

Characteristics of Cross Border Trade in Myawaddy Township Kayin State, Myanmar¹

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Abstract

Myawaddy is a small border town located in Kayin State, Myanmar bordering on the town of Mae Sot in Thailand. It is the second busiest border town among eleven border towns in Myanmar which are engaging in cross border trade. This article examines the characteristics of cross border trade in Myawaddy by reflecting on Porter's Diamond Model at the macro level. This article mainly explores the characteristics of Cross Border Trade in Myawaddy Township.

Within this text, multiple aspects of border trade through Myawaddy are explored. The characteristics of Myawaddy Township are explained. This study finds that the role of broker trading companies and transportation were significant trade facilitators in cross border trade in Myawaddy. Additional supplemental findings include the fact that there is no small and medium enterprises which chiefly focus on export to Mae Sot in Thailand. Moreover, there is no evidence to be found of wholesalers to the whole country of Myanmar.

Key Words: Border Trade, Cross Border Trade, Characteristics, Myawaddy, Myanmar

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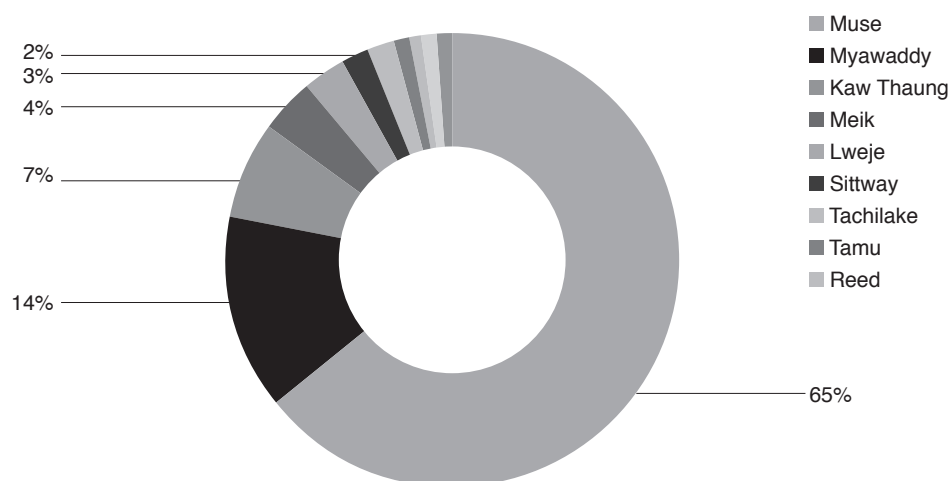
1. Introduction

This research took place in Myawaddy Township, Myawaddy District, Kayin State, Myanmar. Its population is over 52,000 in 2006 (MEMI, 2007). Myawaddy Township borders Mae Sot in Thailand and this is the most active border trade area in Myanmar. The township is more than 1210 square miles and is comprised of 15 village tracts, 50 villages and five quarters. This town is the most important transit point for the Thai consumer goods flowing into Myanmar. Thailand built a 18 km highway inside Myanmar connecting Myawaddy and Thin Gan Nyi Naung as part of the Asian Highway Project (MEMI, 2007). Another 38 km extension is still a narrow road across the mountain pass. This road is a one way road so it has to alternate the flow of traffic every other day to allow vehicles to travel in both directions.

Cross border trade plays an important role among the cross border economic relationship of Myanmar with its neighboring countries in terms of trade, capital and human flows. The manufacturing sector has been limited by poor quality of inputs which is because of technology, imports and power shortages. The black market is estimated to be large. The statistics published on foreign trade are much understated because of the size of the black market, non-official border trade and multiple exchange rates. As Myanmar set many rules and regulations on export/import, border trade drew attention in the scope of Myanmar trade. Since Myanmar could not sufficiently produce goods for its domestic use, it has to import everything from primary goods to finished products from its neighboring countries by trading across borders officially or unofficially. The main motivation for trading across borders is the low transportation cost.

Myanmar has 11 official border trade points including Muse, Lweje and Chinshwehaw bordering on China; Myawaddy, Kawthaung and Tachileik bordering on Thailand; Sittwe and Maungtau bordering on Bangladesh; and Tamu and Reed bordering on India. Among these 11 legal border trade points, Muse, Myawaddy and Kawthaung have been the most active in Myanmar in terms of highest trade value. The trade value between Muse and Yunnan province of China accounts for 65% of total border trade value, where trade value between Myawaddy and Mae Sot and Kawthaung and Ranong of Thailand contributed 14% and 7% respectively in 2006-07 (Ministry of Commerce (MOC), 2010).

Figure 1 Percentage shares of Border Trade Values at each border trade point in 2006-07



Source: Department of Border Trade, Ministry of Commerce, Myanmar. <http://www.commerce.gov.mm/eng/dobt/>

One could clearly notice that the trade value of Myawaddy represents the second largest share of Myanmar border trade apart from Muse. In addition, Myawaddy is the most important border city and is located on the East-West Economic Corridor of GMS (Greater Mekong Sub-region) Additionally, it has been proposed that Myawaddy-Mae Sot become a special economic zone (SEZ).(Centre, March 2005) It is also the border point closest to Yangon which the biggest commercial city of Myanmar. Myawaddy is also an important area in terms of Asian Highway routes. Myawaddy will be one of the main access points for Asian Highway Routes (AH1, AH2, AH3 and AH4) in Myanmar. Myanmar will be a transit country for overland travel between Thailand, India and China. Myawaddy Township is significant because of its strategic location within this transportation network.

2. Research Objective

The main objective of this article is to explore the characteristics of cross border trade in Myawaddy Township bordering Mae Sot of Thailand.

3. Research Design and Methodology

This article is the exploratory research study on the characteristics of Myanmar's cross border trade principally at Myawaddy Township. It is designed to explore the characteristics of Myawaddy cross-border trade.

This research is approached to explore the national competitiveness of Myanmar by referring to Porter's Diamond model analysis at the macro level. It investigated the objective of this research by collecting primary data in Myawaddy Township at the micro level.

3.1 Macro Level Analysis

Porter's Diamond model will be mainly employed to explain the national competitiveness of Myanmar. The Porter Diamond model suggests that there are four groups of factors that contributes to the competitiveness of a nation individually and as a system. These characteristics are factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry (Porter, 1990). According to Porter's Diamond model, the national competitiveness of Myanmar will be explained.

3.2 Micro Level Analysis

This research is designated to investigate the characteristics of cross border trade in Myawaddy Township by collecting primary data. Trade and cross border trade-related secondary data was referred the reports and official webpage from the Ministry of Commerce, Myanmar. Trade and cross border trade-related secondary data is referred from the reports and official web page of the Ministry of Commerce, Myanmar. The researcher also gathered macro and micro socio-economic data from secondary sources; books, articles, and newspaper clippings.

The research site for field data gathering was in Myawaddy Township, Kayin State, Myanmar; bordering on Mae Sot of Thailand. The objective of this article was explored by using interview survey, in-depth interview survey and focus group survey methods. Interviewees were selected by random sampling method. Key informant interviews were also done.

The people who were interviewed are 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.

The following data was collected based on the above stated interview methods at Myawaddy Township.

- a. *Gender/Age/Ethnicity*
- b. *How many businesses and what types of business or factories they are connected to in Myawaddy*
- c. *Nature of business/ their customers/ suppliers/ kind of products*
- d. *Mode of transportation/ transportation cost*
- e. *When/ how did they start their business?*
- f. *Their business problems*
- g. *Mode of currency/ exchange rate*
- h. *Whether they have knowledge of or/ their opinions on ASEAN Free Trade Areas*

This data was checked with existing secondary sources from local government records, local newspapers and archive materials.

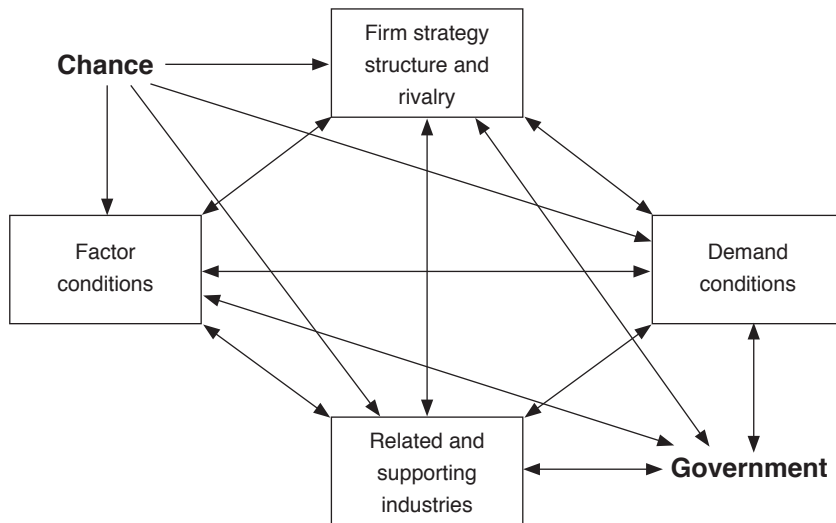
4. Theoretical Perspective and Literature Review

4.1 National Competitive Advantage Theory

In the competitive advantage of nation's theory, Michael E. Porter (Porter, 1990) explains that a nation's competitiveness depends on the capacity of its industry to innovate and improve. The companies gain benefit over the world's finest competitors because of pressure and challenge. They gain advantage by having strong domestic competitors, powerful home-based suppliers and demanding local customers. Competitive advantage is constructed and sustained through a highly localized process. Such diversities in economics, structures, institutions, histories, culture and national values contribute to competitive success. There are prominent dissimilarities in the patterns of competitiveness in every country that a nation cannot or will not be competitive in every industry. Countries achieve success in particular industries because their home atmosphere is the most onward looking, dynamic and challenging.

Porter Diamond determined four extensive characteristics of a nation which attributes individually and as a system and serve as determinants of the model. These are factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry.

Figure 2 Model of Determinants of National Competitive Advantage



Source: Adapted from Michael E. Porter (1998), "The Competitive Advantage of Nations", pp 127

Factor Conditions: According to the economic theory, the factors of production, land, labor, capital, natural resources and infrastructure, determine the flow of trade. A nation exports goods which are produced by using relatively well endowed factors. Skilled human resources or the scientific base are specialized and involve sustained and vast investment. Basic factors such as an abundance of labor and raw material sourced locally do not comprise in knowledge-intensive industries. Countries succeed in industries where they are particularly good at factor creation. Advanced factors are the most significant.

Demand Conditions: It might seem that globalization would reduce the importance of home demand, but the nature of the home market has an unequal effect on how companies receive, interpret, and respond to their customer needs. Countries achieve competitive advantage in industries where home demand provides more challenging needs, where customers encourage companies to upgrade their respective technologies. A nation's firm achieves competitive advantage if their domestic consumers are the world's most sophisticated

and they pressure companies to meet high standards, to upgrade, to innovate, and to develop into a more advance stage. Demand condition offers competitive advantage by pushing companies to respond to challenges.

Related and Supporting Industries: The third attribute of the Porter Diamond model is the presence of suppliers or supporting industries that are internationally competitive. Home-based suppliers contribute to advantages in several ways. They provide the most cost effective inputs in an efficient, fast, and preferential way. Home-based related and supporting industries provide the innovation and upgrading needed for an advantage based on close working relationships. Suppliers and end-users situated nearby can achieve advantage of short lines of communication, quick and constant flow of information, and ongoing exchange of ideas and innovations. Home-based competitiveness in related industries offers benefits; information flow and technical exchange speed up the rate of innovation and upgrading. Successful industries within a country tend to be grouped into clusters of related industries.

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 and managed as well as the nature of domestic rivalry. The goals, strategies, and ways of organizing firms in industries vary widely among nations. National advantage results from a good match between these choices and the sources of competitive advantage in a particular industry. Domestic rivalry creates demand on companies to innovate, develop and upgrade. Local rivals pressure each other to lower costs, improve quality and service, and create new processes and products. Local rivalries become intensely personal which go beyond pure economic or business competition when compared with overseas competitions which tend to be analytically distant. Domestic rivals hold in active dispute that they compete not only for a market share but also for consumers as well as for technical excellence. Local companies push each other to look outward to foreign markets to get greater efficiency and higher profitability particularly when there are economies of scale.

Apart from above mentioned four broad determinants of a nation, Porter explained the diamond as a system, the role of government, the role of chance and the company agenda to guide the nations to gain and sustain competitive advantage as well. This study is not give emphasis on the company agenda.

The Diamond as a System: The effect of one determinant often depends on the condition of others. Domestic rivalries and geographic concentration change the diamond into a system. Domestic rivalries support the development of four determinants. Geographic concentration

promotes and expands the interaction between determinants. The diamond creates the environment that elevates clusters or networks of competitive industries. Networks encourage technologies, new ideas, research and development approaches, and flow of information.

In conclusion, the relationship between four determinants of Porter's national advantage is when one determinant is significantly stronger and it can facilitate the other determinants to some extent.

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 is in influencing the four determinants to become positive or negative. As an example, he cited that factor conditions are affected through subsidies, policies toward the capital markets, policies toward education, and so forth.

Porter's theory emphasizes that market pressures and resulting innovations can overcome factor costs, so that undervaluation can slow the upgrading of competitive advantage and direct firms to less sustainable, price-sensitive market segments. The outcome is a long-term loss of competitive advantage. Government support that removes the pressures 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.

The Role of Chance: Chance events are significant because they create discontinuities that allow shifts in competitive position. The nation with the most favorable "*diamond*" will be most likely to convert chance events into competitive advantage.

4.2 Literature Review

Jorge Aseff & Morales (1995) found out that the major characteristics for Bolivia are not only border economic relationships, evolution of border trade, people engage in cross border trade, but also the importance of transportation cost.

The authors stated that the development of border towns is marred by two problems that cannot be overcome by incentives for investment and production. First, none of the neighboring countries have a large economic center near the border town. Second is the economic instability. The study also mentioned that border trade could contribute to growth in two major ways. One way is that the advantages of location and some characteristics of border trade could be extended to progressively wider spaces. The advantages of location are related to economies of scale and agglomeration, externalities, and increasing returns. Trade as a flow through border points could generate border economies of scale, especially

the hub and spokes model⁵. Hubbing has the potential to significantly reduce the costs of trade among the countries in the surrounding area. In practice, this concept would require good transportation infrastructure, warehouse services, and a very efficient distribution system.

Their study also found that border trade has the potential to increase production and consumption in regions that are far from the main cities. That means that economic activity will emerge in areas that would have very little economic power otherwise. This new economic activity is a source of stable income. The authors reported that even if the concentration of population at the border areas is low, they may have a good prospect as a transit and distribution center for goods bound for the inland country. That population has the potential to become important suppliers of services. Border trade has been in various ways a forerunner of the current attempts at regional integration. The authors concluded that as the costs of transacting over space fall and the policy-generated walls to international trade disappear, many (but not all) characteristics of border trade will naturally spread to the rest of the economy.

Thailand's Cross Border Economy: A case study of Sa Kaeo and Chiang Rai by Chandoevmit, Chalamwong, & Paitoonpong (2005) presented that the certain degree of direct benefits from border trade is experienced by both trading partners. Thailand has been enjoying a trade surplus with Laos for a number of years because Thailand could largely import high-value manufactured products to Laos and imports primary products from it. The benefits of border trade highly depend on population density on both sides of the border and the types of merchandise traded in the border market. Lao would buy all consumer and non-consumer products necessary for the development while the country could not produce such products itself. They also pointed out that the financial and banking systems are poorly developed in the Lao PDR. The value of the Lao currency is not stable and is unpredictable. The black market exchange rate is different from the official rate by a wide margin. Branches of reliable banks are still few at border towns.

Kudo (2007) reported that border areas in Myanmar are no longer the regions that depend on assistance from the center. In contrast, they are frontiers and conduits that absorb the economic energy of emerging countries, such as Thailand and China at present and India and Bangladesh in future, into a core part of the Myanmar economy.

⁵ The hub and spoke model is a system which makes transportation much more efficient by greatly simplifying a network of routes. It is extensively used in commercial aviation for both passengers and freight, and the model has also been adopted in the technology sector as well. Delta Airlines pioneered the method in 1955, but it wasn't until the 1970s, when the FedEx Company took advantage of the concept, that the method really took hold, revolutionizing the way airlines were run.

The Role of Informal Cross-Border Trade in Myanmar is a study conducted by Aung (2009). In his findings, there are many reasons for engaging in informal trade practices. Some of these reasons are;

- *to avoid the lengthy licensing process*
- *to import products without having earnings from export*
- *to import/export products that are restricted on a temporary or permanent basis*
- *to evade tax*

The author classified the two kinds of trade in the border areas as documented and undocumented trade. His paper presented the role of broker trading companies and also stated the two types of informal players in border areas. The first one is the broker trading companies responsible for documented trade and the latter is smugglers (also called carriers) for undocumented trade. The route used by broker trading companies is called the "*upper channel*" and the route used by the latter is called the "*lower channel*".

This study covered only upper channel/ documented trade and omitted the undocumented trade because of the limitation in data availability.

5. Empirical Results

5.1 Macro-Level Analysis (Porter's Diamond Model)

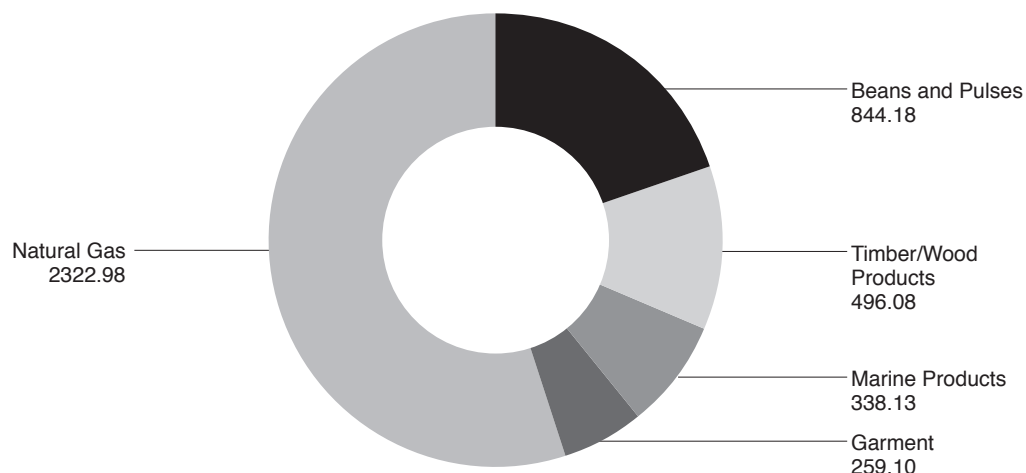
In a competitive advantage of nation's theory, Michael E. Porter (Porter, 1990) explains that a nation's competitiveness depends on the capacity of its industry to innovate and improve. Porter describes the competitive advantage of nation's theory as an example of a diamond. It consists of four extensive 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 3 Myanmar 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.

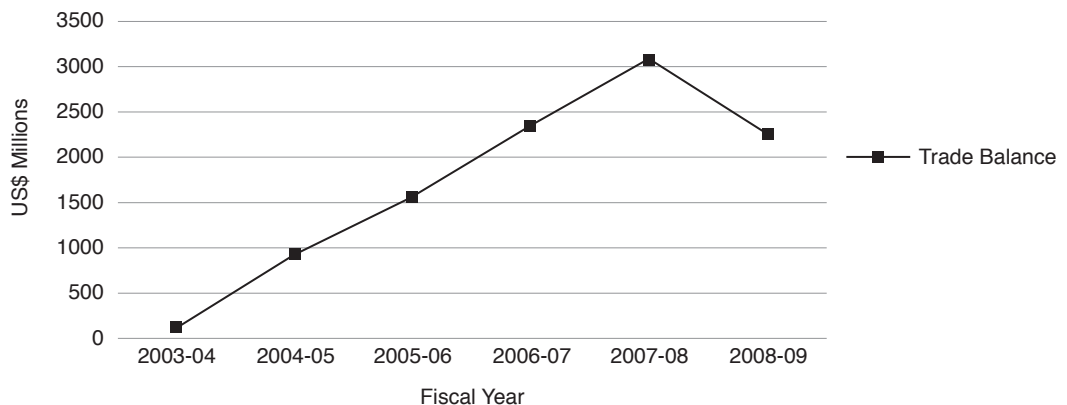
Table 1 Top Import Commodities and Value in 2007-08 (US\$ in millions)

<i>Top 5 Import Commodities of Myanmar</i>	<i>Value</i>
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 4 Myanmar 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 in macro-level, 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 education sector, public health sector, industrial sector and financial 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 (Survey Results)

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. There are no wholesalers, actual trading companies and its owners who are based in Myawaddy.

5.2.1 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, 2008). 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 KNU⁶ 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.

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 Thauung Trade Posts have already opened in early 1996.

5.2.2 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.

⁶ The Karen National Union (KNU) is a political organization with armed wing which operates in eastern Burma along Thailand border.

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.

5.2.3 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.

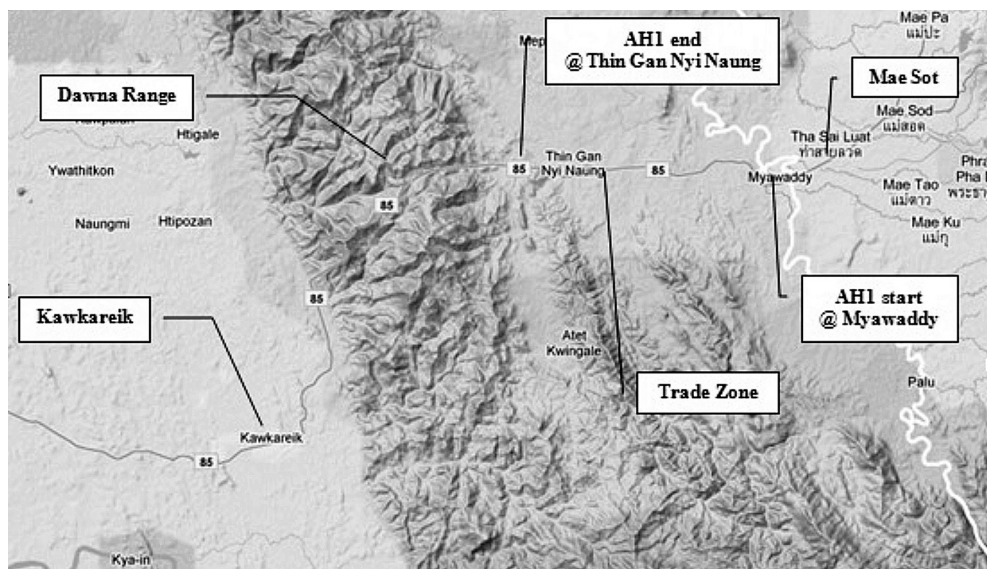
It used to cost about 9000 Kyat (equivalent to 9 US\$) for one passenger to travel from Myawaddy to Yangon, the biggest commercial city of Myanmar. For commodities, it costs 1,500,000 Kyat (equivalent to 1,500 US\$ with an average market exchange rate of 1000 kyat per US dollar) for a full load of a twelve-wheel 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.

Table 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-Kawkaireik	2 lane Bituminous Road	38	4	
Kawkaireik-Yangon	2 lane/6 lane	379	10	
Total		435	Max. 15 hours	

Source: (MEMI, 2007) and author modified

Map 1 The Route Map from Myawaddy to Kawkaireik



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 Kawkaireik. One are covers hilly sections of road which cross the Dawna Range and the other area crosses the plains around Kawkaireik. The highest peak of the Dawna Range is 3700 feet above sea-level and is covered with hillocks and ridges. The hilly road, which can be seen in Map 5.2, 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.

5.3 Analysis and Discussions of the 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.

A. 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).

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.

B. 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 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.

C. 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.

D. 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.

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

From the point of view of factor conditions alone, Myawaddy exists in a significantly strategic location. It also hosts significant players in cross-border trade such as the broker trading companies and transporters as trade facilitators. For the capital, the traders employ their own capital to set up their business and companies without any assistance from the other financial sources like bank loans or government subsidies. As for demand conditions, 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 characteristic of cross-border trade in Myawaddy. An analysis using the Porter Diamond Theory reveals that Myawaddy cross border trade does not have a profound outcome in the Porter Diamond Model.

6. Summary and Conclusion

The most significant characteristics of Myawaddy cross border trade are the involvement of people, the town's geographic location, transportation, warehouses and the Myawaddy Trade Zone. The key characteristics in Myawaddy cross border trade are the broker trading companies and their role. They appointed many staffs to engage in the daily documentation process with government bodies as well as for transportation. The flows of goods are getting faster because of the role of broker trading companies. The character of small and medium-sized individual traders has been contributing to the cross border trade by overcoming a lot of difficulties regarding import restrictions, financial problems, and high taxes which discourage them to participate in border trading. The risk is that they could not be able to compete with the prices of imported goods that enter through the illegal channels.

The benefits of the border trade highly depend on the population density on both sides of the border and the types of merchandise traded in border market. Lao would buy all consumer and non-consumer products necessary for the development while the country could not produce such products itself. They also pointed out that the financial systems are poorly

developed in the Lao PDR. The value of the Lao currency is not stable and unpredictable. The black market exchange rate is different from the official rate by a wide margin. Branches of reliable banks are still few at border towns. (Worawan, Yongyuth and Srawooth, 2005) This situation reflects the cross border trade between Myanmar and Thailand. Myanmar imports consumer/ non-consumer goods and exports primary products only. The value of Myanmar currency is not stable due to the poor financial systems. The black market exchange rate in Myanmar (1USD = 1,000 Kyat) is different from the average official rate of 6 Kyat per one US dollar. Because of the Myanmar bank crisis in 2003, there is no private bank currently in Myawaddy apart from a few government banks.

Border trade could contribute to growth in two major ways which are the advantages of location and some characteristics of border trade could be extended to progressively wider spaces. Trade as a flow through border points could generate border economies of scale, especially hub and spoke model. Hubbing has the potential to reduce significantly the costs of trade among the countries in the surrounding area. This potential to become reality would require a good transportation infrastructure, warehouse services and a very efficient distribution system. (Jorge Aseff & Morales, 1995) Myawaddy cross border trade could take part in the process of growth due to its strategic location. But it is difficult to reduce the costs of trade by this time because of not having good transportation infrastructure and the time limitation of crossing bridges on the way to Yangon. Hubbing should be engaged in Myawaddy to reduce the costs of trade. However the political situation in frontiers is not stable for hubbing the SMEs in Myawaddy.

Even if the concentration of population at the border areas is low, they may have goods prospects as transit and distribution centers for the inland country. That population has the potential to become important suppliers of services. (Jorge Aseff & Morales, 1995) This condition reflects with Myawaddy cross border trade. The Myawaddy population becomes the suppliers of services.

Myawaddy is a very small border town engaging in transit trade. There are no actual trading companies which are conducting buying and selling of goods directly at Myawaddy as a base. Wholesalers distributing to the rest of the country do not exist in Myawaddy.

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