

# Trade Liberalization and Border Trade Between China and Myanmar

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**Abstract:** *This study investigates trade flow between Myanmar and its neighboring countries, importance of border trade in total trade flow between Myanmar and China, border trade flow between the two countries, Myanmar's export to China and Myanmar's import from China via border. It is found that trade between Myanmar and Thailand is the first place from 2005/06 to 2010/11. However, Myanmar and China trade reaches the first place in the period from 2011/12 and 2016/17. Trade with India is the third place because of the insurgent area in India border side. The value of trade with Bangladesh is the smallest amount between two trading countries. With regard to the importance of border trade in total trade flow between Myanmar and China, it is found that over 50 percent of total trade with China comes from border trade. Accordingly, it can be said that border trade plays an important role in trading with neighboring countries. Regarding Myanmar's export and import commodities, the value of export to China increases gradually during the study period. The amount of import from China also increases year by year. Accordingly, it cannot be denied that border trade flow between Myanmar and China becomes stronger year by year.*

**Keywords:** *sea-borne trade, border trade, trade flow*

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## I. INTRODUCTION

### 1.1 Rationale of the Study

Economic growth of many developing countries depends heavily on their foreign trade. The exports of most developing countries are usually primary products, and their foreign exchange earnings also rely only on primary products. Myanmar also earns foreign exchange from exporting primary products. After independence, foreign exchange was mostly used in import substitution industries and heavy industries according to import substitution policy. Although the government of Myanmar encouraged domestic production, it could not produce to meet domestic consumption during those periods. Moreover, most industries established in those periods were import dependent import substitution industries because necessary raw materials and machinery for those industries were imported from abroad. Therefore, foreign exchange earnings could be used only a little for the import of consumer goods. However, because domestic production was not enough for domestic consumption at those periods, domestic needs were supplied through both legal border trade and illegal border trade. After Myanmar has changed its economic system from a centrally planned economic system to a market oriented one in late 1988, a series of structural reforms including trade sector reform had been introduced. Therefore, Myanmar now trade legally with its neighboring countries; China, India, Thailand and Bangladesh, and border trade becomes play a vital role in Myanmar's foreign trade. It is observed that border trade could provide about 42 percent of domestic consumption according to 1995 data. This study, therefore, aims to investigate the importance of border trade, especially border trade between China and Myanmar, in Myanmar's foreign trade.

### 1.2 Objective of the Study

The objective of the study is to analyze the importance of border trade in total trade between Myanmar and China.

## II. THEORETICAL REVIEW

In the globalization era, trade has become an important instrument for contributing to economic growth. Accordingly, international trade has been expanded recently. Therefore, it can be said that countries in the world cannot be possible to gain economic growth without trade because countries cannot produce everything their societies need. As the countries open up their economies, they need to consider trade policy as the major concern. According to theory, although both two trading countries have mutual benefits, some

countries advocate free trade policy, and others, protectionism, based on their situations. Some are trying to employ economic integration depending on their experiences.

### **2.1. Free Trade Policy**

Adam Smith (1723-1790) started to introduce the idea of absolute advantage. According to him, if one country can produce a commodity more cheaply than the other country, it can be said that that country has absolute advantage in that commodity. The concept of absolute advantage theory means that both two trading countries gain from trade if each country has absolute advantage in each commodity. If the cost of production of one commodity (X) in one country (A) is cheaper than those of the other country (B), country (A) will specialize the production of commodity (X), and export it to the other country (B). Similarly, country (B) will specialize the production of commodity (Y) in which the cost of production of commodity (Y) of country (B) is cheaper than those of country (A), and export it to country (A). Accordingly, country (A) exports commodity (X) to country (B), and imports commodity (Y) from country (B). Similarly, country (B) exports commodity (Y) to country (A), and imports commodity (X) from country (A). In this way, both countries gain from trade. However, there will become a considerable case if one country does not have the absolute advantage in both commodities. David Ricardo (1772-1823) contended the idea of comparative advantage. The concept of comparative advantage theory became prevalent when a country encountered absolute disadvantage in producing both commodities. According to David Ricardo, even though a country could not satisfy absolute advantage that country will still gain the advantages of trade. The concept of comparative advantage means that, if a country can produce both commodities more efficiently than the other country, it can have the benefits of trade by specializing and exporting the commodity which is comparatively more efficient. In other words, a country can gain the advantages of trade by specializing and exporting the commodity which is relatively low costs. After trade, world output of goods and services will be increased more compared to before trade condition. The world can therefore consume more before. The concept of comparative advantage is based on relative factor endowments. Therefore, two Swedish Economists, Eli Heckscher and Bertil Ohlin explored a principle which is called factor endowment theory in twentieth century. The idea of Heckscher Ohlin theory comes from the differences in relative factor endowments and factor prices between countries. According to them, this fact causes nations to trade. The Heckscher-Ohlin theorem states that “if two countries possess different factor endowment ratios, each country will export the commodity that uses its relatively abundant factor more intensively and import the commodity that uses its relatively scarce factor more intensively. In this way, both countries will be able to benefit from trade.”<sup>1</sup> As nations open their economies, they can raise their national incomes, and the volume of their consumption increase more than before autarky. According to the advocates of free trade, free trade provides improvements in resource allocation and economies of scale, increases in efficiencies, product improvement, technical change, which in turn accelerates overall economic growth.<sup>2</sup> (Todaro) Although trade optimists presented such benefits of trade, on one hand, and those who lose due to trade advocates the idea of protectionism, on the other hand.

### **2.2. Protectionism**

Protectionism is a policy which restricts foreign competition in order to protect domestic industries. Apart from protecting domestic industries, there are other concerns, such as national security, the custom and culture of host country, for those who adopted protectionism policy. The common barriers to foreign trade are tariff, quotas and exchange control. Tariff is a tax imposed on imported commodity. Due to tax, the domestic price of imported goods will be higher than the world price. This situation causes domestic consumers less demand, and domestic producers who are protected more supply. The objective of such tariff is to protect domestic infant industries. According to the nature of infant industries, they cannot compete with foreign companies at the initial stage. The advocates of protectionism believe that they can gradually compete after a particular period. However, it is found that infant industries never become grow up according to historical evident. Therefore, the end result of protecting infant industries becomes inefficient resource allocation. Protectionism according to national security and culture objective, however, may arguably be reasonable. Quota means allowing only a specified amount of a particular commodity to enter a country during a particular period of time. Like tariff, the nature of quota also pushed the economy into inefficient outcome. In addition, a quota cannot facilitate to increase government revenue. The profits resulting from differences in prices only go to a few privileged importers who are permitted from government. Therefore, efficiency loss due to quota is worse than those due to tariff. Exchange control means the intervention of government in foreign exchange market. Controlling foreign exchange is a form of hindering trade. Fluctuating exchange rate system, which is freely determined by market forces of demand and supply, makes the returns to investment uncertainty as a disadvantage although it has advantages. If the objective of controlling foreign exchange is to attract foreign investment with certainty, Asian financial crisis is evident that it is not a reliable policy.

### **2.3 Economic Integration**

Although most of nations in the world have advocated free trade policy due to increases in the world prosperity since after World War II, whether the developing countries actually gain the benefits of free trade policy is still a considerable factor. The exports of most developing countries mainly are primary products, and it heavily relies on the fluctuation in the world economy. Therefore, the situation of developing countries becomes vulnerable due to large economic dependence. In order to reduce such economic dependence and vulnerability, economic integration among regions and nations becomes play a vital role. Economic Integration occurs whenever a group of nations in the same region join together to form an economic union or regional trading bloc by raising a common tariff wall against the products of nonmember countries while freeing internal trade among members.”(Todaro, p-642)The imposition of tariff and non-tariff barriers of developed countries on exports, such as raw materials and semi-finished products, of developing countries results in economic integration among developing countries. Regional trading bloc or economic union can lower the unfavorable effect of globalization. Developed countries also established regional economic integration such as the North American Free Trade Agreement (NAFTA). The Southern Corn Common Market, the Andean Group, the South African Development Community (SADC) and the Association of South East Asian Nations (ASEAN) are prominent regional trading blocs. According to Todaro, M.P., and Smith, S.C., trade liberalization such as export promotion, currency devaluation, removal of trade restrictions, generates faster increases in export, which in turn facilitates economic growth. In the globalization age of today, countries in the world focus on the various types of trade liberalization by recognizing the benefits of trade.

### **III. BORDER TRADE IN MYANMAR**

Trade is an economic activity closely related to production, transportation, marketing and money circulation. In almost every country in the world, internal and external trade plays a vital role in striving to achieve their economic growth. Thus, classical economists contend that trade is a mechanism for economic growth. It is recognized that international trade largely contribute to economic growth based on classical and neo-classical trade theories. Generally, nations trade with each other through particular harbor and airport under the control of respective governments. Neighboring countries, however, trade with each other via border areas based on market conditions, political situation, foreign exchange policy, transportation and border relation between neighbors. Trade between Myanmar and its neighbors has started since the very beginning of Myanmar’s history, and it is observed that Myanmar trades with Southeast Asian countries according to historical records. Looking at trade relationship between Myanmar and its neighbors such as India and China, Myanmar exported cotton, salt, feather, best nest and ivory to China, and imported silk, velvet, gold bars, pepper, various types of fruits jam and kitchen utensils from China. Total value of Myanmar’s cotton and China’s silk was nearly half of the value of total trade. At the same time, Myanmar imported spices from India, and exported rice to India. According to 1852 historical records, the value of total import was sterling pounds 50865, and the value of total export was about sterling pounds 55106. Under British colony during the period of 1885 and 1948, border trade between Myanmar and China developed. According to 1924-25 data, total trade value with China and India was 34.14 million Rupees. After independence in 1948, it is observed that Myanmar’s foreign trade significantly developed due to the permission of import and export licenses. Therefore, companies owned by national people, and industries largely developed, and improved significantly rice export at that time. In addition, Myanmar substantially exported Maung Bamar vest and Mya Hlwar Yone shawls to Malaysia, and Myanmar nylons and tetron to Thailand. After the Revolutionary council took the power in 1962, Myanmar adopted the centrally planned economic system. Therefore, the economy was closed economy, and only the government took the monopoly power in trade sector under the centralized planned economic system during the period of 1962 and 1988. The centrally planned economic system, usually, could not satisfy the target of export and import plans. Informal border trade, then, was revealed in order to meet domestic needs. The country loses revenue from tax, and the valuable commodities due to informal border trade. After transforming to market oriented economic system from centrally planned economic system in late 1988, a number of reform measures had been introduced. The objectives of economic reforms are to allow private sector participation in various sectors, to reduce the degree of government intervention, to allow trading with the rest of the world, and to invite investments from foreign countries. In order to encourage private sector participation in foreign trade and support fully from every perspective, trade liberalization measures were introduced as follows:

1. To be in line with the changing economic system, the private individuals or enterprises are allowed to carry out the export import business which was previously monopolized by the state.
2. Border Trade was regulated in order to develop and strengthen the bilateral trade relations with the five neighboring countries. Department of Border Trade was established and its 11 branch offices providing one-stop service for border trade matters in collaboration with various departments concerned.
3. Export and Import procedure was realigned.

4. Lowered the technical barriers to trade and simplified export/import procedures geared towards trade facilitation and promotion.
5. Incentives are being given to exporters by allowing 100% retention of export earnings for importation of goods.
6. Trade notifications are being issued by specifying necessary rules in conformity to the changing internal and external business environment.
7. Exemption of commercial tax and customs duty on the imported items like fertilizers, agricultural machineries and implements, insecticides and pesticides, medicines and raw materials.
8. The role of Chambers of Commerce and Industry had reactivated and recognized the Union of Myanmar Federation of Chambers of Commerce and Industry – UMFCCI for the promotion of trade and industry of the private sector.

(Trade and Investment of the Union of Myanmar, Ministry of Commerce, 2006)

In accordance with market oriented economic system, the governments of two neighboring countries had implemented formal trade in order to eliminate informal trade, systematically develop trade and achieve strong friendship between two neighboring countries. Myanmar started to implement formal trade with China in December, 1988. Border trade among Myanmar – Thailand, Myanmar – India, and Myanmar – Bangladesh actually implemented in 1991. In addition, in accordance with the guidance of the Ministry of Commerce, the Department of Border Trade was established in 1996 in order to closely provide trade activities among neighboring countries. The main tasks of Department of Border Trade are as follows:

- (1) To boost bilateral trade with neighbors through formal border trade channels
- (2) To issue export and import licenses in accordance with Border Trade Services
- (3) To raise strong friendship with neighboring countries
- (4) To give assistance to private entrepreneurs to support border trade
- (5) To facilitate border trade by smoothening commodities flows.

Border trade offices have been opened are Muse (105 mile), Lwejel, Chinshwehaw along Myanmar – China border, Tachileik, Kawthaung, Myawaddy, Myeik (FOB)<sup>1</sup> along Myanmar – Thailand border, Tamu, Rhil along Myanmar – India border, and Maungtau, Sittway (FOB)<sup>1</sup> along Myanmar – Bangladesh border.

Myanmar trades with its neighboring countries by using not only sea-borne trade but also border trade. The trade situation between Myanmar and its neighboring countries is shown in the following table.

**Table I: Trade Flow between Myanmar and Its Neighboring Countries**

S.N	Year	Thailand		India		China		Bangladesh		Total
		Trade	%	Trade	%	Trade	%	Trade	%	
1	2005-06	1593.542	52.12	569.258	18.62	833.627	27.27	60.9664	1.99	3057.393
2	2006-07	2712.256	54.59	893.848	17.99	1302.073	26.20	60.631	1.22	4968.808
3	2007-08	3193.684	54.12	886.241	15.02	1693.359	28.69	128.034	2.17	5901.318
4	2008-09	3024.649	51.13	948.765	16.04	1824.896	30.85	117.426	1.98	5915.736
5	2009-2010	3576.443	52.93	1206.682	17.86	1892.869	28.01	80.782	1.20	6756.776
6	2010-11	3614.267	44.13	1067.056	13.03	3372.076	41.17	136.6361	1.67	8190.035
7	2011-12	4518.966	41.17	1371.366	12.49	5001.145	45.56	84.805	0.77	10976.28
8	2012-13	4697.37	42.63	1320.396	11.98	4957.555	44.99	43.266	0.39	11018.59
9	2013-14	5666.484	39.32	1636.933	11.36	7033.124	48.80	75.014	0.52	14411.56
10	2014-15	5711.192	33.99	1340.58	7.98	9712.09	57.80	39.229	0.23	16803.09
11	2015-16	4866.067	27.64	1711.517	9.72	10992.44	62.44	33.385	0.19	17603.41
12	2016-17	4288.174	25.11	1942.854	11.37	10805.49	63.26	43.959	0.26	17080.47

Source: Custom + DOBT

As seen above table, trade volume between Myanmar and Thailand is the largest amount from 2005/06 to 2010/11. However, trade flow between Myanmar and China becomes the largest among four trading countries during the period of 2011/12 and 2016/17. India can take the third place among four trading countries because of the insurgent area in India border side. Trade volume with Bangladesh is the smallest amount between two trading countries.

**Table II: Importance of Border Trade in Total Trade Flow between Myanmar and China**  
US\$ million

S.N	Year	Total Trade with China (sea-borne trade +border trade)	Border Trade	% of border trade in total trade
1	2005-06	833.627	481.359	57.74
2	2006-07	1302.073	749.76	57.58
3	2007-08	1693.359	977.429	57.72
4	2008-09	1824.8961	986.598	54.06

5	2009-2010	1892.869	1076.81	56.89
6	2010-11	3372.0763	1800.28	53.39
7	2011-12	5001.145	2985.42	59.69
8	2012-13	4957.555	2938.12	59.27
9	2013-14	7033.124	3870	55.03
10	2014-15	9712.09	5886.67	60.61
11	2015-16	10992.439	5950.68	54.13
12	2016-17	10805.486	6297.37	58.28

Source: Custom + DOBT

As shown in above table, it is found that over 50 percent of total trade with China comes from border trade. Accordingly, it can be said that trade by way of border plays an important role in trading with neighboring countries. Therefore, it cannot be denied that building situations which are led to facilitate border trade is a considerable factor.

#### **IV. BORDER TRADE BETWEEN CHINA AND MYANMAR**

China borders on the northern part of Myanmar, and is the longest border of 1384 miles. Border trade between China and Myanmar has launched since long – long ago. The volume of border trade between China and Myanmar plays a substantial part in the total trade amount of two countries. According to the China Customs data, the trade volume of coastal areas, such as Shanghai, Shenzhen, Huangpu, Nanjing represents a large amount of the whole China’s trade, and the trade volume of Kunming, which is capital city of Yunan Province, is less than one percent of the whole China’s trade. According to the information from Department of Border Trade, the mainly exported commodities are green mung bean, black eye bean, black matpe, soya bean, sesame, yellow maize, rubber, frozen fish, eel, crab, long-finned eel, fish maws, salted fish, roselle, cardamom, water melon, pomfret, India wild, musk melon, rattan /cane dry taro, and herb of aromatic tuber. The main commodities which are imported from China are all sorts of chemical fertilizer, all sorts of glass, all sorts of porcelain, all sorts of footwear, strike a piece of iron and perforated steel, wax, motorcycle spare parts, bicycle spare parts, machineries, stationeries, pharmaceutical, electrical goods, materials for construction, motorcar spare parts, all sorts of cloth, all sorts of cotton and apple.

**Table III: Border Trade Flow between Myanmar and China**

US\$ million					
S.N	Year	Export	Import	T/B	Trade
1	2005-06	285.882	195.477	90.405	481.359
2	2006-07	453.117	296.643	156.474	749.76
3	2007-08	555.484	421.945	133.539	977.429
4	2008-09	490.847	495.751	-4.9039	986.598
5	2009-2010	500.159	576.652	-76.493	1076.81
6	2010-11	937.83	862.452	75.3783	1800.28
7	2011-12	1821.9	1163.53	658.372	2985.42
8	2012-13	1896.89	1041.24	855.649	2938.12
9	2013-14	2502.24	1367.76	1134.49	3870
10	2014-15	4052.3	1834.37	2217.93	5886.67
11	2015-16	4242.12	1708.56	2533.56	5950.68
12	2016-17	4521.24	1776.12	2745.12	6297.37

Source: Custom + DOBT

As seen in above table, Myanmar's export to China is greater than import from China apart from 2008-09 and 2009-2010. The value of export to China increases gradually during the study period. In general, it can be said that the amount of import from China increases year by year. Anyhow, it cannot be denied that border trade flow between Myanmar and China becomes stronger year by year. The commodities which are exported to China via border are shown in the following table.

**Table IV:** Export to China via border

US\$ million

S.N	Particulars	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1	Agricultural Products	119	267.9	383.9	372.8	336.7	561	831.4	1378	1536	1618	1318	1408
2	Marine Products	79.14	118.4	121.2	78.34	64.46	73.84	95	103.1	145.9	110.1	110.5	136.8
3	Animal Products	2.54	5.409	9.08	4.943	16.7	80.4	83.12	21.24	4.774	0.699	0.534	2.827
4	Forest Products	6.982	23.7	25.83	19.48	37.62	11.02	4.351	5.516	28.61	2.424	2.012	2.188
5	Metal	3.17	1.863	7.92	4.799	33.52	200.2	779.3	311.5	612.7	782.4	317.5	348
6	Finished Products	8.811	2.973	1.633	1.249	2.684	3.422	7.489	29.95	109.8	1492	2061	1372
7	Others	66.26	32.78	5.879	9.209	8.455	8.015	21.23	47.25	63.99	46.93	432.5	1251

Source: Custom + DOBT

The export commodities are agricultural products such as rice and beans, marine products such as fish, prawn and crab, animal products such as beef and dry beef, forest products such as teak, hardwood and bamboo, metal such as jade and jewellery, finished products such as sugar, garments and natural gas, and others. As exports depend on China's demand for commodities, it is seen that the amount of exports are not same directions during the study period.

**Table V:** Import from China via border

US\$ million

S.N	Particulars	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1	Capital goods	71.53	102.1	130.6	187.1	244.6	505.8	723.8	536.8	664.9	1081	1040	1151
2	Intermediate goods	80	144.6	189.2	190.6	202.7	220.8	265.9	310.5	440.5	400.7	363.1	330.3
3	Consumer goods	43.95	49.92	102.1	118	129.4	135.9	178.6	193.9	262.4	352.9	305.9	294.6

Source: Custom + DOBT

The import commodities from China are shown in the above table. Myanmar imports capital goods such as cements, telephone and television, intermediate goods such as chemicals, fertilizers and pesticides, consumer goods such as milk powder, seasonal powder and palm oil, from China during the period of 2005/06 and 2016/17. Over the study period, the value of import commodities gradually decrease from 2015/16 and 2016/17, as can be seen in the figure.

## V. CONCLUSION

This study analyzes trade liberalization and border trade between Myanmar and China during the period of 2005/06 and 2016/17. Specifically, this study investigates trade flow between Myanmar and its neighboring countries, importance of border trade in total trade flow between Myanmar and China, border trade flow between the two countries, Myanmar's export to China and Myanmar's import from China via border. Regarding trade flow between Myanmar and its neighboring countries, trade between Myanmar and Thailand is the first place from 2005/06 to 2010/11. In the period from 2011/12 and 2016/17, Myanmar and China trade reaches the first place. Trade with India is the third place because of the insurgent area in India border side. Trade volume with Bangladesh is the smallest amount between two trading countries. With regard to the importance of border trade in total trade flow between Myanmar and China, it is found that over 50 percent of total trade with China comes from border trade. Accordingly, it can be said that trade by way of border plays an important role in trading with neighboring countries. Therefore, it cannot be denied that building situations which are led to facilitate border trade is a considerable factor. On the subject of export and import commodities, the value of export to China increases gradually during the study period. The amount of import from China also increases year by year. Accordingly, it cannot be denied that border trade flow between Myanmar and China becomes stronger year by year. As exports depend on China's demand for commodities, it is seen that the amount of exports are not same directions during the study period. Myanmar imports capital goods

such as cements, telephone and television, intermediate goods such as chemicals, fertilizers and pesticides, consumer goods such as milk powder, seasonal powder and palm oil, from China during the period of 2005/06 and 2016/17. Over the study period, the value of import commodities gradually decrease from 2015/16 and 2016/17.

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