

Chapter 8

Survey Report on the Use of Free Trade Agreements in Myanmar

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CHAPTER 8

Survey Report on the Use of Free Trade Agreements in Myanmar

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This study examines the use of free trade agreements (FTAs) as implemented by Myanmar's government institutions, and looks at the constraints of using existing FTAs, making use of the survey results of manufacturing firms and some services firms from the private sector. This study shows that manufacturing and services firms need more knowledge about the use of FTAs.

Key Words: Free Trade Agreement, COO, Myanmar, FTA Utilisation

1. Context

1.1. Background

Myanmar is a member of the World Trade Organization (WTO), the Association of Southeast Asian Nations (ASEAN), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, the Greater Mekong Subregion, and the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy. Myanmar has bilateral trade agreements with Bangladesh, India, the Lao People's Democratic Republic, Malaysia, Pakistan, the People's Republic of China, the Philippines, the Republic of Korea, Thailand, and Viet Nam in Asia, and with six countries in Europe. Myanmar signed border trade agreements with the People's Republic of China in August 1988, India in January 1994, Bangladesh in May 1994, and Thailand in March 1996. Myanmar participates in various free trade agreements (FTAs) in the region, such as ASEAN FTA, ASEAN–China FTA, ASEAN–India FTA, ASEAN–Japan FTA, ASEAN–Korea FTA, and ASEAN–Australia- New Zealand FTA, as well as the Regional Comprehensive Economic Program.

Myanmar's Ministry of Commerce (MoC) has played an important role in the free flow of goods within the ASEAN region and is working with the Ministry of Finance and Revenue for trade facilitation, streamlined customs procedures, and tariff reductions; the Ministry of Science and Technology and Ministry of Health for standardisation and conformity assessment matters; and the Ministry of Agriculture and Irrigation for sanitary and phytosanitary certificates. The MoC is mainly responsible for rules-of-origin and non-tariff measures in the ASEAN Trade in Goods Agreement. The MoC is the issuing authority for preferential Certificates of Origin (COOs) within ASEAN and its dialogue partners such as Australia, India, Japan, New Zealand, the People's Republic of China, and the Republic of Korea. The MoC also issues other preferential COOs such as the Generalized System of Preferences (GSP) (Form A) offered by developed countries, the Preferential Tariffs for Least Developed Countries by the Republic of Korea, the Duty-Free Tariff Preference Scheme for Least Developed Countries by India, as well as COOs for ASEAN FTAs, such as Form D, Form E, Form AI, Form AJ, Form AK and Form AANZ.

1.2 Questions

This survey, the first to explore the utilisation of FTAs in Myanmar in parallel with other ASEAN countries, can help us better understand how FTAs are used by manufacturing and services firms in Myanmar, through answers to questions such as: Which organisations are responsible for issuing COOs in Myanmar? How many firms in Myanmar are using FTAs? To what extent do firms understand FTAs? Which firms best

understand and see the usefulness of FTAs? How do firms use FTAs in their business and investment decisions? What constraints do firms encounter in applying for and using FTAs? What should be done to increase the utilisation of FTAs?

1.3 Objectives

The objectives of the survey are to provide information on the utilisation of FTAs, including COOs, by manufacturing and services firms based in Yangon; understand the role of government institutions in facilitating the use of FTAs; and examine the constraints on using FTAs and the concerns of private firms on using FTAs. The objectives aim to provide policy recommendations for opening more opportunities for firms in the region through bilateral and multilateral trade.

2. Key Findings

2.1. Use of FTAs by Manufacturing Firms

2.1.1 Use of FTAs, by Firm Characteristic

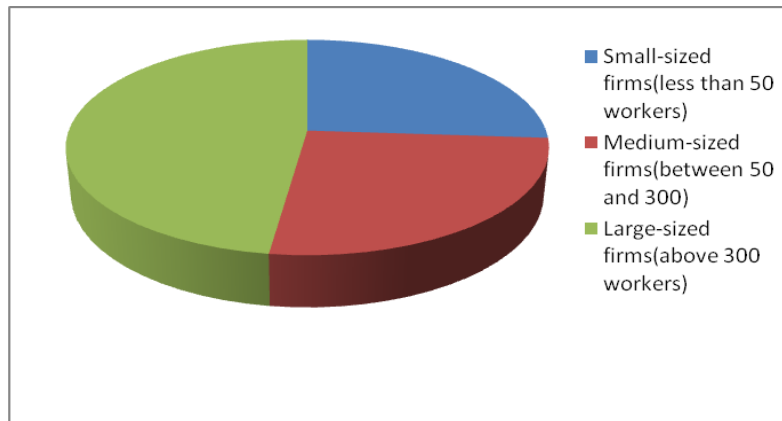
The survey was conducted in 52 manufacturing firms. The number of full-time workers in the firms varies from five to over 7,000 workers, with an average of 703 workers. Excluding the outlier number (i.e. 7,000 workers), the average firm size is of 579 workers. Most of the firms in the survey are large, comprising 54 percent of total number of firms using COOs. Small and medium-sized enterprises using COOs are represented equally at 12 firms each.

Table 8.1. Size of Firms, by Number of Full-Time Workers

Size		No. of Firms
Small firms	Less than 50 workers	12
Medium-sized firms	Between 51 and 300 workers	12
Large Firms	Above 300 workers	22

Source: Survey data.

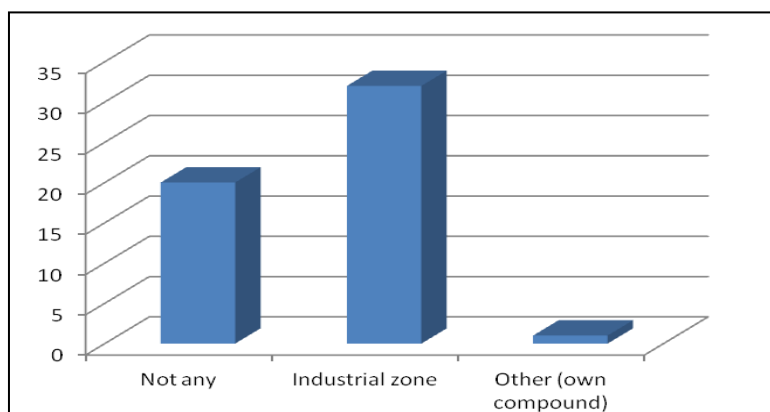
Figure 8.1. Number of Firms, by Size



Source: Survey data.

Only 44 firms provided the number of their full-time workers. The rest, both users and non-users of COOs, responded that all their workers are temporary and recruited in specific areas where their main production activities are located. The production of rattan ware is a good example because activities are mainly in areas where both raw materials and skilled labour are available at the lowest cost. Although the number of workers may depend on the quantity produced, most rattan firms employ hundreds of workers during the working season.

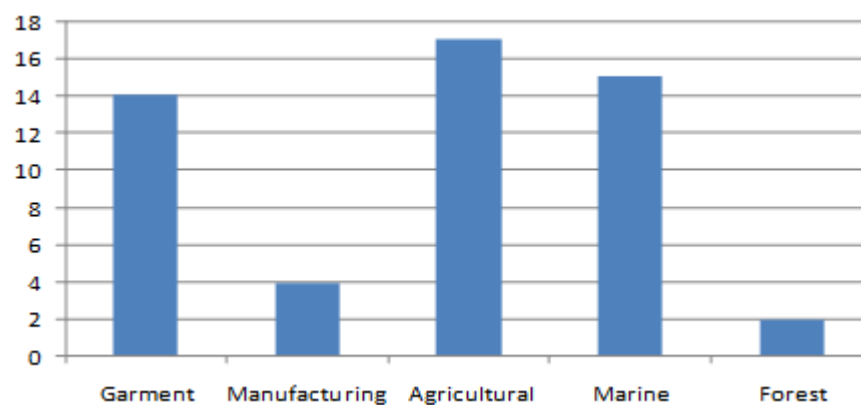
Figure 8.2. Location of Manufacturing Firms



Source: Survey data.

Regarding ownership, almost all firms (51 firms) are domestically owned while one is a joint venture, with 65 percent of paid-in capital owned by a Singaporean partner. The locations of firms are categorised as own compound, industrial zone, or 'not any'. The category of 'not any' refers to firms located neither in any industrial zone nor in own compound. One firm is located in a compound provided by a semi-government organisation, 20 are operating outside Yangon as they are agriculture-related firms, and 30 firms are in industrial zones.

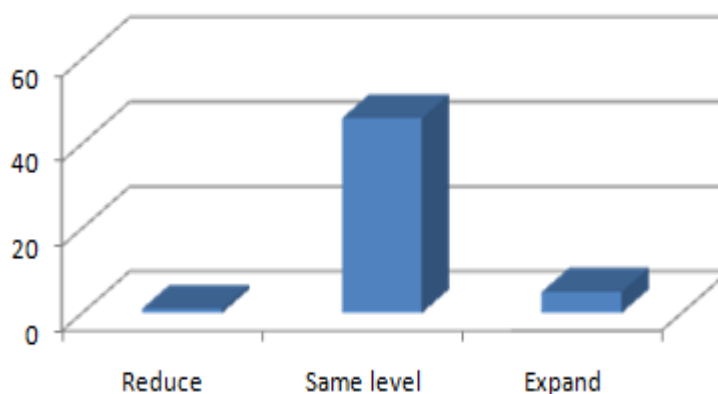
Figure 8.3. Composition of Manufacturing Firms



Source: Survey data.

Since Myanmar's exports are mainly primary products, most firms surveyed are involved in the processing and manufacturing of agricultural products. None of the firms surveyed is fully aware of the relationship between the use of FTAs and business planning, although some are planning to expand their businesses.

Figure 8.4. Future Business Plans



Source: Survey data.

In response to the questions about FTAs and business planning, the manufacturing exporters expressed the need to learn more about free trade and the use of FTAs. While most of them intend to maintain their existing market positions, some 10 percent are planning to expand their businesses. Only one firm states that it may reduce its level of business depending on the future business situation in the region.

2.1.2. Survey Results of the Use of FTAs, by Agreement

Firms in Myanmar mostly use ASEAN FTA and ASEAN–China FTA and, accordingly, Form D and Form E. The majority of exporting firms in the survey are cutting-making-packaging-type factories manufacturing apparel and textiles and processing marine products for export. These firms understand that the use of COOs is important for exporting their products, as well as for importing raw materials.

Among the 52 exporters of manufacturing products, 50 use one or more FTAs, but are not familiar with the term ‘FTA’, although they are familiar with COOs. The majority of firms that use and are able to specify the types of COOs they utilise are large firms. Among them, 16 firms can specify the types of COOs they are using, in which eight exporters use Form A, and two firms use Form B, Form D, and Form E, indicating that some large firms use more than one type of COO. Most firms cannot specify the types of COOs they use, but understand that they use the COO to prove their products are exported from Myanmar. All manufacturing exporters know the ASEAN FTA as Form D. The firms that use Form A are all exporters of garments. Table 8.2 summarises the information on the use of FTAs by firms’ characteristics.

Table 8.2. The Use of FTAs in Manufacturing Firms

No.	Type of COOs	Number of firms using the particular	Size in terms of			Location			Exporting / Importing
			L	M	S	Main office	Regional head quarters	Plant/ Factory	
1	Form A (GSP)	8	6	1	1	1	1	6	Exporter
2	Form B (MFN)	2	1	1		1		1	Exporter
3	Form D	2							Exporter
4	Form E	2	1	1		1		1	Exporter
5	Form AANZ								
6	Form AI								
7	Form AJ								
8	Form AK	2	1	1				2	Exporter
9	Others*	50	22	10	12				Exporter

AANZ = ASEAN–Australia– New Zealand, AI = ASEAN–India, AJ = ASEAN–Japan, AK = ASEAN–Korea, COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences, MFN = most-favoured nation.

*Firms using COOs but cannot classify the types of COOs they applied for.

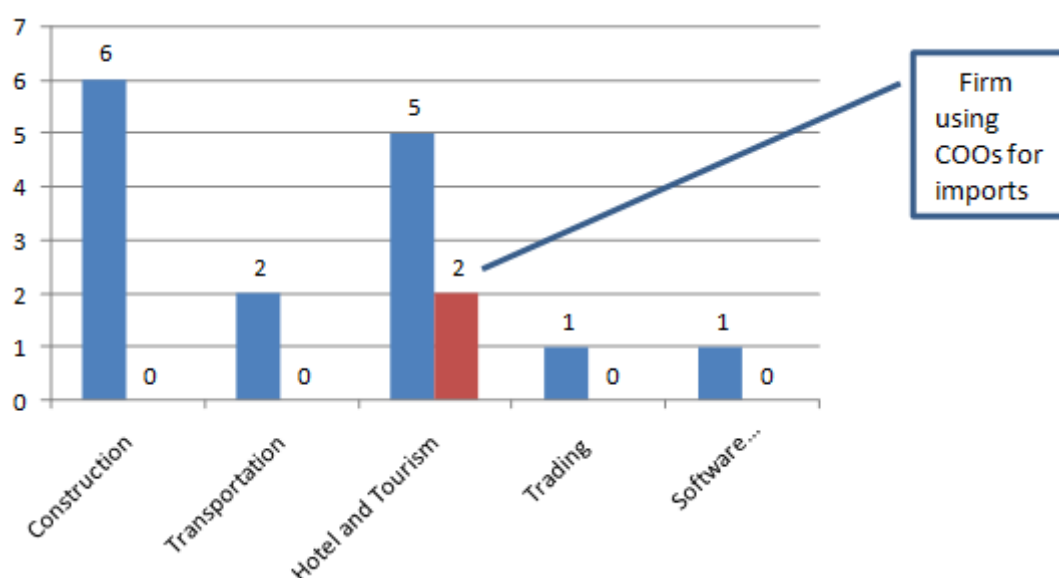
Source: Ministry of Commerce.

No firm in the survey uses COOs for partner countries, i.e. Form AANZ, Form AI, and Form AJ. It was found that while border trade with the People’s Republic of China and India is significant for Myanmar, its trade with New Zealand is insignificant. Firms that used to export to Japan previously used the GSP scheme and used Form A. However, with the ASEAN +1 trade agreement, they will need to use Form AJ.

2.2. Use of FTAs by Services Firms

With the assumption that construction, hotel, and tourism industries will make increasingly important contributions to Myanmar’s services sector, the survey of services firms focused in on these types, as well as telecommunications services, given the latter’s promising role in the sector. The survey was carried out in 15 services firms consisting of six construction firms, one city transportation firm, one maritime transportation firm, four hotel and tourism firms, one trading firm, and one telecommunications firm, whose headquarters are in Yangon, and one hotel in Monywa, upper Myanmar.

Figure 8.5. Services Sector Firms



COO = Certificate of Origin.
Source: Survey data.

Among the 15 services sector firms in the survey, two firms in tourism and hotel services say they use COOs for importing inputs for their hotels, but cannot specify the type of FTA. Therefore, they are seen to be lacking knowledge in the use of FTAs.

2.2.2. Survey Results of the Use of FTAs, by Agreement

Table 8.3. Use of FTAs in Services Firms

Number of firms using FTAs/ COOs	Size in terms of full			Location			Exporting / Importing
	L	M	S	Main office	Regional head quarters	Plant/ Factory	
*2	2			2			Importer

COO = Certificate of Origin, FTA = free trade agreement.
Note : *Firms using COOs but cannot classify the types of COOs they applied for.
Source: Survey data.

Clearly, Myanmar’s services firms lack knowledge about the use of FTAs, even though they use imported raw materials and intermediate goods. However, they like to learn about the advantages of the use of FTAs through official websites. One respondent from a telecommunications firms expressed the importance of market potential in

expanding his firm's services, but said no emphasis was necessary on using FTAs in his firm's business plan. It is seen that the services firms' knowledge of and use for FTAs remain very low.

2.3 . Official Data on the Use of FTAs Over the Years, by Agreement

The MoC is the issuing authority for two types of preferential COOs for ASEAN FTAs: (a) non-reciprocal basic COOs and (b) reciprocal basic COOs. Non-reciprocal basic COOs include Form A (GSP), Preferential Treatment for Least Developed Countries (Republic of Korea's GSP), and Non-Duty Free Tariff Preference from India (Form DFTP). Reciprocal basic COOs are the ASEAN Trade in Goods Agreement (Form D), ASEAN–China FTA (Form E), ASEAN–Korea FTA (Form AK), ASEAN–Japan Comprehensive Economic Partnership (Form AJ), ASEAN–India FTA (Form AI), and ASEAN–Australia- New Zealand FTA (Form AANZ).

Myanmar enjoyed the ASEAN Integration System of Preferences for exports to Thailand and Malaysia until 2010. These were special preference for Cambodia, the Lao People's Democratic Republic, Myanmar, and Viet Nam offered by Thailand and Malaysia. Beginning January 2010, those countries were able to export freely to other ASEAN 6 before the system was terminated.

Table 8.4. Types, Number of COOs, and the Value of Exports Using COOs

No.	Types of COO	2007-2008		2008-2009		2009-2010		2010-2011		2011-2012	
		Copies	Value*	Copies	Value*	Copies	Value*	Copies	Value*	Copies	Value*
1	FormD	1485	65.013	2569	82.223	2093	100.262	2497	139.699	3082	200.153
2	AISP (Thailand)	561	7.617	287	4.303	191	7.425	16	0.135	-	-
3	AISP (Malaysia)	99	3.301	90	2.743	116	2.846	74	2.619	-	-
4	FormE	2140	46.352	5817	114.702	8396	156.601	8740	201.495	7455	136.432
5	SPT	2470	124.028	4871	203.433	1848	70.982	897	41.090	225	8.994
6	AK Form	646	12.871	1123	86.392	1869	46.193	3714	115.332	3839	183.991
7	AJ Form	-	-	15	0.554	31	1.107	28	0.821	107	6.098
8	AI Form	-	-	-	-	3	0.489	157	4.529	257	8.496
9	AANZ Form	-	-	-	-	2	0.004	-	-	3	0.203
10	FormA	4039	187.048	4326	191.109	4304	213.235	6176	283.860	6675	363.712
11	Korea GSP	254	3.825	307	5.954	650	16.606	648	17.518	415	15.038
12	DFTP Form	-	-	-	-	4	0.067	2	0.002	-	-
Grand Total		11694	450.055	19405	691.413	19507	615.817	22949	807.100	22058	923.117

AANZ = ASEAN–Australia- New Zealand, AI = ASEAN–India, AISP = ASEAN Integration System of Preference, AJ = ASEAN–Japan, AK = ASEAN–Korea, COO = Certificate of Origin, DFTP = Duty-Free Tariff Preference (from India), GSP = Generalized System of Preferences, SPT = Special Preferential Tariff

*Values are expressed in US\$ million.

Source: MoC, Myanmar.

2.4 Perceptions of How FTAs Affect Decisions to Invest, by Firm Size

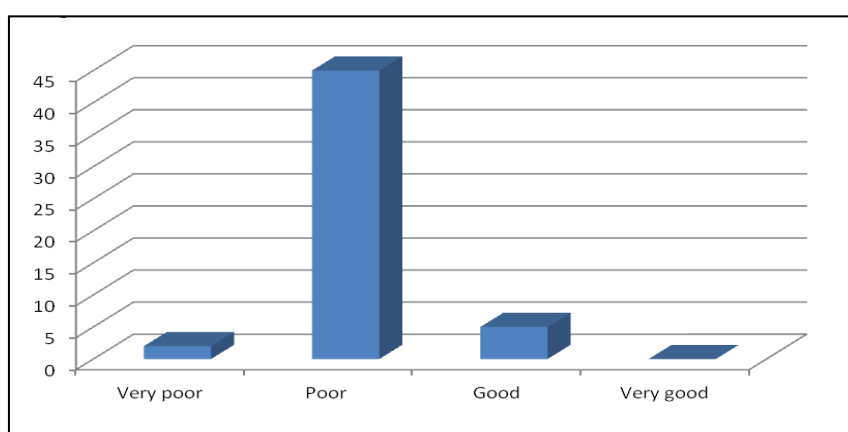
Many exporters need better knowledge of FTAs. By their admission, they do not experience the advantages of using FTAs as all of them make investment decisions independent of FTAs. Almost all exporters assume that the benefits of using FTAs go toward their trading partners and not to them. Some exporters have knowledge of the use of FTAs but continue to trade without COOs with their existing buyers, especially from the People’s Republic of China along the border. Furthermore, they feel that the use of FTAs will bring no additional profit but will only require more paperwork.

2.5 Constraints on Using FTAs, by Firm Size

For the manufacturing and services firms surveyed, the main reason for using FTAs is to fulfil requirements set by the authorities. All firms have attended training courses and seminars on the use of FTAs, but they assume that applying for COOs is a must and they simply follow the requirements.

Regarding the reasons for not using FTAs, some firms say they lack information while others respond that FTAs only make a negligible difference. No firms complain about the number of documents required and official costs for applying for FTAs, but they prefer to access information and application procedures online to save time and trouble.

Figure 8.6. Access to Information on FTAs



FTA = free trade agreement.

Source: Survey data.

The constraints are in two categories: knowledge and procedures. Information on the advantages of using FTAs is not very accessible; only a few managers and manufacturing exporters are well informed about the advantages of FTAs. All of them respond that the procedures for applying for FTAs are complicated, and so they rely on agents to apply for them. They also prefer an online system of application.

2.6 Perceptions of the Costs and Procedures of Applying for COOs, by Firm Size

No firms complain about the costs of applying for COOs. Surveyed firms say that the charges are reasonable and there are no unnecessary transaction costs for one-day services, suggesting that COOs can be obtained within one day if all the required documents are submitted. However, respondents add that the preparation of the required documents, such as approvals from relevant ministries and departments for some types of products and values, can take from a few days up to a few weeks. Some exporters and importers accomplish all the required steps through broker firms that export and import on behalf of them.

2.7 Main Sources of Information About FTAs

The main sources of information regarding the types, uses, and advantages of FTAs are government agencies, through training and bulletins provided by the MoC and the Union of Myanmar Federation of Chambers of Commerce and Industry. However, almost all surveyed firms suggest that the government should provide more support to help businesses understand more about FTAs through the Internet. They also claim that customs procedures should be more consistent, instead of constantly being changed, to make FTAs more attractive.

2.8 Interesting Issues

It can be seen from the survey that FTAs in Myanmar are not yet effectively utilised. As far as perceptions of firms' use of FTAs are concerned, most remain unfamiliar with the term 'FTA' and do not realise that a COO is a form of FTA. Most firms assume that FTAs only benefit the buyers (importers) but not the sellers (exporters). Some manufacturing exporters even view FTAs as a kind of trade barrier. These firms, formed by experienced traders, had exported to and imported from neighbouring countries such as the People's Republic of China and India when border trade was illegal. They understand the use of FTAs because the MoC supports them with training and awareness of programmes on free trade. Among those surveyed, the 'cutting-making-packaging' firms best understand FTAs because they have experienced the benefits through formal trade routes. There are also firms surveyed that enjoy the benefits of border trade using few or no documents, via alternative routes that avoid official checkpoints. Such firms may not bother using FTAs but instead buy and sell commodities in the simplest, albeit illegal, way.

3 Key Recommendations

Clearly, exporters and importers need more in-depth knowledge on the use of FTAs. For associated organisations, they should coordinate and collaborate among each other to ensure easier and faster processing of the documents needed to apply for COOs. Due to delays, exporters and importers prefer to apply online so as to reduce the transaction costs. Most importantly, information from ASEAN about the use of FTAs

should be disseminated to traders through the most widespread mass media. Although a website (www.umfcci.net/ecoo) is available for application for COOs, this information has not been widely promoted via mass media. Also, the use of FTAs needs to be studied, not only through the COOs data issued by the MoC but also through data from Myanmar's Customs Department so that the actual conditions in the use of FTAs can be examined.

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