investment is an integral part of these economic reforms. Myanmar has been exporting primary products with low price, and importing manufactured and investment goods. The government of Myanmar is actively encouraging export diversification and promoting downstream processing of primary commodities, improving support services in trade financing, market access and trade facilitation as well as removing barriers to inbound foreign direct investment. Increased economic integration into ASEAN does not much cause trade diversion. Thailand remains a main trading partners while China and India has been increasingly important through border trade. The major policy changes include reduction in export tax and income tax on income from CMP exports, exemption of commercial tax on exports of rice, pulses, maize, sesame, rubber, fishery products and animal products, the removal of state monopoly in international trade, and the elimination of licenses for 166 commodities classified in over 1928 HS tariff lines, while licensing has been maintained on the commodities considered as sensitive. The government intends to prepare WTO compatible trade remedy laws and regulations. Technical assistance in preparing the relevant legislation and regulations are needed.

Key words _ Myanmar economic reforms, trade policies, trade liberalization

1. Introduction

Myanmar initiated a series of gradual and radical changes of economic reforms since 2011 aimed at accelerating structural changes and comprehensive economic development. The biggest challenge in the next few years will be to strengthen the ongoing reform process while maintaining stability and the rule of law and delivering tangible benefits to the communities. To achieve all these tasks, the government of Myanmar will have to manage simultaneously the political transition, the institutional and economic transformation and the peace building process.

The government of Myanmar formed a National Economic and Social Advisory Council (NESC), while the leading figures in core economic ministries were recruited from among scholars, academician and technicians. The NESC has started drafting the Framework for Economic and Social Reforms (FESR) as the roadmap towards the goal of the government. The revised draft of FESR was developed in consultation with senior officials of various ministries from May to October 2012. The FESR outlines policy priorities of the government for the next three years. FESR was released in late December 2012. It was prepared in order to push the ongoing reforms forward and to accelerate Myanmar's integration into the international community. FESR focuses on "quick win" policy priorities that will allow Myanmar to become a developed and democratic nation. The policy priorities include: (i) fiscal and tax reforms, (ii) liberalization of trade and investment, (iii) monetary and financial sector reforms, (iv) private sector development, (v) health and education reform, (vi) food security and agriculture growth, (vii) governance and transparency, (viii) expanded access to mobile phone and internet, (ix) infrastructure improvement, and (x) effective and efficient government. The FESR policies emphasize on agro-based industrial development, equitable sharing of resources, promoting local and foreign investment, effective implementation of people-centered development, and poverty reduction. Key measures under FESR include land reform, improvement of access to credit and creation of job opportunities.

2. Agenda of Reforms

The first stage of reform, introduced in 2011, was the political reforms, for building up national reconciliation and inclusiveness. It is known as the first wave of reforms remarked by reconciliation with political parties and armed nationalities groups; the release of Daw Aung San Suu Kyi from house arrest; the release of political prisoners; welcoming Myanmar scholars who have been away from home country to participate in the country's reforms; allowing the National League for Democracy chaired by Daw Aung San Suu Kyi to register as a legal political party and to enter into by-elections held in April 1, 2012; endeavor for the rule of law; and peace-building process in conflict-affected areas. On 19 June, 2012, the government of Myanmar has declared the second wave of reform that the government seeks for a high economic growth rate targeting 7.7 percent annual average GDP growth based on 2010-2011nmarket price and 1.7 fold rise in per capita GDP after 5-Year Plan started from 2011- 2012 to 2015-2016. The reform strategy is based on four economic policies, namely, sustaining agricultural development towards industrialization and all round development, balanced and proportionate growth among regions and states, inclusive growth for entire population, and quality of statistics and statistical system. Liberalization of trade and foreign investment is an integral part of these economic reforms. Accordingly, Myanmar is increasingly looking outward and strongly supports the multilateral trading system (MTS). An open global trading system, including access to export markets and inward flows of FDI, is a key to Myanmar's economic development and thus poverty reduction. As a consequence of its membership of the Association of South East Asian Nations (ASEAN), and deepening economic relationship with China, Japan, Korea, India, Australia and New Zealand, Myanmar is becoming integrated economically with these regional trading partners. The third stage or third wave of reform focused on public administrative reforms through establishing of good governance and clean government.

3. Recent Macro-economic performance

3.1 Economic Growth

Myanmar experienced rapid economic growth in the last two decades, 7.9 percent on average in the 1990s and 11.5 percent in the last decade. Myanmar's nominal GDP per capita in terms of US dollar increased by 10.8 times during the last two decades, which is the second highest rate in ASEAN next to Vietnam. [1]Nevertheless, even with this high performance, which may also reflect the over-reporting, Myanmar's GDP per capita in 2010 is USD742, the lowest in ASEAN and one of the lowest in developing Asia. Myanmar's per capita GDP was around US$900 at the end of March 2012. The gap in GDP per capita between Vietnam and Myanmar widened from USD 30 in 1990 to USD 432 in 2010. Based on the IMF's statistics, the size of Myanmar's GDP is about 43.8 percent of Vietnam's as of 2010. In short, the new stage of Myanmar's economic development is starting from the one of the lowest income status in the region.

Myanmar's wide-ranging political, social and economic reforms aimed at its re-integration into the global economy following five decades of isolation and consequent economic stagnation. The structure of economy has slightly changed. Between 2009/10 and 2012/13, agriculture's share of GDP fell from 38.1% to 30.5%. By contrast, the share of manufacturing increased from 18.1% to 19.9%. Services' share rose slightly from 37.4% to 37.5%. Real GDP growth has accelerated from 5.1 percent in fiscal year 2009-2010 and 5.9 percent in 2011-2012 to 7.3 percent in 2012-2013 and estimated 7.5 percent in 2013-2014, supported by higher domestic and foreign investment and improved business confidence. Average annual rate of inflation during the reform period was stable at 2.7 and 2.8 percent in 2011-2012 and 2012-2013, respectively, mainly due to declining food prices and lower monetization of fiscal deficit. However, inflation quickened to an estimated 5.8 percent in 2013-2014, driven by higher food prices and the depreciation of the Myanmar kyat. In fact, following the adoption of a managed float in April 2012, the kyat has depreciated against the US dollar, falling by 11 percent from April 2013 to March 2014.

[1] MCDV, 2013.

The balance of payment recorded an estimated surplus equal to 0.6 percent of GDP. The gross official reserves rose to an estimated 49 billion USD covering 3 months of imports. Market exchange rate has been remarkably stable, having a narrow gap between the Central Bank of Myanmar (CBM) reference rate and the market rate. Multiple currency practice has been largely reduced. Government spending on health, education and infrastructure will continue to increase with the support of higher natural gas revenue. Myanmar medium-term economic prospects are good. The economy is forecasted to post higher growth of 7.8 percent in both FY 2014 and FY 2015 (ADB, 2014). Average annual rate of inflation is expected to remain moderate.

At the same time, ensuring all inclusive development and that growth is not detrimental to the environment are major challenges. Realizing the full extent of growth potential requires sound monetary and fiscal policies, macroeconomic stability, together with structural policies, including liberalization of trade and foreign investment, as well as major advances in health and education.

3.1 Monetary sector

In connection with an agreement with the IMF, the government of Myanmar presented a Memorandum of Economic and Financial Policies (MEFP) concerning the second-stage reforms. The objectives of the MEFP were to ensure macro-economic stability and debt sustainability; and to lay the foundations for lasting macro-economic stability by building an appropriate macro-economic framework, as well as developing the institutions and instruments for effective use of them. The macro-economic goals were to maintain stable and low inflation and to build sufficient international reserves to provide a cushion against adverse external shocks as well as macro-economic risks arising from the reform process itself. Among the key macro-economic policies were foreign exchange and related monetary policy together with fiscal policy.

The single most important economic reform so far has been the liberalization of the exchange rate regime starting in September 2011 and the subsequent replacement of the overvalued official exchange rate peg with a "managed float" in April 2012. This reform was motivated by commitments under the AEC Blueprint. Prior to this reform, the local currency (kyat) was pegged at the rate of 8.50847 kyat per SDR. Under that foreign exchange regime, different exchange rates occurred in the different domestic foreign exchange markets. This situation was not only detrimental to transparency, but caused price distortions, inefficient allocation of resources, and risks to macro-economic stability and economic development. The government of Myanmar has, therefore, taken steps to unify the country's multiple exchange rates into a single rate, by replacing the official peg in April 2012 with a "managed float" through the foreign exchange auction market under the supervision of the CBM. Under the new foreign exchange regime, the reference rate is determined in the auction mechanism. Moreover, in August 2012

Parliament adopted a new Foreign Exchange Management Law, which is aimed to remove all the present restrictions on current payments and transfers abroad.

As a result of these reforms, pressure on the exchange rate to appreciate has receded and the market exchange rate has been stable at around 970 kyats per dollar. The CBM will also coordinate closely with IMF staff to ensure that new legislation, regulations, and bilateral payment arrangements do not create new exchange restrictions, and provide them with the necessary information. The CBM will take additional steps to deepen and facilitate the smooth functioning of the formal foreign exchange markets, enabling private banks to offer foreign exchange operations and services at par with state banks. Equipping the CBM with the instruments to conduct domestic monetary policy is important for delivering the stability necessary for sustained economic growth. Inflation remained moderate, averaging 2.8% during the period 2012/13. However, there are upward pressures due to the prices of real estate and wage increases, and, as a result, inflation is projected by the IMF to rise to around 5.6% in 2013/14. In order to contain potential inflationary pressure and dollarization under the new exchange rate regime, the CBM monitors domestic monetary developments so as to ensure exchange rate stability and price stability. As the revenues from new natural gas fields is expected to increase in the near future, the government of Myanmar is also preparing necessary measures to insulate these flows and to minimize their impact on exchange rate stability and the inflation rate.

3.2 Fiscal Sector

Fiscal policy is now more transparent and accountable as a result of the decision by the government to allow the 2012-13 budget to be debated in and approved by Parliament. The policy is being oriented more towards supporting continued macro-economic stability, while providing sufficient room for social and investment spending, including on poverty reduction programs and essential infrastructure, such as that involving electricity, transportation, telecommunications, water, educational and health facilities. Therefore, the government of Myanmar aims to keep the fiscal deficit in 2013/14 and over the medium-term broadly unchanged at around 5% of GDP. Higher expenditures will be financed mainly by rising revenues from gas projects. The Ministry of Finance is collaborating with IMF, World Bank, ADB and Multi-Development Partners improve the Myanmar Public Finance Management System in order to ensure that spending is cost-effective and in line with development priorities.

Moreover, the Paris Club countries have forgiven much of Myanmar's debt and the IMF, World Bank and ADB have returned to offer credit as well as technical assistance in connection with fiscal reforms. For example, with the assistance of both the IMF and World Bank, the MOF has been taking steps to strengthen Myanmar's Public Financial Management (PFM) reforms, Public

Expenditure and Financial Accountability (PEFA) and Public Expenditure Review (PER), thereby providing the basis for more fundamental fiscal reforms.

The tax reforms is required to aim at broadening the tax base and improving compliance, including through the planned establishment of a large taxpayer office in 2014, so as to offset the loss in revenues from trade taxes as a consequence of the abolition the withholding tax on imports and the export tax on key agricultural exports. Furthermore, the MOF has also simplified the commercial tax on domestic sales, broadened the tax base by requiring public sector employees to pay income tax, and increased the progressivity of the income tax. Limiting tax incentives is also important to prevent further erosion of the tax base.

4. International Trade Sector

4.1 Overview

Myanmar's strategic location in the region should provide all its international trading partners with ample business opportunities both in the domestic market and in the adjacent region.

Myanmar is an original member of the WTO. Myanmar considers that the multilateral trading system can bring a wide range of opportunities for exports and overcome its supply-side constraints. Myanmar's trade policy is strongly influenced by its participation in ASEAN, and ASEAN's free-trade agreements with third countries. Myanmar is also looking beyond its Asian neighbours to develop trade and investment ties. Myanmar expects to benefit from GSP schemes reinstated by the EU and Norway.

Myanmar remains the exporter of primary products and importing manufactured and investment goods at unfavorable terms of trade. Myanmar’s foreign trade has been mainly with the Asian countries. More than 70% of total export goes to Asian region, also more than 90% of total import comes from this region. Major trading partners are China, Thailand, Singapore, India, Japan and South Korea. In accordance with the Government's objective of transforming Myanmar from a centrally-planned into a market-oriented and more open economy, the role of the state in trade, production and setting prices has been considerably reduced. As regards trade, for example, between 2008-2009 and 2011-2012, the Government's share of imports dropped from 43.0 percent to 26.8 percent and its share of exports fell from 60.5 percent to 53.9 percent. International trade has been largely dominated by private sectors activities. Several steps have been taken to encourage the active participation of the private sector in international trade. In particular, state trading monopolies were largely abolished in November 2011 so that private enterprises and individuals can now import and export almost all products.

Export Policy of Myanmar is to extend and explore the foreign markets by utilizing the natural and human resources effectively and efficiently and also to promote the export of traditional and value-added products. Import Policy of Myanmar is to import the commodity given priority as capital goods required by the State, raw materials for production, other important essential goods and the goods which support to the public health and export promotion. Trade Promotion Strategies of Myanmar can be outlined as follows.[2]

-To export all exportable surplus and diversify foreign markets by using natural and human resources.
-To increase and diversify exports and improve the quality of products
-Try to lower down the trade barriers and simplified export/import procedures
-To encourage the private sector participation in the foreign trade
-To establish the Export Processing Zones and Special Economic Zones at suitable places
-To organize the training, seminar, workshop, business matching, trade fairs
-To disseminate trade related informations through the websites and Journals and bulletins

4.2 Pattern of Trade

Myanmar is very much an agrarian economy and this is reflected in its export composition, which is concentrated in few primary commodities, notably gas, which now accounts for about 40% of total exports, agriculture (20%) and timber (7%). An emerging garment industry now accounts for 7.7% of total exports, larger than the historical export pillars, such as timber, marine or precious stones.
. The government of Myanmar is therefore actively encouraging export diversification while promoting downstream processing of primary commodities, improving support services in areas of trade financing, market access and trade facilitation. In this regard, Myanmar is removing barriers to inbound foreign direct investment (FDI) to help domestic industries overcome technological, financial and market barriers to upgrading their value-added activities. Myanmar's export more than doubled from 2005 to 2010, however, remained the lowest among the ASEAN members since 1990. The economic sanctions partly accounted for Myanmar's low exports. Myanmar is importing a diversified goods ranging from consumer goods such as palm oil to construction materials and petroleum products.

[2] Ministry of Commerce, 2012

Table 1. Top Ten Export Items in 2012-2013

No	Items	% of Total Export
1	Natural Gas	40.57
2	Pulses & Bean	11.12
3	Garment	7.79
4	Rice	5.83
5	Fish	4.54
6	Jade	3.65
7	Teak Log	3.65
8	Natural Rubber	2.93
9	Sesame Seed	2.60
10	Hardwood Log	2.37
	Total in million USD	**9056.24**

Source: Ministry of Commerce, Myanmar.

Table 2. Top Ten import items in 2012-2013

No	Items	% of Total Import
1	Petroleum products	18.12
2	Vehicles & spare parts	15.38
3	Machinery and spare	8.44
4	Iron and steel	6.18
5	Iron & steel	4.32
6	Plastic raw materials	3.31
7	Palm oil	3.16
8	Pharmaceuticals	2.93
9	Ships, boats and spare	2.67
10	Fertilizer	1.83
	Total in million USD	**9371.64**

Source: Ministry of Commerce, Myanmar.

4.3 Direction of Trade

Although Myanmar's increased economic integration into ASEAN, this does not appear to have caused trade diversion between 2008-2009 and 2012-2013. Thailand remains a main trading partner, while China and India has been increasingly important partners of Myanmar external trade, while the share of ASEAN members, other than Thailand, in the values of Myanmar's total trade are far behind the share of neighboring countries. In fact, the ASEAN share of Myanmar's imports declined from 44.1% to 43.7%, while their share of exports fell from 56.2% to 50.7%.

Industrialized countries usually suspend tariffs on imports from low-income countries through the Generalized Systems of Preferences (GSP). Under the "Everthing but Arms" agreement (EBA), the EU admits duty-free and quota-free imports of goods except arms from least developed countries, provided the goods satisfy rules of origins. This scheme has been applied to Bangladesh, Cambodia, and Lao PDR. The United States provides similar preferential treatment for Bangladesh and Cambodia. Myanmar was suspended the GSP from the US since 1989 and from the EU since March 1997. As a result, Myanmar has been in a disadvantage position in international market. Since the establishment of a democratic government, Myanmar's relations with the EU and the US have improved. In July 2013, the EU reinstated GSP for Myanmar and applied the EBA scheme retroactively from June 2012. In April 2013, the