

INDIA-MYANMAR ECONOMIC RELATIONS*

India and Myanmar are close and friendly neighbors. They share a 1600-km. long land boundary, along which four of India's sensitive North-Eastern States are located (Arunachal Pradesh, Nagaland, Manipur and Mizoram). The two countries also share the strategic water of the Bay of Bengal. Throughout history, there has been constant political, economic, trade and cultural interaction between the two countries. During the period, when both countries were under the British Colonial rule, a large Indian population had settled in the then Burma and had developed its trade, financial services and transportation networks. Myanmar's emergence as a major rice power and exporter also owes its origins to Indian settlers.

There close trade and economic links were interrupted when an insular Burmese government instituted, in the nineteen sixties, the twin policies of Burmanisation (making the use of Burmese language compulsory) and nationalization, both of which led to the large scale exodus of professional Indians and the merchant class. Since then, relations between the two countries have been cordial but without much substance.

Myanmar began opening up its economy in the mid-nineteen nineties, when it selectively welcomed foreign investment, particularly in its oil and gas sectors. In 1997, Myanmar became a member of the ASEAN and later of the sub-regional forum, BIMSTEC. However, the promise of economic benefits of such membership was belied, when the Asian economic crisis hit the countries of the region later in 1997. China became the predominant trade partner during this period.

After being initially opposed to the military led Government in Myanmar, India began to shift its policy towards engagement with the regime in the mid-nineties. Trade and economic relations improved and Myanmar emerged as a key supplier of pulses to India. India also began to provide assistance in developing Myanmar's infrastructure and training of its people. However, trade and economic relations have remained at modest levels.

Myanmar is on the threshold of significant change. The main opposition party, the National League for Democracy (NLD), led by the charismatic Aung Sun Suu Kyi, has been restored its legal status and has recently contested in bye elections to over 40 seats in a 600 strong Parliament. The party has won impressively. Though the numbers are small, the presence of the NLD in the Parliament would well presage more significant political reforms. There are also several economic reforms being adopted, the most important being the reform of the currency through unifying of the official and market rates. As these political and economic reforms proceed, Western sanctions against Myanmar will be progressively withdrawn. It will become much easier to do business with a more "normal" Myanmar.

Myanmar is a resource-rich country. It is estimated that it still has unexplored large reserves of both on-shore and off-shore oil and gas. It has significant reserves of minerals, for example, copper and nickel. Since there are still large tracts of arable, but uncultivated land, there are

* This note is prepared by RIS based on inputs provided by the Indian Embassy in Yangon.

opportunities for plantations of palm oil, bamboo and other agricultural crops. And, of course, Myanmar is already well-known for its gems, both rubies and sapphires. As the country opens up, there will be significant new business opportunities, but there would also be many more competitors in the field.

This may be a good time for a coordinated public/private initiative from India to leverage India's advantages in the country and establish a strong economic partnership. This will also reinforce India's security. This would be particularly relevant for developing India's North-East.

TRADE FLOWS

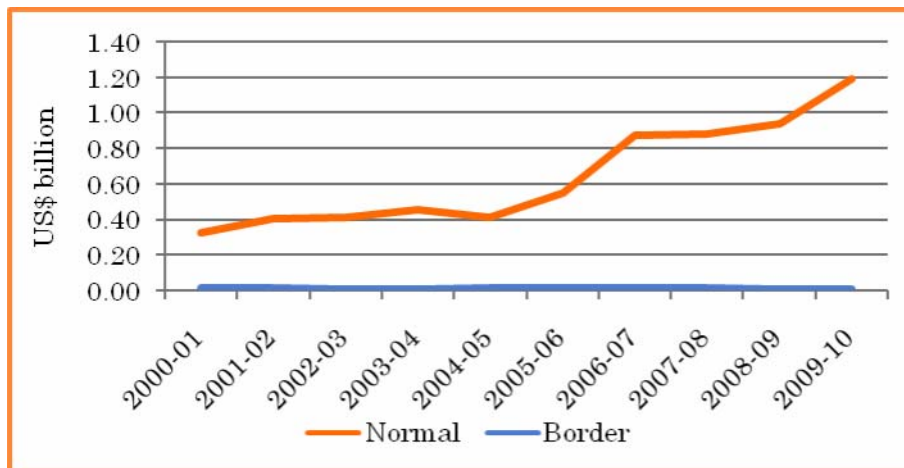
India-Myanmar bilateral trade has grown steadily in the last decade to reach a level of US\$ 1352.1 million in 2010-11, of which India's export to and import from Myanmar were US\$ 334.4 and US\$ 1017.1 million, respectively (Table 1). Myanmar's export to India has been consistently enjoying higher market access, compared to Myanmar's export to neighboring China. Today, 15 percent of Myanmar's total export is directed to India. The balance of trade has always been in favor of Myanmar. India is the 4th largest trade partner of Myanmar (2nd largest export destination and 7th largest import source), next to Thailand, China, and Singapore.

Table 1. India-Myanmar Bilateral Trade

Year	India's Export to Myanmar	India's Import from Myanmar	Total Trade	Trade Balance
	(US\$ million)			
2006-07	140.4	782.7	923.1	-642.2
2007-08	185.8	808.6	994.5	-622.8
2008-09	221.6	929.0	1150.6	-707.3
2009-10	208.0	1289.8	1497.8	-1081.8
2010-11	334.4	1017.7	1352.1	-683.3

Source: Export Import Data Bank, Government of India

India's imports from Myanmar are dominated by agricultural and forest products. Myanmar is the second largest supplier of beans and pulses to India, next only to Canada, accounting for one third of India's total requirements of imported pulses. Myanmar contributes to nearly 1/5th of India's imports of timber, second only to Malaysia. India's exports to Myanmar are diverse, ranging from primary commodities to manufactured products. Primary and semi-finished steel along with steel bars and rods constitute over one third of India's exports to this country. Pharmaceutical is the next most important item. Indian companies have the largest share in Myanmar's pharmaceutical market. Over a dozen Indian pharmaceutical companies like Sun, Ranbaxy, Zydus Cadila, Dr Reddy, Lupin, Cipla, etc. are doing business in Myanmar. The other products exported to Myanmar are iron and steel, electrical machinery, mineral oil, rubber and articles, plastics, etc. Export of chemicals, plant and machinery and consumer goods, although small, shows potential for growth. However, the actual trade between India and Myanmar is difficult to quantify due to trade via third country (for example, Singapore) and inadequate availability of trade data. Unofficial (informal) trade, particularly at the land border, has always been very high.

Figure 1. India – Myanmar Trade

Source: RIS

BORDER TRADE

Two geographically adjacent countries are yet to actively engage their land borders for international trade and commerce. Trade at land border has been negligible, compared to their global trade (Figure 1). Although trade in traditional goods on head load basis has been the customary practice since a long time, the Border Trade Agreement signed in 1994 gave it a legal framework. The Moreh Land Custom Station (LCS) in Manipur (Tamu in Myanmar) was operationalized in April 1995. Under the 1994 India-Myanmar Border Trade Agreement, a second border trade point at Champai LCS in the Mizoram (Rhi in Myanmar) sector was opened in 2004. A third border trade point is proposed to be opened at Avakhung-Pansat/Somrai. India and Myanmar have agreed to upgrade the status of border trade to normal trade and have expanded the tradable items from 18 to 40 since 2008. Major items imported by Myanmar traders from the Indian side are cotton yarn, auto parts, soya bean meal and pharmaceuticals, betel nut, dried ginger, green mung beans, black matpe beans, turmeric roots, resin and medicinal herbs are the main items sold by Myanmar to India. According to the Myanmar Department of Border Trade, the border trade turnover between India and Myanmar has ranged from US\$ 10 to US\$ 22 million, which would be higher if informal trade is taken into account. Secondary reports show the presence of smuggling of items like fertilizers, vehicles particularly two wheelers etc. from India to Myanmar through land border. To strengthen the border infrastructure, India's Integrated Check-Post (ICP) project at Moreh with an investment of Rs. 136 crores is being implemented.

FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) in Myanmar is likely to pick-up pace once the economic sanction is removed. At present, China is the biggest investor in Myanmar (US\$ 9.6 billion), followed by Thailand (US\$ 9.5 billion), Hong Kong (US\$ 5.9 billion), Korea (US\$ 2.9 billion), and Singapore (US\$ 1.5 billion). India is the 13th largest investor with an FDI estimated at US\$ 189 million in five projects, which include three proposals from Indian public sector oil companies

worth US\$ 137 million, which have been approved by the Myanmar Investment Commission. In addition, Essar Oil has reported investments in oil exploration. Also, OVL and GAIL announced US\$ 1.33 billion investment in China-Myanmar gas pipeline project in 2010. To facilitate trade and investment, India and Myanmar have signed and ratified Bilateral Investment Promotion and Protection Agreement (BIPA) and Double Taxation Avoidance Agreement (DTAA).

INDIAN COMPANIES IN MYANMAR

In recent years, Indian private sector companies have shown considerable interest in Myanmar. Sectors that have attracted maximum attention of these companies include hotels and tourism, plantation, cement, paper mills, agricultural machinery, pharmaceuticals, automobiles and processing industries, electrical goods, iron and steel and IT-related products and services, etc. Jubilant Energy has won the contract for the onshore block PSC-I in 2011. In addition, companies like Punj Lloyd, L&T, Apollo Hospitals, Tata Motors, Essar, NHPC, VNL, Jindal Steel, Nipha Exports etc. are also active in Myanmar.

GOVERNMENT OF INDIA PROJECTS

The Government of India is actively involved in over a dozen projects in Myanmar. These include up-gradation and resurfacing of the 160 km. long Tamu-Kalewa-Kalemyo road; construction and up-gradation of the Rhi-Tiddim Road in Myanmar; the Kaladan Multimodal Transport Project; etc. An ADSL project for high speed data link in 32 Myanmar cities has been completed by TCIL. OVL, GAIL and ESSAR are engaged in the energy sector in Myanmar. RITES is involved in the development of rail transportation system and in supply of railway coaches, locos and parts. In September 2008, Ministry of Electric Power-1 (MoEP-1) and NHPC signed an agreement for development of the Tamanthi and Shwezaye Hydro-Electric Power project in Chindwin River valley. A heavy turbo-truck assembly plant set up in Myanmar by TATA Motors with Government of India financial assistance was inaugurated on December 31, 2010. An India-Myanmar Industrial Training Centre has been set up by HMT(I) in Myanmar with the assistance of Government of India, while the Myanmar-India Centre for English Language (MICELT), a Myanmar-India Entrepreneurship Development Centre (MIEDC) and an India-Myanmar Centre for Enhancement of IT Skills (IMCEITS) are all operational. Another ITC will soon be set up in Myingyan. Other projects include revamp of the Ananda Temple in Bagan, up-gradation of the Yangon Children's Hospital and Sittwe General Hospital, erection of disaster proof rice silos etc. India has also assisted in the reconstruction of 1 high school and 6 primary schools in Tarlay township, the area worst affected by the severe earthquake that struck north-eastern Myanmar in March 2011.

CHALLENGES

The recent developments in Myanmar have evoked great interest amongst the international community. India being Myanmar's one of the closest neighbors should engage in the reconstruction of Myanmar economy. In particular, we should identify investment

opportunities in Myanmar and facilitate bilateral and regional cooperation in the areas of trade, investment, energy and connectivity. However, challenges are plenty, and some of them are listed below.

First, the US sanctions on Myanmar prohibits the trade transaction in major international currencies. Once the economic sanction is removed, India-Myanmar trade and investment is likely to go-up.

Second, volatile Myanmar currency Kyat, which was until recently controlled through official exchange rate. Myanmar government has made good progress toward simplifying its government controlled foreign exchange regime. For over three and a half decades, the kyat was pegged to IMF's special drawing rights at 6.4 kyat (about R7.49) a dollar, a rate only available to state-owned companies and about 125 times stronger than the black-market rate of 800 to 820 kyat used for most transactions. A new reference rate, set at 818 per dollar on 2 April 2012, is the first phase of a plan to gradually unify rates used by private enterprises and create a market rate, thus simplifying foreign trade and investment.

Third, banking infrastructure needs drastic improvement. Only one Indian bank, United Bank of India (UBI), is presently involved with India-Myanmar trade. UBI, which has been operating a branch at Moreh, has received RBI approval to open a branch in Yangon. More Indian banks are needed to facilitate Indian investment and trade.

Fourth, border infrastructure has to be upgraded to international standard, particularly at Moreh-Tamu or Champai-Rhi so that both countries commence MFN trade at border. Completion of Trilateral Highway would facilitate overland trade flows.

Fifth, ports and shipping links between India and Myanmar are very weak at present. Some Indian shipping companies (e.g. Oriental, Gati, Transworld) stopped their liner services due to lack of adequate passenger / freight. Dedicated feeder services between India and Myanmar will improve the sea connectivity, strengthen trade flows and raise the government revenue.

Sixth, trade between India and Myanmar is conducted based on Switch Bill of Lading System (based in Singapore). Once the economic sanction is removed, trade between India and Myanmar will move from Switch Bill of Lading System to normal Bill of Lading System. This would allow vessels to move directly from Indian coasts to Myanmar ports.
