

# Potential for Utilization of FTAs in Myanmar & Cambodia



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Both Myanmar and Cambodia have been heavily expanding their imports and exports on the back of their steadily growing economies. But trade for both countries is highly dependent on just one industry, such as resources or garments and footwear, and the development of a supply chain which is able to mutually procure intermediate goods, as seen in other ASEAN countries, has not been fully developed yet.

A future challenge for both countries is how to transform their mono-culture trade form into a trade structure with a higher share of exports of intermediate goods. Myanmar and Cambodia also need to invite overseas investment into various sectors to expand their industries, and attempt to nurture domestic industries with higher added value.

In order to advance such a trade structure, utilization of FTAs needs to expand, not just within ASEAN but also with other Asian countries including Japan, China, South Korea, India, and those in Oceania, to vitalize trade and investment.

## Estimation of Myanmar & Cambodian Trade from Partner Countries

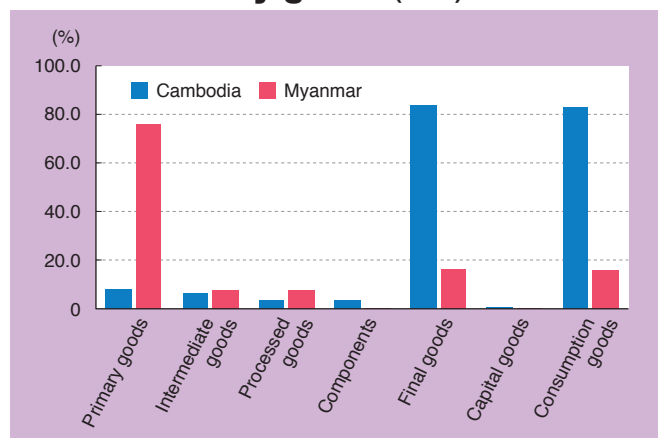
Myanmar's chief export items are natural gas, jade, beans, garments, teak wood, rice, sesame seeds, and fish. Cambodia's chief export items include garments, natural rubber, timber, and processed seafood. Trends in trade for both countries are often explained by trends in these chief export items, and because an overview of growth rates or trends in shares using common classifications were not available, it has thus far been difficult to identify the trade structures of the two countries through comparisons of trade characteristics. Hence, import and export statistics for both countries were compiled using the common classification of goods: primary goods, intermediate goods, and final goods. In compiling trade statistics data, eight major trade partners of Myanmar and Cambodia (China, Indonesia, Malaysia, Thailand, Vietnam, Japan, the United States, and Germany) were identified, and trade statistics were calculated by reverse estimations using the trade partners' statistics.

### Overemphasis in Certain Goods

Chart 1 shows that 76% of Myanmar's exports to the eight countries are primary goods. Fuel and lubricants (primary goods) make up 47% and industrial supplies make up 27% of these exported primary goods. The percentage of intermediate goods in Myanmar's exports was only 8% and final goods were at a mere 16%. The majority of the final goods were consumer goods, and semi-durable

CHART 1

## Distribution of exports from Myanmar & Cambodia by goods (2013)



Note: Distribution denotes exports from Myanmar and Cambodia to 8 countries (China, Indonesia, Malaysia, Thailand, Vietnam, Japan, US, and Germany). The data for Vietnam is from 2012. Processed goods and Components are included in Intermediate goods, and Capital goods and Consumption goods are included in Final goods.

Source: Global Trade Atlas (GTA) and GT

consumer goods including garments and footwear were at 9%.

The percentage of primary goods in Cambodia's total exports, on the other hand, was 8%. Exports of intermediate goods were merely 7%, and this number does not present a picture that Cambodia, like Myanmar, has built a supply chain of exports of intermediate goods (components and processed goods) with China or ASEAN. On the other hand, the export ratio of final goods has reached 84% with the majority being consumer goods, and semi-durable and durable goods including garments and footwear accounted for up to 72%.

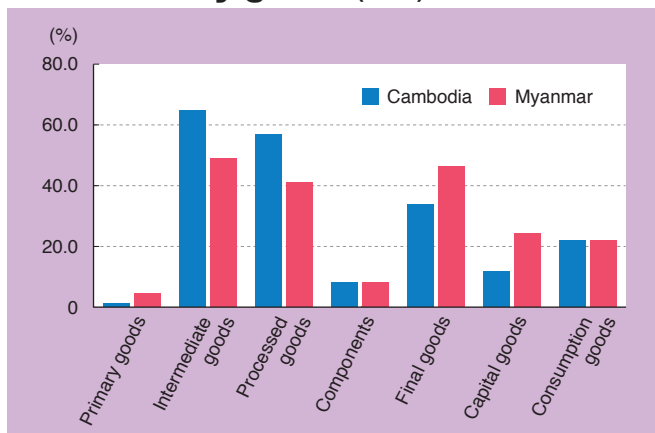
This shows that Myanmar's export structure is mono-culture in nature, focusing much of its exports on primary goods on the back of its rich resources. It is also characterized by its rather high ratio of exports of final goods such as "food and beverages" and "garments and footwear", which have utilized the special economic zones. Cambodia also has a mono-culture export structure with exports of garments and footwear, and this special feature is more apparent in Cambodia than in Myanmar.

### Supply Chain of Intermediate Goods with ASEAN

For Myanmar's imports from the eight countries (Chart 2), the percentage of primary goods was 4%, intermediate goods 49%, and final goods 46%. Of the imports of intermediate goods, the

CHART 2

## Distribution of imports to Myanmar & Cambodia by goods (2013)



Note: Distribution denotes imports to Myanmar and Cambodia from 8 countries (China, Indonesia, Malaysia, Thailand, Vietnam, Japan, US, and Germany). The data for Vietnam is from 2012. Processed goods and Components are included in Intermediate goods, and Capital goods and Consumption goods are included in Final goods.

Source: Global Trade Atlas (GTA) and GT

percentage of processed goods for industrial supplies was at 41% and components at a mere 8%. Of the imports of final goods, the percentage of capital goods was 24% and consumption goods 22%, roughly the same ratio.

For Cambodia's imports, the percentage of primary goods was only 1%, while the percentage of intermediate goods was 65% and final goods 34%. Like Myanmar, the weight of imports of processed goods is high at 57%. Components were at 8%. For imports of final goods, the percentage of consumption goods was high, but this is because the percentage of food and beverages (processed goods and household goods) was high at 10%.

The percentages of imports of intermediate goods from China and ASEAN into Myanmar and Cambodia are high, and this is not much different from the other ASEAN countries. The big difference is in the percentage of imports of primary goods. China and the major ASEAN countries import primary goods at 10% to 20% of their total imports, while the figures for Myanmar and Cambodia are less than 5%, and the trade structures for importing primary goods in both countries are very different from that of the major ASEAN countries.

The major ASEAN countries are utilizing FTAs to procure primary goods (industrial supplies etc.) and intermediate goods (processed goods and components), and then these goods are processed and exported again as intermediate goods to China and other ASEAN countries, all structured within the mutual procurement trade system. Myanmar and Cambodia, on the other hand, have adopted a commissioned processing trade structure where intermediate goods are imported from China and other ASEAN countries, processed and assembled in their economic special zones, then exported as final goods overseas to such countries as the US, EU members, and Japan. Myanmar's trade is also characterized by its high percentage of primary goods exports with its rich resources.

Myanmar and Cambodia procure and import their intermediate goods primarily from China and from within the ASEAN region, but the percentage of exports of intermediate goods is very low and has

not been fully incorporated in the ASEAN regional mutual supply chain network. For trade with ASEAN, developments have been seen to utilize special economic zones where tariffs are exempted, but neither of the two countries appears to be at a stage to aggressively seek tariff reductions by utilizing FTAs for intra-regional procurement or export of intermediate goods.

In commissioned processing trade, materials brought into the country are assembled at special economic zones, and many of the products are then exported overseas. In such forms of trade, the risks are low, but because the materials are not imported based on the manufacturers' own plan or design, the profit margins are also low.

Therefore, in order for Myanmar and Cambodia to achieve a high value-added trade structure, there is a need to expand their domestic industry base to establish an integrated domestic manufacturing industry. This will tie into increased manufacturing investments into Myanmar and Cambodia, and will enhance procurements from local companies and transfer of technology.

In other words, for Myanmar and Cambodia to achieve a more advanced trade structure, the mono-culture nature seen in commissioned processing trade needs to convert to a multi-layer trade structure with diverse industries trading various commodities. To do this, there is a need to invite more manufacturing industry investment, and it is vital to provide and maintain the infrastructure, legal system, and deregulation in both countries to attract foreign investment.

### Exports of Final Goods to Japan

In looking at Myanmar's export destinations by goods, 97% of primary goods ([Table 1](#)) and 86% of intermediate goods are exported to Thailand and China, while 53% of Myanmar's exports of final goods go to Japan, 21% to China, and 7% each to Malaysia and Thailand ([Table 2](#)).

Of total Myanmar exports to Japan, the percentage of final goods is 91%, most of which are consumer goods, and chief export items to Japan are clothing garments such as business shirts, jackets, and coats; footwear; and seafood.

Some 50% of Myanmar's imports of intermediate goods come from China and 30% from Thailand ([Table 3](#)). Of Myanmar's imports of final goods, 53% came from China, 26% from Thailand, and 14% from Japan. The percentage of transport equipment and components accounts for 75% of total Myanmar imports from Japan, and it is mainly used cars. Myanmar's imports of final goods from China are mainly capital goods (excluding transport equipment). Imports of final goods from Thailand see a high percentage of food and beverages (processed household goods). Beverages and confectionery made in Thailand are often seen in supermarkets and convenience stores in Myanmar, and this coincides with the actual import figures.

Of Cambodia's exports of primary goods, 41% go to Vietnam and 28% to China ([Table 1](#)). Most of the exports of intermediate goods go to Thailand at 45%, then 15% to Vietnam. Among exports of final goods, 57% go to the US, 18% to Germany, and 11% to Japan ([Table 2](#)). Most of the exported final goods are garment products and footwear.

TABLE 1

**Composition of primary goods exports from Myanmar & Cambodia by country (2013, %)**

		BEC (Broad Economic Category) – Primary Goods		
		Exporter		
		Cambodia	Myanmar	World
Importer	China	28.1	33.5	40.7
	Indonesia	1.4	0.0	1.9
	Malaysia	13.9	1.3	1.4
	Thailand	13.4	63.1	3.8
	Vietnam (2012)	40.8	1.3	0.6
	Total of 4 countries	56.8	98.0	47.8
	Total of 5 countries	97.6	99.3	48.3
	Japan	1.5	0.6	17.6
	US	0.8	0.0	24.4
	Germany	0.1	0.1	9.7
Total of 8 countries		100.0	100.0	100.0

Note: Total of 4 countries is the sum of China, Indonesia, Malaysia, and Thailand. Total of 5 countries includes these four plus Vietnam, and 8 countries includes these five plus Japan, US, and Germany. (Same for Table 2 and Table 3)

Source: Global Trade Atlas (GTA) and GT

TABLE 3

**Composition of intermediate goods exports from Myanmar & Cambodia by country (2013, %)**

		BEC – Intermediate Goods		
		Exporter		
		Cambodia	Myanmar	World
Importer	China	31.9	50.4	29.5
	Indonesia	0.6	6.9	2.7
	Malaysia	1.9	8.7	5.0
	Thailand	33.6	29.9	3.5
	Vietnam (2012)	30.2	1.2	1.0
	Total of 4 countries	68.0	95.9	40.6
	Total of 5 countries	98.2	97.1	41.6
	Japan	0.9	2.0	12.6
	US	0.5	0.3	24.7
	Germany	0.3	0.6	21.0
Total of 8 countries		100.0	100.0	100.0

Source: Global Trade Atlas (GTA) and GT

The main import partners for Cambodia for intermediate goods are China, Thailand, and Vietnam, and the percentage of total imports are each a little more than 30% (Table 3). Among imports of final goods, 42% come from Thailand, 26% from China, and 15% from Vietnam. The percentage of capital goods is high among Cambodia's imports from China, while among its imports of final goods from Thailand and Vietnam, like Myanmar, the percentage of food and beverages (processed and household) is high.

**Increase in FTA Utilization Rate**

According to the 2013 JETRO World Trade and Investment Report, Thai exports in 2012 which utilized FTAs accounted for 42.4% for the ASEAN-China Free Trade Area (ACFTA) and 44.8% for the ASEAN-Korea Free Trade Agreement (AKFTA) (Table 4), and the FTA utilization rate was higher than it was in 2010. For Malaysia's exports, the

TABLE 2

**Composition of final goods exports from Myanmar & Cambodia by country (2013, %)**

		BEC – Final Goods		
		Exporter		
		Cambodia	Myanmar	World
Importer	China	4.0	20.9	17.3
	Indonesia	0.2	4.3	1.8
	Malaysia	2.2	7.0	2.3
	Thailand	2.5	6.6	2.8
	Vietnam (2012)	5.1	1.2	1.1
	Total of 4 countries	9.0	38.8	24.2
	Total of 5 countries	14.0	40.0	25.3
	Japan	11.2	53.1	11.5
	US	57.2	2.0	45.0
	Germany	17.5	4.9	18.3
Total of 8 countries		100.0	100.0	100.0

Source: Global Trade Atlas (GTA) and GT

TABLE 4

**Utilization of FTAs for exports from Thailand, Malaysia, & Vietnam**

		Utilization Rate (%)	
		2010	2012
Thailand	AFTA	31.6	26.2
	ACFTA	34.4	42.4
	ASEAN-South Korea	24.4	44.8
	ASEAN-Japan, Japan-Thailand	23.7	27.3
Malaysia	AFTA	17.5	30.4
	ACFTA	17.8	26.4
	ASEAN-South Korea	65.4	72.3
Vietnam	ASEAN-Japan, Japan-Malaysia	14.6	17.0
	AFTA	14.0	23.6
	ACFTA	30.6	22.1
	ASEAN-South Korea	65.1	83.6
ASEAN-Japan, Japan-Vietnam		30.3	31.3

Note: FTA utilization rate for Thai exports to South Korea was calculated by dividing exports to South Korea using AKFTA by the total amount of Thai exports to the country.

Source: 2013 JETRO World Trade and Investments Report

ASEAN-Free Trade Area (AFTA) utilization rate was 30.4%, and the AKFTA utilization rate was a high 72.3%. For Vietnam, the percentage was 23.6% for AFTA and 83.6% for AKFTA, and the report shows that the FTA utilization rate has increased since 2010.

Overall, the percentage of exports to Japan from Thailand and Malaysia, which utilized either the Economic Partnership Agreement (EPA) with Japan or the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), was lower than the other FTA utilization rate in both countries.

On the other hand, the utilization rates of AKFTA for exports to South Korea from Thailand, Malaysia, and Vietnam were very high and far exceeded other FTAs.

Some of the reasons behind this are, first, there is great merit in using FTAs as the difference in the normal tariff rate (Most Favored Nation tariff rate) and the tariff rate utilizing FTAs is great. Second, preparations are steadily under way to expand the utilization of FTAs

between ASEAN and South Korea. In particular, promotional measures are being developed to utilize FTAs by small and medium-sized companies in South Korea, and this is also thought to contribute to the high rate of utilization.

### Low FTA Utilization Rate

When asking about the FTA utilization rate in Myanmar and Cambodia, the replies are almost always “low” in both countries. Even if Myanmar and Cambodia were to reduce their tariffs between 2015 and 2018, many say the effect would not be enough to boost the utilization rate.

The reasons behind this negative view towards potential expansion of FTA utilization are, first, because Myanmar and Cambodia have a high percentage of border trade with countries like China, Thailand, and Vietnam. There are very few cases of border trade which utilizes FTAs.

Second, it is thought that because Myanmar’s and Cambodia’s trade is often categorized as commissioned processing trade which utilizes tax exempt special economic zones for goods such as garments and footwear, there is no need to utilize FTAs when importing.

A third reason is the nature of Myanmar’s and Cambodia’s trade structure, which is mono-culture and skewed towards resource-related goods and garments and footwear. When Myanmar exports resources, import tariffs imposed on mineral fuel in China, Indonesia, and Thailand are either 0% or very low, whether it be MFN tariffs or ACFTA/AFTA tariffs, and therefore the incentive to utilize FTAs is small.

In addition, both Myanmar and Cambodia utilize the Generalized System of Preferences when exporting garments and footwear to industrialized nations, or utilize Information Technology Agreements where tariffs are not applied for exports of IT-related products. For example, Japan has designated Myanmar and Cambodia as nations having special preferential duties status, and tariffs on many items including garments and footwear are eliminated.

Fourth, both Myanmar and Cambodia impose commercial tax and registration tax on products that are imported. For example, cars over 2,000 cc have an import tariff of 40%, commercial tax of 25%, and then registration tax of 75% imposed in Myanmar. Even if the tariff rate was lowered using FTAs, automobile imports would still have high commercial tax and registration tax imposed, thereby diluting the FTA effect. Hence, it becomes a barrier to promote the use of FTAs.

These elements are all intertwined, and generally speaking, FTA utilization in Myanmar and Cambodia is not expected to progress overnight.

According to a JETRO survey (2014 Survey of Japanese Companies in Asia and Oceania) which looked at the utilization of EPA/FTAs by Japanese companies in Myanmar and Cambodia, the FTA utilization rates in both countries (in Myanmar 16.7%, and in Cambodia 27.8%) were lower than the average for the entire Asia and Oceania region (43.7%). These factors have contributed to the low FTA utilization rate by Japanese companies, and in addition both Myanmar and Cambodia have been lagging in their existing FTA tariff reduction schedules, another contributory factor.

For Myanmar’s exports to China, the ACFTA utilization rate

(expenses for certificate of origin (Form E) divided by total export amount to China) was 4% in FY 2012, 4.4% in FY 2013, and 4.3% for FY 2014 (April to August). In other words, less than 5% of Myanmar’s exports to China are utilizing FTAs.

On the other hand, applications for certificates of origin have risen in the past few years for Chinese imports into Myanmar. This shift in utilization of FTAs for imports indicates that there are possibilities to revise the negative views on the effect of tariff reduction after 2015.

Myanmar has thus far banned sales of imports by foreign companies. Manufacturing companies were allowed to import primary goods and components only for in-house production, but otherwise distribution had to be commissioned to local companies for import and sales of products that were produced overseas. But an official note issued in August 2014 abolished such restrictions on foreign investments in the distribution sector such as retail and wholesale. This paved the way for Myanmar’s own liberalization process in import sales within the retail sector. If liberalization is achieved, it would mean that FTA utilization has advanced.

### Expansion Measures for Utilization of FTAs

For utilization of FTAs to increase in Myanmar and in Cambodia, it is critical to identify how a company can be accurately and systematically informed of relevant and effective information to determine whether to utilize FTAs or not.

Myanmar and Cambodia are planning to further reduce tariffs between 2015 and 2018. If this opens a flow of information on the impacts of tariff reduction directed towards Japanese companies, it is possible that the number of companies utilizing FTAs will increase. Providing information and advice focused on small and medium-sized companies will be vital.

It is better that the current trade structure, where the core of Myanmar’s trade is in exports of primary goods and Cambodia’s in exports of final goods, converts to a trade structure with higher share in intermediate goods. One alternative is to move some of the labor-intensive manufacturing process from Thailand to Myanmar and Cambodia, similar to the so-called “Thai plus one” structure. Sectors where investments and “Thai plus one” may be considered are garments and footwear; beverages and processed foods; retail; construction materials; wood products and furniture; and bicycle and automobile components. Japan needs to provide industrial cooperation to support this transition, including such measures as supporting small and medium-sized companies and human resource development.

Although the FTA utilization rate remains low, if exports of intermediate goods for both countries were to expand, and if the trade structure converted to one allowing various goods to be traded, the current FTA utilization rate of below 5% in Myanmar’s exports to China will be expected to gradually increase. With further reduction in tariffs after 2015 and deregulation in Myanmar, the potential to utilize FTAs is expected to rise.

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