CPD Working Paper 109

Recent Developments in Myanmar and New Opportunities for Sub-Regional Cooperation

A Bangladesh Perspective

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Mashfique Ibne Akbar

CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

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The present paper titled **Recent Developments in Myanmar and New Opportunities for Sub-Regional Cooperation: A Bangladesh Perspective** has been prepared by *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD <debapriya.bh@gmail.com> and *Mr Mashfique Ibne Akbar*, Senior Research Associate, CPD <mashfique@cpd.org.bd>

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Abstract

The current paper analyses the potential opportunities between Bangladesh and Myanmar stemming from sub-regional cooperation. With the election of a new quasi-civilian government in 2011, doors have opened for the international community to make the most of Myanmar's untapped resources. The paper examines Myanmar's integration into the regional and global economy together with modalities and trends of Bangladesh-Myanmar relations. Opportunities and challenges have been discussed in the areas of trade, investment (together with business set up at special economic zones), agricultural cooperation (with contract farming prospects), energy collaboration, transport connectivity and the role of political and non-state actors. The Asian giants, China and India, have vested interests in Bangladesh-Myanmar cooperation, as the latter can serve as a bridge between South and Southeast Asia. Hence, Bangladesh and Myanmar should earnestly consider their sub-regional association, allowing them to progress together and consequently, further.

Contents

List of Tables and Map

Acronyms

ACU	Asian Clearing Union
ADB	Asian Development Bank
ALTID	Asian Land Transport Infrastructure Development
ASEAN	Association of Southeast Asian Nations
BCIM	Bangladesh, China, India and Myanmar (Forum)
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BMCCI	Bangladesh-Myanmar Chamber of Commerce and Industry
CPD	Centre for Policy Dialogue
CPI	Consumer Price Index
DOTS	Direction of Trade Statistics (Database)
EPB	Export Promotion Bureau (Bangladesh)
EPZ	Export Processing Zone
EU	European Union
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
K2K	Kolkata to Kunming
L/C	Letter of Credit
MT	Metric Ton
MW	Megawatt
MoU	Memorandum of Understanding
NGO	Non-Government Organisation
ODA	Official Development Assistance
PPP	Purchasing Power Parity
PPP	Public-Private Partnership
RSCCI	Rakhine State Chamber of Commerce and Industry (Myanmar)
SAARC	South Asian Association for Regional Cooperation
SEZ	Special Economic Zone
SOP	Standard Operating Procedures
TAR	Trans-Asian Railway (Project)
UK	United Kingdom
UMCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
US	United States
USD	United States Dollar

1. BACKDROP

In recent times, significant changes have taken place in the Republic of the Union of Myanmar (previously called Burma). Myanmar remained under military rule from its independence in 1948 (though it should be mentioned that the 1962 coup d'état marked the concrete emergence of socialist rule and political dominance of the army in Myanmar) until March 2011, when the country witnessed the emergence of a quasi-civilian elected government. Since 2011, Myanmar has embarked on reforms of anti-corruption laws, currency exchange rates, foreign investment laws and taxation. A large inflow of capital and foreign investment resulted in stronger valuation of the Kyat, country's national currency. In response, the government relaxed import restrictions and abolished export taxes. It should be noted that Myanmar's financial system remains one of the most rudimentary in Asia where most transactions are carried out in cash. Credit cards and the like are still an alien concept to citizens, while mobile phones can be afforded only by the affluent classes.

Sixty years of misguided policies have moved Myanmar from being the Southeast Asian country with the brightest economic prospects at the end of World War II, to ranking among the lowest in the world, by almost all socio-economic indicators today. Economic sanctions that were imposed on Myanmar by the United States (US) and countries of the European Union (EU) had ambiguous outcomes. Asian countries, most notably China, India and Thailand, have stepped into the vacuum created by Western counterparts by entering into trade agreements with Myanmar through a variety of bilateral and regional arrangements (Asia Society 2010b).

Myanmar borders five countries and is endowed with rich natural resources – arable land, forests, minerals, oil and gas, freshwater and marine resources. Length of Myanmar's border with China is 2,185 kilometres, that with Thailand is 1,800 kilometres, with India 1,643 kilometres, with Laos 238 kilometres, and with Bangladesh 193 kilometres. Its geo-strategic location has allowed Myanmar to become part of six regional and sub-regional groupings, including the Association of Southeast Asian Nations (ASEAN), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and Bangladesh, China, India, and Myanmar (BCIM) Forum for regional economic cooperation. Additionally, some SAARC (South Asian Association for Regional Cooperation) countries and Myanmar are members of the Mekong-Ganga Cooperation. These groupings provide appropriate platforms for member countries to interact with each other.

Given its factor endowments, the BCIM sub-region poises to be unique as regards availability and management of resources. Two of the most important concepts in contemporary international relations are regionalism and sub-regionalism. "The enduring pursuit of regionalism and sub-regionalism has an underpinning thrust on peace, security and development through exploration, identification and gradual intensification of trade, economic and cultural ties" between countries (Singh n.d.). The Kunming Initiative, or what has come to be known as the BCIM Forum (a Track II initiative), came into effect more than a decade back in August 1999 during the Conference on Regional Cooperation and Development among China, India, Myanmar and Bangladesh held in Kunming, China. It remains "one such sub-regional venture that explores the prospects of cooperation by clustering parts or the whole of Bangladesh, China, India and Myanmar, specifically the land-locked frontier areas" (Singh n.d.).

The BCIM sub-region is one of the richest sub-regions in the world in terms of natural, mineral and other resources (Rahman *et al*. 2007).[1] It covers a total area of nearly 14 million square kilometres, or 9 per cent of the world's surface area. The concept of the BCIM sub-region draws inspiration from the idea of 'growth zones', a relatively new introduction to the vocabulary of development economics. The

[1]Major growth zones in the Asian region are the Southern China Growth Triangle, Southern Growth Triangle, Greater Mekong Sub-region and South Asia Growth Quadrangle.

sub-region is estimated to account for 5 per cent of global trade, with a record low of 4 per cent intra-regional trade. The potential of BCIM intra-regional trade has been estimated to be USD 125 billion, with 60 per cent yet to be realised (De 2011). The political aspects relating to economic integration in the BCIM sub-region are: (i) market access in Myanmar; (ii) investment opportunity; (iii) connectivity problems; (iv) contract farming; and (v) energy cooperation.

Given the unprecedented winds of change shaping Myanmar's political discourse, there is ample scope for improving upon the economic cooperation status quo in the BCIM sub-region. The recent bidding war between the giants China and India for Myanmar's Shwe Gas and Pipeline project[2] demonstrates the country's regional importance (Tea 2010). China eventually won the bidding process with the Myanmar government netting USD 29 billion (Arakan Rivers Network n.d.). "From an Indian perspective, Myanmar is an open door to South Asia and Southeast Asia. From a Chinese perspective, Myanmar presents an untapped market, alternative routes for natural resources, and stronger influence in the region" (Tea 2010: 16). Furthermore, Myanmar was awarded the 2014 ASEAN Chair amidst objections of critics including the US, after being accepted as a member of ASEAN in the same year. This came as a response to the political and legal reforms in the country, the initiation of which came about with the democratic government taking power. The country was given this rotational opportunity after being passed over in 2006 due to issues pertaining to the then military-backed government, specifically international pressure over democratic reforms. Myanmar's emergence in the Asian region is evident and it has the potential for serious repercussions on BCIM sub-regional cooperation.

1.1 Objective and Methodology

This paper hopes to contribute first-hand knowledge on sub-regional cooperation by focusing on Bangladesh and Myanmar. Our point of departure rests on the key assumption that Bangladesh and Myanmar are natural allies because they are both at the confluence of two giant economies, China and India. In addition, Bangladesh and Myanmar constitute the bridge that connects countries of the South and Southeast Asian regions. This is one of the first papers to deploy a rigorous analysis of Bangladesh and Myanmar in the BCIM sub-region. The study identifies potential opportunities for cooperation and 'Pareto improvement' to develop upon the prevailing economic integration status quo in terms of their economic relations.

This paper is based on primary and secondary sources of information. Interviews were held with people who have extensive knowledge on the subject of sub-regional cooperation. Mr Karar Mahmud Hasan, Honorary Advisor, Bangladesh-Myanmar Chamber of Commerce and Industry (BMCCI) and Dr M Rahmatullah, Distinguished Fellow, Centre for Policy Dialogue (CPD) were consulted by the authors in order to inform the understanding of the potential for Bangladesh-Myanmar cooperation in view of Indo-Sino dominance in both countries. Although regional cooperation is a well-researched subject, the promotion of Bangladesh-Myanmar relations in view of their potential as natural partners has yet to draw the attention of the academic world. There is, nevertheless, a large volume of literature dealing with regional cooperation in Asia with a focus on the BCIM sub-region (see, for example, Kalam (2001), Sobhan (2000) and Rahman *et al*. (2007)). Relevant literature dealing with economic cooperation in South Asia was reviewed from the perspective of both Bangladesh and Myanmar, taking into consideration the Indo-Sino dimension, to better understand the rationale for their cooperation.

1.2 Organisation

Following this introduction, the next section discusses Myanmar's economic performance and assesses its role in the South and Southeast Asian regions, particularly with a focus on the BCIM sub-

[2]The Shwe Gas Project is the largest extractive project in Myanmar.

region. Section 3 identifies areas of bilateral cooperation between Bangladesh and Myanmar. This section underlines the rationale for why and where Bangladesh and Myanmar could cooperate. In assuming the neighbours are natural allies, we *ab initio* examine possible opportunities for promoting Bangladesh-Myanmar economic relations in the areas of trade, investment, agriculture and energy. Section 4 presents a forward-looking strategy to advance shared interests in the BCIM sub-region based on theoretical analysis and empirical evidence, from the Bangladesh and Myanmar perspectives. Section 5 summarises the discussion and concludes.

2. INTEGRATION OF MYANMAR IN REGIONAL AND GLOBAL ECONOMY

2.1 State of the Myanmar Economy

Myanmar is richly endowed with natural resources including oil and gas, yet the country is still considered to be one of the poorest constituencies in the world. The basic salient economic indicators of the country are presented in Table 1. The country's economy grew by a modest rate of 5.3 per cent in FY2009-10, edging up to 5.5 per cent in FY2010-11 (ADB 2012). After posting 6.3 per cent gross domestic product (GDP) growth in FY2011-12, the Myanmar government forecasted that GDP will continue to grow in the foreseeable future supported by "higher levels of investment propelled by improved business confidence" (ADB 2012). Myanmar's economy has been historically agro-based with agriculture contributing 50 per cent of GDP, followed by the services industry contributing 34 per cent (Rahman *et al*. 2007).

Table 1: Basic Economic Indicators of Myanmar

Indicator	1995	2000	2005	2010	2013
GDP (current USD, billion)	5.5	10.3	13.8	49.6	59.4*
GDP per capita (current USD)	122.6	205.0	249.7	811.1*	914.9*
GDP per capita (based on PPP, current USD)	314.8	530.3	991.5	1435.1*	1710.8*
Population (persons in millions)	44.7	50.1	55.4	61.2*	65.0*
Unemployment rate (% of total labour force)	n/a	4.0	4.0	4.0*	4.0*
Gross national savings (% of GDP)	11.6	11.9	11.5	23.1	19.0*
Total investment (% of GDP)	14.3	12.4	13.2	16.0	23.3*

Source: IMF (2013).
Note: PPP: Purchasing Power Parity; * indicates forecasted and not realised data.

Myanmar's annual GDP is currently hovering around USD 60 billion.[3] Notably, GDP per capita (current USD) has increased approximately 104 per cent between 1995 and 2005, and it is expected to grow in the range of 267 per cent from 2005 to 2013 (2013 figure is forecast). Notwithstanding the impressive GDP growth performance, the unemployment rate has been unresponsive to ongoing changes in the economy and was stagnant throughout the past decade. Other indicators such as gross national savings and total investment as a percentage of GDP have seen overall increasing trends from 1995 to 2013. Riding on the high hopes of the international community, Myanmar is experiencing growth that is contributed especially by the manufacturing, processing and construction sectors of the economy (ADB 2012). Other factors driving the Myanmar growth include tourism and export orientation. Furthermore, considerable investment has been made in the power, gas and oil sectors.

Myanmar's key trading partners include China, Singapore, Japan, Thailand, Malaysia, Indonesia and India. Myanmar has bilateral trade agreements with South Korea, China, Thailand, Bangladesh, India,

[3]This is a tentative forecast by the International Monetary Fund (IMF).

Table 2: External Sector Indicators of Myanmar

Indicator	1995	2000	2005	2010	2012
CPI[a]	n/a	151.7	450.8	155.7	165.9
CPI (% change)[a]	n/a	-0.2	9.4	7.7	1.5
Remittances (current USD, million)[b]	81.0	102.0	129.0	115.0	566.0
Remittances (% of GDP)[b]	1.1	1.4	1.1	0.3	1.0
FDI (current USD, million)[c]	279.9	258.3	234.9	901.1	2243.0
FDI (% of GDP)[b]	4.1	2.9	2.0	3.0	3.9
ODA (current USD, million)[c]	150.2	105.6	144.8	355.1	376.1[#]
Exports (current USD, million)[c]	1309.6	2144.7	3838.1	7851.5	8566.0[#]
Exports (% of GDP)[c]	0.8	0.5	0.2	0.1	n/a
Imports (current USD, million)[c]	2124.2	2626.8	3428.5	6516.0	10378.9[#]
Imports (% of GDP)[c]	1.7	0.6	0.1	0.9	n/a
Balance of payments, net current account (current USD, million)[b]	-258.0	-210.0	582.0	1574.0	-2232.0[*]
Balance of payments, net current account (per cent of GDP)[b]	-3.4	-2.9	4.9	3.7	-3.9[*]

Source: Compiled from various sources.
Note: a: ADB (2013); b: UNCTAD (2013); c: World Bank (2014); #: 2011 data (where more updated data is not available); *: Estimation.
Consumer Price Index (CPI) represents an index relating to food (base year 2006 = 100).
Exports represents export of goods, services and primary income.
Imports represents import of goods and services and other market services received from the rest of the world.

Pakistan, Vietnam, Laos, Philippines, Malaysia, Sri Lanka and Israel. Myanmar also has border trade agreements with its neighbouring countries. In particular, Bangladesh and Myanmar have about 10 bilateral trade agreements including land boundary management and trade and transport. The border trade agreement is the only trade agreement which is in motion.

Table 2 details the external sector performance of Myanmar economy. Foreign direct investment (FDI) decreased between 1995 and 2005, but picked up significantly throughout the end of the decade, reaching an annual net FDI inflow of USD 2,243 million in 2012. This figure demonstrates the level of confidence that the quasi-civilian government has been able to instil among international investors. The overall trend of FDI as a percentage of GDP has been rather steady over the past couple of decades. FDI as a percentage of GDP was as low as 3 per cent in 2010, but the figure increased by 0.9 per cent in 2012, which is still lower than the 4.1 per cent of GDP posted in 1995. Hence, it is the case that FDI as a percentage of GDP stagnated over the past decades, although absolute FDI figures increased by considerable margins. Net official development assistance (ODA) remained, more or less, at the same level in 1995 and 2005 while decreasing in 2000. One of the major reasons for the stagnation of ODA could be Myanmar's past lack of progress toward political reform, coupled with ambiguous economic policies and consumer boycotts. The country was regarded as highly risky for investment purposes and arrears on previous loans had put it in the bad books of various donors, such as the Asian Development Bank (ADB), World Bank alongside a number of national governments. However, ODA more than doubled between 2005 and 2011, promising an increasing trend in upcoming years.

Although remittances increased in terms of value over the past decades, remittance flow as a share of GDP decreased between 2000 and 2010. This declining trend likely posited a grave concern for the Myanmar government because remittances are a vital source of foreign exchange earnings. However, a marked change was observed in 2012 with a USD 566 million remittance inflow, representing 1 per cent of GDP. What remains to be seen is whether this upward trend will be sustained in the coming years or the remittance drift proves to be a one-off affair.

Myanmar's exports and imports have been asymmetrical over the past decades. It was only from the decade of 1990-2000 that the economy witnessed a consistent positive export growth at a rate of 14.4 per cent and a growth rate of 17.3 per cent in the decade thereafter. The export growth of Myanmar was booming during the first half of the last decade. This was attributed to the earnings from natural gas exports. High oil prices caused Myanmar's gas exports to Thailand in 2006 to increase by 39 per cent (comparing with the same period in the previous year) amounting to USD 1.9 billion. It must be borne in mind that Myanmar only became a democratic regime in 2011, and trade asymmetries can likely be explained by decades of isolation from the international community. Myanmar's overall export growth over past decades has been displaying a volatile trend, which deserves due attention. While exports has increased in absolute terms over the past couple of decades, as a percentage of GDP it has been following a declining trend, and has considerably slowed down in recent times.

Similarly, import growth also experienced positive and negative growths interchangeably in the previous decades. The imports of Myanmar display significant growth of 22.6 per cent in the decade of 1990-2000, and 7.6 per cent in the last decade covering 2000-2010. Myanmar's imports picked up significantly in the first half of the first decade of the twenty-first century as a result of the relaxed import controls in the 2000s. A notable observation about imports is that their level surpassed the level of exports until 2000, but there was a reversal of this trend after 2000. This is also indicated by the current account deficits of 1995 and 2000 and the current account surplus of 2005. However, 2011 data show a massive increase in imports, possibly because imports responded at a faster rate than exports to the opening up of the Myanmar economy. Imports as a percentage of GDP, however, have been following a sluggish pattern, which is a somewhat positive indicator for the economy from a growth perspective, but not from an industrial development view point.

It is important to consider Myanmar's decade-wise real GDP growth and average GDP growth per capita. The statistics are presented in Table 3. It can be inferred that the economy operated at low levels of efficiency during the 1981-1990 decade. The decades that followed saw higher levels of prosperity, evident from the higher echelon reached by the GDP figure in the latter decades at 7.1 per cent and 12.1 per cent. Similarly, GDP growth per capita was on average negative in the 1980s, but recovered in the following decades. In terms of the latest available statistics, it is the case that both the growth rates of GDP and GDP per capita have suffered in 2012 in comparison to 2011.

Myanmar maintained a multiple exchange rate system alongside an erratic parallel market until 2012, at the juncture when the incumbent government abolished the fixed regime and adopted a managed floating exchange rate. The variations on the parallel exchange rate market were so extreme that the market was considered as the most volatile in all of Southeast Asia (Kubo 2013a). The latest of the

Table 3: Myanmar's Real GDP Growth Rate and Real GDP Growth Per Capita

Period	Average GDP Growth Rate (%)	Average GDP Growth Rate Per Capita (%)
1971-1980	4.2	1.8
1981-1990	1.4	-0.4
1991-2000	7.1	5.7
2001-2010	12.1	11.3
2011	5.5	4.6
2012	5.0	4.2

Source: UNCTAD (2013).

reforms adopted by the quasi-civilian government is the floating exchange rate mechanism. This is one of the most crucial reforms in the current context because the liberalisation of the exchange rate will have trickle-down effects on many aspects of the economy. An important fundamental implication is that the economy would now be able to cushion itself against the impact of high amounts of foreign aid and investment, which can lead to high inflation. The exchange rate is now determined by market actions, with the central bank faced with the challenge of establishing institutions for a formal foreign exchange market and the inclusion of informal foreign exchange activities into the formal one. The *raison d'être* of the reform is to unify the various exchange rates that previously existed in the economy. Elimination of restrictions on international payments and transfers is another significant motive for the adoption of the reform. In April 2014, the official exchange rate of Kyats to the United States Dollar (USD) was around 947 Kyat to USD 1; the previous official exchange rate was a far cry at 8.5 Kyat to USD 1.[4] The floating exchange rate mechanism should minimise the long-running gap between the official rate and its black market counterpart. However, Kubo (2013b) finds that, since the implementation of the floating exchange rate mechanism in April 2012, Myanmar's official exchange rate has been following the "parallel rate rather than guiding it," denoting that the transmission channel is weak and is yet to gain momentum.

One of the options available to facilitate economic development is the establishment of an independent central bank, one that is insulated from politics and consolidates the financial market. An independent central bank could improve the financial viability of the Myanmar government, which would then be better able to provide essential funds for economic development initiatives such as new infrastructure that facilitates the production of non-gas exports. A financially sound government would also be able to competently manage other sectors of the economy such as proper funding of military organisations. Furthermore, it is to be noted that there is colossal statistical discrepancy in the case of Myanmar.

Two-thirds of Myanmar's population is employed primarily in agriculture, and low productivity of the sector translates into food insecurity and heightened levels of poverty (MSU and MDRI/CESD 2013). Given that about one-quarter of the population fell below the national poverty line in 2013, national rice self-sufficiency has not been able to ensure food security for the majority of households. The Myanmar government needs to urgently undertake comprehensive agricultural reform to secure the livelihoods of the country's many farmers and labourers. Steps have been taken to liberalise agriculture, and most production controls and mandatory procurements have ended. It is encouraging that some state-owned economic enterprises involved in processing and supplying inputs for agriculture have been privatised. However, such efforts have so far been modest in nature and additional reforms are needed for further liberalisation of the agricultural sector, such as the expansion of bank lending facilities directed toward the sector and reforms relating to restructuring state-owned enterprises (Rieffel and Gilpin 2010). Indeed, reforming Myanmar's state-owned enterprises could help the government realise its GDP growth target of 12 per cent in its current five-year plan. State-owned enterprises have to date garnered low profits, and have been plagued by inefficiency, poor management, rent-seeking activities and corruption.

2.2 Myanmar in Global Perspective

With Myanmar's economy primarily agro-based with agriculture contributing about half of the GDP followed by services, it has been argued that the country's economy is structurally flawed. Moreover, internal economic disparities are pronounced. Myanmar's exports consist mainly of natural gas, followed by pulse, teak and garments. Principal imports comprises mainly of non-electrical machinery, refined petroleum and base metals. The country was not directly hit by the global financial crisis, given

[4]According to http://www.oanda.com/currency/converter (accessed on 25 April 2014).

its lack of trade and financial linkages with advanced industrial countries. Still, exports and private consumption were reduced by the combined effect of economic slowdowns in neighbouring economies, a collapse in commodity prices, and the impact of Cyclone Nargis in 2008. Private consumption was further subdued by a decline in inward remittances. Inflows of FDI into the energy sector helped to lift international reserves from about USD 4 billion in FY2007-08 to USD 5 billion at the end of FY2008-09, equivalent to eight months of imports (ADB 2011).

Following Myanmar's commendable growth performance in the 2000s during which it achieved an average GDP growth rate of 12.1 per cent, growth is stabilising at around 5 per cent in 2012 (UNCTAD 2013). Growth could accelerate again, however, if domestic investment, privatisation, construction and services pick up in the context of potential economic integration. Recent political and economic reforms have increased the economy's appearance and attractiveness to the global community. Myanmar's exports, imports and FDI as a percentage of world totals are presented in Table 4. Myanmar's exports as a percentage of world exports have increased since 1995, but have been stagnating in the recent past. Imports and FDI as shares of global totals show no overall trends but indicate positive growth patterns in the recent past. Imports as a share of world decreased from 1995 to 2005, but increased thereafter. Notably, FDI has increased starkly year after year from 2010 to 2012. The current level of FDI coming into Myanmar is one of the highest levels the country has ever seen, not only in the recent past but distant past as well. Reforms since 2011 have likely to contribute in all three cases.

Table 4: Myanmar's Shares in Global Totals

Year	Share of World Exports (%)	Share of World Imports (%)	Share of World FDI (%)
1995	0.02	0.04	0.09
2000	0.03	0.03	0.01
2005	0.04	0.02	0.02
2010	0.05	0.03	0.09
2011	0.05	0.04	0.13
2012	0.04	0.05	0.17

Source: UNCTAD (2013).
Note: Exports and imports of goods were taken into consideration; services were not included.

Reforms certainly opened doors for foreign investors in Myanmar and will likely continue to enhance scope for economic integration. The new Foreign Investment Law, which is more liberal, was introduced and made official in November 2012. The new investment laws have been pending since late 2011 as a result of disagreements between reformers and conservatives. The renewed laws are expected to supersede the restrictive and outdated 1988 investment code together with discretion of the rights and duties of foreign investors. Developments as regards the Foreign Investment Law comprise publication of the Foreign Investment Rules and Classification of Types of Economic Activities Notification on January 2013. Newly approved foreign investment projects were valued at approximately USD 20 billion in 2010-11, with the majority of the allocation in oil, gas and power-related projects (EIU 2011; 2012). The following fiscal, FY2012-13, witnessed investments from a range of countries including Singapore, United Kingdom (UK), Thailand and South Korea in the transport, tourism and manufacturing sectors. More recent statistics show that FY2013-14[5] generated USD 4.1 billion of FDI, indicating a growth of nearly three times as compared to the previous fiscal of FY2012-13 (USD 1.42 billion) (Myint 2014). But the approval of so many new projects has not been widely accepted. Local entrepreneurs have expressed apprehension that major foreign investors will impose very competitive conditions on them.

[5]Myanmar's fiscal year ends in March (and correspondingly begins in April).

The government has announced more market-oriented economic policies, including the removal of the remaining restrictions on private enterprise, to showcase its commitment toward consolidating a market-based economy in order to accelerate economic growth and social development.

Whether political change will stimulate economic reform or vice versa is uncertain. Nevertheless, the April 2012 parliamentary by-elections in Myanmar is signalling the beginning of a new era in the South and Southeast Asian regions. The US' articulation of a new foreign policy toward Myanmar advocating 'pragmatic engagement' demonstrates the renewed interest of the international community in the country and its environs (Asia Society 2010a). After 50 years of autocratic rule, Myanmar has heralded a new style of political leadership by emitting strong signals, which, in turn, is resetting a distinctive stage for regional and sub-regional cooperation. In terms of the latter, the BCIM Forum is one of the arenas where Myanmar's new leadership is going to be tested.

2.3 Myanmar and the BCI (Bangladesh, China and India)

Table 5 quantifies Myanmar's performance in the BCIM growth zone, specifically the country's trade with Bangladesh, China and India (BCI) since 1990. Myanmar's overall export trend has been on an increase over the last decade while exports to BCI increased by almost seven-fold between 2000 and 2010. The comparison between 2010 and 2012 is fascinating. Myanmar's exports to BCI experienced a growth rate of 24.9 per cent during this period, while overall exports to the world increased by 28.12 per cent. While exports from Myanmar to BCI increased doubly compared to overall exports over the last decade, the trend slowed down in the 2010-2012 period. From Myanmar's perspective, intra-BCIM trade, although increasing in absolute terms, has been pursuing a lower growth rate than world exports.

As Myanmar's exports to BCI rose, imports from the BCI block also increased. The growth in imports has been mainly driven by substantial increases in the amounts of imports from China, with imports from Bangladesh remaining relatively small. Imports from India also increased, but import figures as compared to China was a far cry (Myanmar's imports from India in 2012 was USD 586.7 million and from China was USD 6,242.5 million). The growth of Myanmar's imports from the world increased

Table 5: Myanmar's Trade with BCI

Country	Myanmar Exports (Current USD, Million)						Myanmar Imports (Current USD, Million)					
	1990	1995	2000	2005	2010	2012	1990	1995	2000	2005	2010	2012
Bangladesh	0.6	4.2	20.0	29.3	90.6	67.8	1.0	2.1	0.8	1.7	4.1	9.0
China	33.3	136.0	113.5	249.5	873.6	1181.2	137.7	679.6	546.0	1028.4	3828.8	6242.5
India	44.2	145.9	162.9	450.9	1019.1	1227.2	1.4	23.4	52.9	122.5	300.6	586.7
Total exports to BCI/imports from BCI	78.1	286.1	296.4	729.7	1983.3	2476.2	140.1	705.1	599.7	1152.6	4133.5	6838.2
Total exports to world/ imports from world	408.7	1197.8	1980.3	3715.4	6453.7	8268.2	667.7	2341.6	3039.9	3563.7	9945.2	17129.4
Percentage of exports to BCI/imports from BCI	19.1	23.9	15.0	19.6	30.7	29.9	21.0	30.1	19.7	3.3	41.6	39.9

Source: Estimated from the Direction of Trade Statistics Database (DOTS), International Monetary Fund (IMF).

from approximately USD 3.6 billion in 2005 to nearly USD 10 billion in 2010, reaching over USD 17 billion in 2012. During this same period, the percentage of imports from BCI increased from 32.3 per cent in 2005 to 41.6 per cent in 2010, then falling slightly to 39.9 per cent in 2012.

Over the long-term, what is most notable is that the percentage of Myanmar's exports to BCI doubled from 15 per cent in 2000 to almost 30 per cent in 2012. This indicates that Myanmar has been exporting goods and services that cater to the needs of BCI and also at a competitive worth. The strengthening association between Myanmar and its neighbours is also evident from the fact that the percentage of Myanmar's imports from BCI also doubled since the start of the outgoing decade, from 19.7 per cent in 2000 to about 40 per cent in 2012.

2.4 Dependence of Bangladesh and Myanmar on China and India

BCIM recently established an inter-governmental mechanism to strengthen economic cooperation that has resulted in a concrete plan going forward. During the first meeting of the Joint Study Group of the BCIM Economic Corridor that was held in China in December 2013, countries adopted a timetable to take forward a long-discussed plan to construct a corridor linking China and India with Bangladesh and Myanmar. Investment, trade, logistics and transport infrastructure were reported to have been identified as priority areas.

Table 6 analyses intra-BCIM trade with an aim to comprehend whether Bangladesh and Myanmar's economies fit into the broader Indo-Sino framework. It is comprised of four sub-sets that present China's exports, India's exports, Bangladesh's imports and Myanmar's imports. The first sub-set, which employs the most recent data available from 2012, indicates that China's top five exports represent around 25 per cent and 31 per cent of Bangladesh's and Myanmar's overall imports, respectively. Similarly, in the second sub-set, which employs 2011 data, India's top five exports represent approximately 14 per cent and 9 per cent of Bangladesh's and Myanmar's imports, respectively. Hence, Bangladesh and Myanmar are heavily dependent on the two giants for large shares of their imports. Additionally, each country has two key imports which identify with that of Chinese exports. On the other hand, only one of the major imports of Myanmar can be identified with top exports from India.

Table 6: BCIM Trade

Chinese Exports in 2012 *(in USD)*			
Item	**World**	**Bangladesh**	**Myanmar**
Electrical, electronic equipment	487,462,307	764,558	669,919
Machinery, nuclear reactors, boilers, etc.	376,002,094	1,000,274	912,832
Articles of apparel, accessories, knit or crochet	87,059,741	75,569	12,994
Furniture, lighting, signs, prefabricated buildings	77,904,042	65,713	93,847
Optical, photo, technical, medical, etc. apparatus	72,816,793	64,795	41,796
Top 5	**1,101,244,977**	**1,970,909**	**1,731,388**
Total	2,050,052,889	7,972,960	5,675,043
Top 5 Share (%)	***53.7***	***24.7***	***30.5***

Bangladesh's Major Imports from China	**Myanmar's Major Imports from China**
1. Cotton	**1. Machinery, nuclear reactors, boilers, etc.**
2. Machinery, nuclear reactors, boilers, etc.	2. Vehicles other than railway, tramway
3. Electrical, electronic equipment	**3. Electrical, electronic equipment**
4. Man-made staple fibres	4. Articles of iron or steel
5. Knitted or crocheted fabric	5. Iron and steel

(Table 6 contd.)

(Table 6 contd.)

Indian Exports in 2011 *(in USD)*			
Item	**World**	**Bangladesh**	**Myanmar**
Mineral fuels, oils, distillation products, etc.	56,556,789	120,392	1,670
Pearls, precious stones, metals, coins, etc.	50,015,590	1,033	4
Electrical, electronic equipment	11,744,262	73,626	23,530
Organic chemicals	11,145,939	108,030	2,221
Machinery, nuclear reactors, boilers, etc.	10,752,338	169,813	14,901
Top 5	**140,214,918**	**472,894**	**42,326**
Total	301,483,250	3,405,516	455,859
Top 5 Share (%)	***46.5***	***13.9***	***9.3***

Bangladesh's Major Imports from India	**Myanmar's Major Imports from India**
1. Cotton	1. Articles of iron or steel
2. Vehicles other than railway, tramway	2. Pharmaceutical products
3. Cereals	3. Meat and edible meat, offal
4. Residues, wastes of food industry, animal fodder	4. Iron and steel
5. Sugars and sugar confectionery	**5. Electrical, electronic equipment**

Bangladesh Imports in 2011 *(in USD)*			
Item	**World**	**China**	**India**
Cotton	4,271,991	1,787,583	958,402
Machinery, nuclear reactors, boilers, etc.	3,308,991	983,620	169,813
Mineral fuels, oils, distillation products, etc.	2,506,889	46,473	120,392
Electrical, electronic equipment	2,046,610	825,559	73,626
Animal, vegetable fats and oils, cleavage products, etc.	1,674,510	427	1,152
Top 5	**13,808,991**	**3,643,662**	**1,323,385**
Total	30,882,477	7,810,658	3,405,516
Top 5 Share (%)	***44.7***	***46.6***	***38.9***

Bangladesh's Major Imports from China	**Bangladesh's Major Imports from India**
1. Cotton	**1. Cotton**
2. Machinery, nuclear reactors, boilers, etc.	2. Vehicles other than railway, tramway
3. Electrical, electronic equipment	3. Cereals
4. Man-made staple fibres	4. Residues, wastes of food industry, animal fodder
5. Man-made filaments	5. Sugars and sugar confectionery

Myanmar Imports in 2011 *(in USD)*			
Item	**World**	**China**	**India**
Machinery, nuclear reactors, boilers, etc.	1,958,849	873,505	14,901
Vehicles other than railway, tramway	1,333,967	767,516	13,040
Articles of iron or steel	957,912	535,671	132,124
Mineral fuels, oils, distillation products, etc.	882,282	151,513	1,670
Electrical, electronic equipment	835,858	472,866	23,530
Top 5	**5,968,868**	**2,801,071**	**185,265**
Total	12,294,566	4,821,497	455,859
Top 5 Share (%)	***48.5***	***58.1***	***40.6***

(Table 6 contd.)

(Table 6 contd.)

Myanmar's Major Imports from China	Myanmar's Major Imports from India
1. Machinery, nuclear reactors, boilers, etc.	**1. Articles of iron or steel**
2. Vehicles other than railway, tramway	2. Pharmaceutical products
3. Articles of iron or steel	3. Meat and edible meat, offal
4. Electrical, electronic equipment	4. Iron and steel
5. Iron and steel	**5. Electrical, electronic equipment**

Source: Trade Map (2013).
Note: Import items which match in the importing country's top five products and the exporting counterpart's top five products have been marked as bold.

From a different perspective, the third sub-set, using 2011 data, shows what proportion of Bangladesh's top five imports are accounted by the two giants: an approximately 47 per cent share is from China and an approximately 39 per cent share is from India. The top three products that Bangladesh imports from China (listed in Table 6 in bold) are on the list of Bangladesh's top five imports from the world. On the other hand, it is only cotton inclusive of both Bangladesh's imports from India and its overall imports. Moving to the last sub-set, which uses 2011 data, shows that four of Myanmar's top five imports from the world side with imports from China and two with that from India. Chinese imports account for about 58 per cent of the overall top five share of imports of Myanmar, and Indian imports account for approximately 41 per cent.

It is evident that both Bangladesh and Myanmar are heavily reliant on China and India for their imports. It appears that China is pursuing its "Look West" policy more rigorously than India is pursuing its "Look East" policy. Given that both Bangladesh and Myanmar are parts of a potential corridor between the giants, it will be beneficial for both Bangladesh and Myanmar to take up the opportunity to build an alliance between themselves, together with the already established association with the regional giants.

From a political perspective, it has been argued that the international community often exaggerates China's influence on Myanmar (Fan 2011). According to a recent report by the International Crisis Group, China's influence on Myanmar is not as great as widely assumed (ICG 2011). The report observes that Myanmar's military leaders are sensitive to outside interference, and therefore have developed relations with India, Russia, ASEAN and other countries to counter China's hegemony in the region. However, as Table 6 shows, China's presence is nevertheless felt given its share of Myanmar's imports. A plausible proposition, then, is that Myanmar's military leaders cleverly manipulated neighbouring countries for their own advantage and benefit. The nature of current relationships with China and India aside, Myanmar has been traditionally wary of its two large neighbours (Zhao 2007). Therefore it is imperative for the country to consider other non-traditional neighbours such as Bangladesh in its approach to the regional cooperation agenda.

3. BANGLADESH-MYANMAR RELATIONS: MODALITIES AND TRENDS

3.1 Trade Flow

Trade between Bangladesh and Myanmar is very low, with Myanmar recording a bilateral trade surplus. An interesting reality is that the trade balance used to be in favour of Bangladesh until the mid-1990s, after which it started to tilt in the favour of Myanmar. According to the latest data[6], Bangladesh's

[6] EPB (2014).

total exports in FY2013-14[7] stood at USD 30.18 billion. While this indicates growth of 11.65 per cent over the same period in FY2012-13, very low shares of Bangladesh's exports catered to China, India and Myanmar. Specifically, exports to Myanmar were USD 16.1 million in FY2013-14, which is less than 1 per cent (0.05 per cent) of Bangladesh's total exports to the world. Latest data[8] regarding Bangladesh's imports indicate that it imported goods worth USD 10.1 billion in the second quarter (October to December) of FY2013-14. While Chinese and Indian imports accounted for approximately 32 per cent of this total, the share of imports from Myanmar at 0.18 per cent was slightly better when compared to Bangladesh's exports to Myanmar.

An annual bilateral trade target of USD 500 million was agreed at the Sixth Meeting of the Bangladesh-Myanmar Joint Trade Commission in November 2012. But the target is yet to be reached. With an aim to augment trade, both countries have exchanged lists of exportable commodities. In this regard, the establishment of wholesale markets on Myanmar's side was a forerunner to the agreement. Wholesale centres have already been opened in Kanyinchaung and Ngakhuya villages of the Maungdaw Township, with an additional marine wholesale market in Sittwe.

In January 2012, direct bilateral export and import, by way of opening letters of credit (L/Cs), was initiated between Bangladesh and Myanmar, which previously operated through Singapore or Thailand. What is interesting is that there is no direct shipping line between Bangladesh and Myanmar despite them being neighbours. Trade is expected to increase manifold between the two countries once direct shipping line is established. It was expected that an agreement would be signed by Bangladesh and Myanmar during Myanmar President Thein Sein's visit to Bangladesh in 2012. President Sein's visit was deferred, and an official arrangement for direct shipping has yet to be placed on the table despite lucrative prospects and promising opportunities for bilateral trade. If recent reports are to be believed, both countries have agreed to commence vessel service in the immediate future. This comes in the backdrop of a finalised draft of Standard Operating Procedures for the plying of non-conventional carrier vessels.

On the financial front, commercial banks in Myanmar have already established Asian Clearing Union (ACU) accounts with corresponding banks from Bangladesh. While transactions mechanisms are operational on the other side of the border, Bangladesh state-owned Sonali Bank Limited and the private AB Bank Limited are already opening and settling L/Cs in Myanmar under the ACU mechanism. It is in the reports that two other private banks have been given the permission to extend their L/C facilities to Myanmar. Furthermore, other measures are also being taken by some state-owned and private banks to facilitate and expand trade between the two countries.

Table 7 presents the top five traded goods between Bangladesh and Myanmar from the perspective of Bangladesh (2012-13 for exports and 2011-12 for imports). The Table serves as a comprehensive indicator of the type of ongoing trade between Bangladesh and Myanmar. Bangladesh's top five exports to Myanmar accounted for approximately 93.5 per cent of total exports to the country (2012-13) and its top five imported products from Myanmar (2011-12) accounted for 99.48 per cent of total imports from the country. With a low export base evident, Bangladesh's exports to Myanmar were predominantly pharmaceutical products, which accounted for almost 75 per cent of total exports to Myanmar. Mineral fuels, oils and other distillation products ranked second. Regarding imports, Bangladesh relies heavily on Myanmar for wood and articles of wood, which accounted for about 59 per cent of imports from the country and were valued at USD 55.91 million in 2011-12, when overall imports from Myanmar were valued at USD 65.02 million. Vegetable products, fish, fruits and paper products followed.

[7]Bangladesh's fiscal year starts on July 1 and ends on June 30.
[8]Bangladesh Bank (2014).

Table 7: Bangladesh-Myanmar Trade in Goods

Products	Exports in 2012-13 (Current USD, Million)	Share of Exports in 2012-13 (%)	Products	Imports in 2011-12 (Current USD, Million)	Share of Imports in 2011-12 (%)
Exports to Myanmar	**13.67**		**Imports from Myanmar**	**65.02**	
Pharmaceutical products	10.12	74.03	Wood and articles of wood; wood charcoal	55.91	85.99
Mineral fuels, oils, distillation products and others	1.17	8.56	Edible vegetables and certain roots and tubers	7.26	11.17
Articles of apparel, accessories, knit or crochet	0.70	5.12	Fish and crustaceans, molluscs and other aquatic invertebrates	0.92	1.41
Salt, sulphur, earth, stone, plaster, lime and cement	0.60	4.39	Edible fruit nuts; peel of citrus fruit or melons	0.41	0.63
Cotton	0.19	1.39	Paper and paper board; articles of paper pulp, of paper or of paperboard	0.18	0.28
Total of top 5 products	12.78	93.49	Total of top 5 products	64.68	99.48

Source: Export Promotion Bureau (EPB) and Bangladesh Bank.

It is worth underlining that Myanmar's geography, where it shares borders with Bangladesh, China, India, Laos and Thailand, adds a special dimension to prospects for bilateral business relations between Bangladesh and Myanmar. Social geography of the country also adds to the potentiality for bilateral business cooperation. It has been pointed out that, contrary to the established economic theory that conceives border areas as remote and backward regions, Myanmar's border regions are more prosperous than its central region (Kudo and Mieno 2007). The four regions with the highest per capita household expenditures share borders with Thailand, China and Bangladesh (Kudo and Mieno 2007). These regions are also growing more rapidly than those near the centre of the country, widening the wealth gap between border regions and other areas. Thus, one of the ways to increase Myanmar's prosperity is to tailor policies in a way which incorporates allocative efficiency and distributive justice utilising its geographical advantage in the BCIM sub-region.

3.2 Bangladesh-Myanmar: Two-Way Investment

There is an obvious geographical rationale for promoting Bangladesh and Myanmar bilateral relations. The Arakan Mountain Range separates Myanmar's Rakhine and Chin states bordering Bangladesh from the rest of Myanmar. These two states possess abundant natural resources, which include limestone, timber, bamboo, marine products and a range of minerals. The main attractions in Myanmar for foreign investors are agricultural products, timber, minerals and marine products. What is more gratifying for investors is that most of its natural resources is still underutilised or untapped.

Bangladesh and Myanmar have huge potential for bilateral investment. There have been efforts by both countries to enhance investment and trade, but only very modest sums have been committed. Most of the business activities between Bangladesh and Myanmar take place through informal channels due to the lack of formal banking facilities in many regions. Formal banking was only recently initiated in Myanmar and is going through early stages of development. Myanmar's investment environment has nevertheless improved following reforms to unify multiple exchange rates and easing of sanctions imposed by advanced industrial countries. A Memorandum of Understanding (MoU) on the establishment of a joint business council involving the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and Union of Myanmar Federation of Chambers of Commerce and Industry (UMCCI) has been signed. The Bangladesh government has expressed its interest for investing in hydropower projects in Myanmar, import of gas for power generation, fertiliser production, industrial manufacturing and development of a multi-modal communications system.

3.3 Agricultural Cooperation

It has been reported that Myanmar has shown interest in leasing land for agricultural cultivation to Bangladesh during high-level official visits. Cooperation in the agricultural sector offers an appealing opportunity for both countries because Myanmar has abundant arable land and Bangladesh has the complementary labour force to cultivate those lands. Bangladesh possesses the comparative advantage in terms of technological 'know-how' and Myanmar possesses the advantage of being able to lease land. While there is no shortage of labour in Myanmar, the country can still gain from knowledge transfer and training from Bangladesh. At present, China and Thailand have contract farming agreements with Myanmar.

The Myanmar and Bangladesh governments have both given consent to Myanmar's proposal that Bangladesh would lease 50,000 acres of land in the Myanmar state of Rakhine for contract farming. The proposal was presented in 2007 with an additional scheme to employ as many as 10,000 farmers from the Bangladesh city of Chittagong through the contract farming process. This proposal would utilise Bangladeshi farmers' innovative knowledge and experience as regards farming in Myanmar. But the contract farming exercise never came to fruition despite interest from both the counterparts. On a positive note, it is expected that Bangladesh would be performing contract farming in Myanmar under a joint venture in accordance with Myanmar's 2012 Foreign Investment Law. The Myanmar government has also proposed land tax exemption for a period of two to eight years, and income tax waiver for a minimum period of three years to Bangladeshi private entrepreneurs.

From Bangladesh's perspective, the practice of contract farming in Myanmar offers a great opportunity to address its agriculture production shortfalls. Contract farming is an important and viable step for the country, which is losing arable land as a result of rapid urbanisation. What is regrettable is that no proposals have yet been submitted by Bangladesh regarding agricultural research. It was agreed at the recent Seventh Joint Trade Commission meeting in January 2014 that a joint working group, consisting of experts from both countries, be constituted to study areas of cooperation in the agriculture sector and formulate recommendations. Nevertheless, Bangladesh has taken the initiative to import rice from Myanmar under Track I initiative. Myanmar has already signed an MoU with one of its trading partners, and is willing to do the same with Bangladesh if Bangladesh agrees to its conditionalities.

3.4 Energy Cooperation

Myanmar's energy sector has been expanding in the last couple of years, the initiation of the trend can be attributed to exporting of natural gas to Thailand in 2004. Gas is Myanmar's single most important source of income[9] and one-third of FDI entering Myanmar caters to the oil and gas sectors. It has been reported that Myanmar will gain massive revenues from the already operational offshore Shwe gas field established at an estimated cost of USD 4 billion (Arakan Rivers Network n.d.).

Since opening up its economy to the world market, Myanmar has been considered to be one of the prime energy hubs in South Asia, where particularly India has displayed a keen interest in taking advantage

[9] Income essentially refers to tax revenue in this case.

of its natural resources. It was presumed that the A-1 block of Shwe gas field would primarily serve Indian market via an overland pipeline through Bangladesh to Kolkata. However, disputes between Bangladesh and India regarding conditionalities led negotiations to a standstill. In 2005, Myanmar signed an MoU with oil producer PetroChina regarding an overland pipeline through Myanmar to Kunming. Since Myanmar had already come to an agreement with China regarding the export of gas from existing fields, Myanmar President Sein assured Bangladesh that Myanmar would only export gas to the country given that new gas fields are discovered in Myanmar's territory. In fact, Myanmar would only be able to export gas after meeting local demands. Since Myanmar has not discovered new gas fields recently, or for that matter Myanmar does not possess surplus gas supplies at the moment, it can be assumed that Bangladesh will not be able to import gas from Myanmar in the near future.

3.5 Transport Connectivity

Physical infrastructure is seen as a regional public good because it facilitates the movement of factors of production within and between regions, thereby facilitating productivity and economic growth (De 2009). Currently, there are no road or railway links connecting Bangladesh and Myanmar. A direct air link was recently re-established between the countries. Bangladesh and Myanmar, as well as China and India, are members of the Asian Land Transport Infrastructure Development (ALTID) project launched by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) in 1992. The ALTID project comprises the Asian Highway Network, the Trans-Asian Railway (TAR) project, and the facilitation of land transportation. An agreement on direct road linkage between Bangladesh and Myanmar was already signed in 2007, but the road has not yet been completed. The fact remains that a direct road connection between Bangladesh and Myanmar would not only facilitate bilateral trade, but also open a gateway to China and ASEAN for Bangladesh and a gateway to India for Myanmar. Linkage of major regional transport networks, simplification of documentation procedures at borders and development of more efficient customs services are vital factors in the promotion of regional economic integration.

There are ongoing discussions about the tri-nation road link connecting Bangladesh, Myanmar and China. Construction of the Myanmar-Bangladesh highway has already begun. The Bangladesh government has already built 43 kilometres, 20 kilometres on the Bangladesh side and 23 kilometres on the Myanmar side, of the 133-kilometre highway at a cost of USD 27 million. While it is expected that the second phase of the project will be carried out by Myanmar at an estimated cost of USD 128 million, however, the initiation of this phase of the project is yet to be declared. The project has already been delayed, and although the potential of the venture is clear, the project has not taken off amidst ambiguity on the official front. In this respect, discussions on the tri-nation road link should be carried out responsibly by each of the counterparts in a methodical and effective approach.

3.6 Other Aspects of Bangladesh-Myanmar Relations

During Bangladesh Prime Minister Sheikh Hasina's last official visit to Myanmar, an agreement was signed to form a joint commission to oversee and coordinate bilateral issues within an institutional framework. An MoU was also signed between the FBCCI and the UMCCI with regard to the establishment of a joint business council. Direct road and rail links, promotion of tourism, enhancement of trade and cooperation in education were also in focus. Given this, Bangladesh should focus on strengthening regional cooperation with Myanmar, both on an inter-governmental level, and also on a public-private partnership (PPP) basis.

Regarding specific initiatives, one is the establishment of private sector cold storages at Myanmar's border areas. Cold storages play a very important role in supporting trade of perishable food commodities. Cold storages are already set up at Sittwe and Thantwe ranges, but no arrangements are evident to institute cold storages in the border areas of Rakhine state. Another initiative includes Bangladesh authorities at Teknaf Port allowing Myanmar vessels to purchase food, fuel and fresh water. Authorities have also instituted security measures and timely handling of Myanmar's exports. Myanmar petitioned for such propositions, to which Bangladesh obliged without hesitation. One particular issue that emerged a few years back and has not been resolved is the refusal of Bangladeshi importers to accept Myanmar's salt exports. Myanmar requested that Bangladesh address this concern during the Seventh Joint Trade Commission meeting, but officials also recognised that the dilemma could correspondingly be a result of the delayed provision of Myanmar's list of sensitive and/or banned products.

Notably, the first BCIM Car Rally from Kolkata to Kunming (K2K) was held from 22 February to 5 March 2013 through active participation of the four partner countries. The possibility of a rally was proposed at the Sixth BCIM Forum, with the proposal taking a tangible shape at the Ninth Forum in Kunming in 2010. With the theme of the K2K Car Rally stated as "Building Bonds, Fostering Friendship," it was envisaged that it would play "a catalytic role in stimulating interest of the concerned stakeholders in deepening cooperation among the BCIM countries" (CPD 2013). The rally traced the historical roots of the Southern Silk Route to focus on the immense potential of economic and cultural cooperation between each of the four counterparts in. Covering a distance of more than 3,000 kilometres across India, Bangladesh, Myanmar and China, the rally attempted to forge new bonds of friendship and connectivity in the region. It was "hoped that the K2K Car Rally will promote the interests of trade, commerce and investment, encourage exploitation of natural resources through joint efforts, encourage cultural exchanges, and enhance the possibilities of tourism and people to people contact in the BCIM region" (CPD 2013).

Regarding cooperation between Bangladesh and Myanmar in diverse agendas, scores of initiatives have been proposed in the past couple of years, but were not implemented due to a number of assorted reasons. Lack of timely and appropriate follow-up action has probably been the biggest factor with both governments in this regard. In the following section, this paper identifies critical areas in which Bangladesh and Myanmar could emerge as potential allies to promote economic cooperation.

4. BANGLADESH AND MYANMAR: OPPORTUNITIES AND CHALLENGES

4.1 The Bridge between South and Southeast Asia

The strategic geographical location of Bangladesh and Myanmar puts both countries into the scorching focus of the Indo-Sino giants. This is because both the giants need to consider their small neighbours in order to expand their territories, in terms of trade, maintain security and secure a host of other objectives. Denying Bangladesh and Myanmar from the loop of regional connectivity will only increase uncertainty in the region. With approximately 40 per cent of the world's population living in the BCIM region, it is only natural that the most populous countries would attempt to benefit from relationships with their neighbours. In this respect, Bangladesh and Myanmar should step forward in regional arrangements, particularly relating to India's "Look East" policy and China's "Look West" policy, to capitalise on their geographic setting.

With BCIM set to sign an agreement to build a transnational highway, this highway will transform Bangladesh into a transport hub for countries of South and Southeast Asia. The K2K Car Rally route, which is part of the historical Silk Route, has the necessary infrastructure to connect Southwest China, East India, Northeast India, Bangladesh and Myanmar in forming a thriving economic belt. From India's point of view, the route will not only link India to other Southeast and South Asian countries including

Bangladesh, but will also connect mainland India with its northeast regions. In mediating connectivity, Bangladesh will act as a hub that allows neighbouring countries to expand economic ties with each other. Myanmar, the fresh darling of the international community, also holds similar potential to consolidate connection of the region.

The BCIM Economic Corridor got revived recently after China and India expressed their interests in the endeavour. Bangladesh and Myanmar had expressed their interests in the corridor, expected to significantly boost trade and investment in the BCIM region, tapping other imperative economic potentials in the process. From a geopolitical perspective, Bangladesh and Myanmar lie at the heart of the BCIM Economic Corridor, which will essentially function as a bridge between South, Southeast and Central Asia. More specifically, Bangladesh's permission to China to build and use a deep-sea port on Bangladesh territory will greatly augment trade and connectivity in the region. The planned deep-sea port in Sonadia on the southern tip of the country will be beneficial to China since it is closer to Shanghai and Beijing. Bangladesh's major port in Chittagong, which is closer to Yunnan than to Shanghai or Beijing, is further north and currently unable to handle the shipping demands associated with steady economic growth.

With ASEAN and SAARC playing more active roles to engage countries in regional cooperation, it is expected that the BCIM framework will complement the process by jumpstarting cooperation processes in the region. Other economic corridors will likely to be established once natural resources are extracted in either of the countries, and are made accessible for the neighbouring partners. In this connection, opportunities for cooperation regarding imports of gas, oil and electricity will be taken up at the earliest convenience of the energy-deficient countries in the South Asian block.

4.2 Special Economic Zones

For the longest time, China's attempts to establish special economic zones (SEZs) in Myanmar did not succeed because of Myanmar's inability to endorse their concept (Fan 2011). Recently, the quasi-civilian Myanmar government halted construction of a 4,000-MW (megawatt) coal-fired power plant in Dawei for environmental reasons and instead planned the country's 'first and biggest SEZ' at the site. Components of the project include a deep-sea port, an industrial zone, coal and natural gas power plants and a water supply system. Myanmar is now working hard to develop SEZs to attract FDI to the region.[10] The country is also considering export processing zones (EPZs) and sub-trading zones, which will not only be an entity in themselves, but will also complement and facilitate SEZs. Incentives in the form of income tax exemption for five years and requirement of only 50 per cent of taxes from five years of business operation are allowed to investors to invite investment in the SEZs.

Two SEZs in addition to the Dawei SEZ are reportedly in the works: the Thilawa SEZ near the commercial capital Yangon and the other in Kyaukphyu, which is in the Rakhine state. Also, a new deep-sea port is nearly finished. The Myanmar government is currently streamlining existing regulations with the 2012 Foreign Investment Law to provide additional incentives for SEZ investments. Such incentives will likely include import tax exemption and relief on value added tax, direct personal tax and other taxes. Myanmar is planning to establish another SEZ in the southern region of Tanintharyi. The government is currently allowing investors to bid for the enormous project.[11] Bangladeshi investors should seriously consider setting up plants in the Myanmar SEZs, which are definitely a window of opportunity given the competitive edge that these businesses will be able to gain as a result of the available opportunities at

[10]It should be noted that Myanmar has 18 privately operated industrial zones that contribute about 20 per cent of the country's GDP (KPMG 2013).

[11]It can be mentioned here that a Thai company, responsible for the development of one of the SEZs, withdrew themselves from the project due to differences with the Myanmar government.

the SEZs. Alongside these SEZs, Bangladesh can explore cooperation in the fields of solar energy and bio-gas projects.

4.3 Contract Farming

Myanmar's liberal policy of leasing land for agro-based activities is attractive for the foreign investors. Depending on the type of venture, exemption from land tax is offered for a period of two to eight years. There are also provisions for income tax waiver for a minimum period of three years from the initial date of commercial operation. Contract farming can be initiated immediately in Myanmar states bordering Bangladesh, though there may be some potential deterrents.

Under the contracts between Myanmar and Bangladesh, Myanmar farmers can offer their land and labour, while Bangladeshi entrepreneurs may provide with knowledge and necessary supervision, source the required inputs, and furnish mutually agreed buy-back guarantees ensuring recovery of cost of production and provision of profit for farmers. Despite having a geographical land area that is more than five times the size of Bangladesh, Myanmar produces rice, the country's staple, at lesser quantities, and hence has opted to search for full-scale assistance, including capital inflow and technical assistance from its counterpart. This proposal developed as a result of the quasi-civilian government's new policy of increasing rice exports. The Bangladesh government has agreed to help Myanmar in the agriculture sector, although several rounds of talks are compulsory for cooperation to be realised. While talks on Myanmar's proposals seeking Bangladesh's cooperation to expand its agricultural production are ongoing, it is observed that Bangladesh is yet to place a tangible scheme on the table.

4.4 Connecting Bangladesh and Myanmar

Transport connectivity between countries offers huge export opportunities. However, connectivity may perpetuate intra-regional disparities if relatively less developed economies like Myanmar and Bangladesh do not prepare themselves to face competition from bigger economies like China and India. Sobhan (2000) has affirmed that Bangladesh perceives itself as a prospective Singapore, provided that it can enjoy both market access and seamless physical linkages with Nepal, Bhutan, India, Myanmar, Thailand and China. Ongoing discussions on the tri-nation road link connecting Bangladesh, Myanmar and China should be given due consideration, in particular by Bangladesh, in view of India's reluctance to finance infrastructure projects in the country.

In an effort to boost bilateral trade between Bangladesh and Myanmar, relevant ministries of the Bangladesh government is already taking necessary steps to amend existing protocol and incorporate the plying of non-conventional vessels. Both countries have signed an agreement to finalise the Standard Operating Procedures (SOP) and an Agreement on Coastal and Maritime Shipping. It is expected that both the countries will be signing the SOP shortly, after finalisation and approval of the drafts.

The flagship project in Bangladesh-Myanmar connectivity is the Kaladan Multi-Modal Transit Transport Project, which involves the upgrading of the Sittwe Port and the construction of a highway connecting the town of Paletwa in Myanmar's Chin State through Bangladesh to the border of the Indian state of Mizoram. While the project has been finalised after intense negotiations, incurring cost overruns and delays, another round of setback is expected unless immediate measures are undertaken by the Indian government. Moreover, an agreement has been signed by the counterparts on a number of road-building projects (Map 1 shows the Kunming-Chittagong road link, which is one of the important transport linkages between Bangladesh and Myanmar). Specifically, the Trilateral Highway connecting India, Myanmar and Thailand is expected to be drawn to a close by 2016.

Map 1: Kunming-Chittagong Road Link

Source: Rahmatullah (2012).

While transport connectivity regarding road networks, air and sea is being reviewed, cooperation regarding connectivity at the borders is being neglected from Bangladesh's part. It is the case that Myanmar fish exporters are exporting huge quantities of hilsha and salted fish as well as betel nut through the Teknaf Port to Bangladesh every year, and they have requested that Bangladesh's Department of Fisheries allows them to legally use the fishery ghats in the ports of Sadarghat and Chittagong. The Myanmar exporters also requested a reduction of taxes on these items because they believe that the existing tax rates are prohibitively high. Notably, the BMCCI urged the Department of Fisheries to accommodate the Myanmar exporters' apprehensions, but the concerned authorities have been paying little heed to the issue and have not resolved the bottlenecks. Only recently did the Bangladesh authorities responded by stating that the matter can be considered under bilateral agreements such as preferential trade agreements. Such other connectivity issues should be urgently dealt with, to not only expand trade, but build trust and confidence, which will ultimately strengthen the relation of the countries over the long-run.

The present state of transport connectivity and cooperation in the region is not on track with the global trend toward regionalisation (Rahmatullah 2012). Serious political commitments are necessary to implement transport projects sitting on the table. It is widely understood that the lack of political commitment is holding back progress, not only in the transport connectivity part, but also in other areas of regionalisation as well. A change in the mindsets of the political leaders and officials is evidently a necessary pre-condition to take regional cooperation to the next level. Although a rigid task at the outset, but cooperation and agreement on the political front is not insurmountable.

4.5 Energy

Considering the energy-scarce situation in Bangladesh where 65 per cent of power plants run on natural gas (BPDB 2013), a fast-depleting resource, the government should earnestly consider importing electricity from Myanmar once the time is right, and not only from India. Cross-border power trading will not only forge a strong bilateral linkage between Bangladesh and Myanmar, but will also greatly assist in solving the electricity shortage of the nation, at least partially.

In an official visit to Bangladesh in May 2010, Myanmar officials expressed their keen interest in power trading and identified potential challenges and opportunities. It was reported that some Myanmar companies have already leased land for the establishment of power plants, while others expressing their interest in setting up hydroelectric power plants in Rakhine state with the primary intention of exporting electricity to Bangladesh. However, Myanmar has recently stated that it is not in a position to export electricity to Bangladesh, the reason being that it can only export electricity from hydroelectric power plants after meeting the increasing domestic consumption needs. There were expectations of major opportunities for cooperation between Bangladesh and Myanmar in the area of energy, comprising hydroelectricity generation and extraction of natural resources. At the moment, chances for cooperation as propos energy appear to be very slim.

Since Bangladesh continues to import urea fertiliser, the government may explore the idea of importing natural gas from Rakhine for the production of urea, which can be exported back to Myanmar. The BMCCI suggested that the construction of a gas pipeline from Rakhine to Chittagong be undertaken by a private sector-led consortium of investors from Bangladesh. Thailand is already importing natural gas from Myanmar, with more than half of Bangkok's electricity relying on piped gas from its western neighbour. It has been suggested during official talks that cooperation should not be confined to the government level, but rather should be taken up at the private sector level as well. The hindrance, apart from lack of cooperation between Bangladesh and Myanmar would be competition from the giants, who would grab every opportunity to exploit newly generated, discovered and/or potential energy sources in Myanmar. Bangladesh should act and/or react before it is too late.

Together with energy cooperation, the establishment of import-substituting industries under joint venture on both sides of the border could be explored. Besides millions of tonnes of limestone deposits in Rakhine state, there is a single patch of bamboo forest that stretches over 7,000 square kilometres, which is equivalent to 8 million metric tonnes (MT) of pulp that can feed up to 25 large paper mills.

4.6 Political Outlook

The election of the quasi-civilian government in Myanmar and its interest in liberalisation have impelled more than a few prominent national leaders and foreign ministers to visit the country to discuss political and economic cooperation. Recent visits have included Li Yuanchao, a senior member of the Political Bureau of the Communist Party of China Central Committee (June 2011), Australia's Foreign Minister Kevin Rudd (June 2011), India's External Affairs Minister S M Krishna (June 2011), Prime Minister of Laos Thongsing Thammavong (July 2011), Indonesia's Foreign Minister Marty Natalegawa (October 2011), US Secretary of State Hillary Clinton (November 2011 and November 2012), UK Secretary of State for International Development Andrew Mitchell (November 2011), Prime Minister of Thailand Yingluck Shinawatra (December 2011), Bangladesh Prime Minister Sheikh Hasina (December 2011 and March 2014), Japan's Minister of Foreign Affairs Koichiro Gemba (December 2011), Prime Minister of India Manmohan Singh (May 2012), US President Barack Obama (November 2012), President of Singapore Tony Tan (April 2013), Prime Minister of Vietnam Nguyen Tan Dung (June

2013), President of Mongolia Tsakhiagiin Elbegdorj (November 2013), President of Laos Choummaly Sayasone (December 2013) and President of Germany Joachim Gauck (February 2014).

During the Fifth Bangladesh-Myanmar Joint Economic Commission meeting held in July 2011, both chambers of commerce and industry agreed that a seminar would be held on Bangladesh-Myanmar business development. The EPB of Bangladesh, in association with other concerned stakeholders, has been pursuing such initiatives. A single country trade fair was held in Yangon in March 2013, which provided exposure for Bangladesh's products. Bangladesh has correspondingly invited Myanmar to take part in the annual Dhaka International Trade Fair. It has been argued by experts that the BMCCI should form cells with appropriate representation from different concerned chambers to discuss and explore potential for business with concerned bodies in Myanmar.

Myanmar and India have agreed to establish several border markets alongside the development of border infrastructure. Attention from Myanmar's side can be distinguished from the fact that Myanmar invited the Indian government to develop several areas adjoining their common border, namely the Naga Self-Administered Zone of the Sagaing region and Chin state. Besides the Indian government, the Indian industry has been displaying increasing interest in Myanmar as regards trade and investment potential. The United Bank of India has commenced operations in its representative office in Yangon. It has been reported that other Indian banks also desire local presence on Myanmar soil and one of the forerunners is the Export-Import Bank of India. While the United Bank of India is the first bank to have representation in Myanmar, the bank would not be carrying out any financial activities. Their office would be responsible to maintain liaisons with the government and other stakeholders to extend cooperation and settle trade-related transactions and ambiguities between India and Myanmar. It is rightly expected that such initiatives would boost Indo-Myanmar trade.

India and Myanmar have also been collaborating in human resource development with further consideration of energy cooperation in the geological terrain that both the countries share. India wants to collaborate on tourism with Myanmar. In this connection, the civil aviation authorities of both the countries have agreed on enhancement of direct flights and other aspects related to tourism. Regarding education, an MoU was signed between the University of Calcutta in Kolkata and Dagon University in Yangon together with the consideration of setting up the India-Myanmar Foundation to promote educational, cultural and literary exchanges between the two countries.

Bangladesh should sincerely assess the options for strengthening its relationship with Myanmar before others step in to fill the vacuum. It is time for Bangladesh to recognise that it is not the only country interested in intensifying engagement with Myanmar. China's and Thailand's bilateral trade agreements with Myanmar aside, recent visits by the Indian Prime Minister to Myanmar have made it clear that India is keen on strengthening bilateral relations with the country. Notably, India signed an MoU for a USD 500 million line of credit to Myanmar in 2012.

However, Bangladesh should be attentive so as to ensure that it does not upset the giants in the process of nurturing a sub-regional cooperation with Myanmar.

More high-level political meetings are a promising way forward. During the Seventh Joint Working Group for Border Trade meeting in June 2013, Bangladesh and Myanmar agreed to hold more regular meetings to identify problems relating to border trade and the corresponding solutions. More recently, consensus was reached on some areas while leaving ambiguity in others during the Seventh Joint Trade Commission meeting in January 2014. New agendas were also discussed in the latter. Such high-level meetings can be expected to initialise and concretise new forms of cooperation that will improve the relationship between the two countries and result in genuine outcomes for both.

4.7 Role of Non-State Actors

The most recent advancement regarding non-state bilateral cooperation in trade, investment and business came in September 2011, when an MoU was signed between BMCCI and the Rakhine State Chamber of Commerce and Industry (RSCCI). The BMCCI and RMCCI agreed on exploring mutual growth, promotion and development of bilateral trade between Bangladesh and Myanmar. Promotion and coordination of joint collaboration were also agreed upon with a spirit of common purpose. Both chambers have requested that the governments of Bangladesh and Myanmar adopt and amend laws and regulations aimed at enhancing bilateral trade and business opportunities. In view of the slow pace at the government level, the BMCCI and RSCCI need to take on leadership roles and provide a common platform for their respective private sector actors to come together to generate new ideas and harness benefits of close bilateral cooperation.

Other non-state actors such as non-government organisations (NGOs) have also been actively participating in building cooperation between Bangladesh and Myanmar. One prominent example is the recent association of BRAC, a locally rooted international microfinance institution based in Bangladesh, with Myanmar. BRAC has embarked on training personnel and carrying out field-level surveys in Myanmar. Specifically, BRAC has set up offices in rural Yangon and Bago, and performed a survey of 4,116 households, out of which 45 village units can be outlined. BRAC disbursed its first loan on June 2014 and small loans of up to USD 500 are currently available for rural women. To this end, it should be noted that Bangladesh has made commendable progress on the microfinance front. The country's NGOs have the necessary expertise to venture into a neighbouring country and effectively operate at full-scale survey for identifying households and distributing loans. This inference is even more relevant thinking that Myanmar is not unlike Bangladesh three decades before, where below 5 per cent of the population have access to formal banking accounts in the country. In the long-term, BRAC plans to work closely at the community level in order to assess the local needs as regards developmental issues including agriculture, health and education.

5. A STRATEGIC OUTLOOK

Regional and sub-regional cooperation would be the definitive step for Bangladesh and Myanmar to surmount the challenges of globalisation. The former should realise the potential of Myanmar with the establishment of the quasi-civilian government. Visits by prominent country officials makes this point even more binding. Myanmar has been making progress in integrating itself into the global economy. This is evident from the huge FDI inflows and a surge of import and export growth. While real GDP growth of Myanmar is stable at the 5 per cent level, nevertheless it can be assumed that it would not be long before the current levels of investment in Myanmar would escalate GDP growth rates in the immediate future. Myanmar's trade with BCI have improved, together with its dependence on China and India. Conversely, trade with Bangladesh has remained at subdued levels. In this connection, Bangladesh should consider investment in Myanmar (consideration of setting up plants at Myanmar SEZs should not be overlooked) in conjunction with cooperation in energy and agriculture (contract farming). Transport connectivity also needs to be taken up earnestly to ensure a proper bridge between South and Southeast Asia. The channel will not only facilitate the giants, but will also provide opportunities for the smaller countries like Bangladesh and Myanmar themselves. Looking forward, the natural allies would only benefit from cooperation in the regional front, let alone the caveats of cooperation which has been continuing for decades.

With the aim of creating a borderless world of trade, both tariffs and non-tariff measures are being gradually eradicated. The BCIM Economic Corridor would be an effective way forward to place socio-economic cooperation in the region as a benchmark in its own. Efforts should be made to speed up economic development and improve economic competitiveness. Respective governments of the countries should emphasise the promotion of sustainable growth in the context of globalisation. Bangladesh-Myanmar cooperation would not only alleviate the chances of being left behind, but also would help in maintaining an identity of their own.

The giants China and India have large amounts of foreign exchange reserves, which should be considered the starting point in any strategic outlook. The countries could play significant roles in promoting investment in both Bangladesh and Myanmar, which could, in turn, benefit China and India through preferential market access initiatives. Sobhan (2000) argued that the emergence of an integrated Asian community would be greatly accelerated if governments, particularly of China and India, committed themselves to invest their political and diplomatic resources in advancing the process of both economic and political integration. However, it is the case that irregularities and highhandedness are commonalities faced by Myanmar traders involved in cross-border trade with Bangladesh. During the last decade, official visits had limited discernible progress on strengthening bilateral cooperation in mutually beneficial areas.

Highlighting some areas of economic cooperation indicates that Bangladesh and Myanmar are natural allies. Their approach to sub-regional cooperation should not be that of zero-sum games, in other words, gains by one at the expense of others or 'winner takes all'. This has also been argued by Kalam (2001), who suggested that mutuality guiding policies based on positive-sum games are needed if the BCIM sub-region is to spur economic and social development in South and Southeast Asia. For Bangladesh and Myanmar, economic integration has gained high importance in view of the fact that SAARC remains one of the least integrated regions in the world (Ahmed *et al*. 2010). By adding new knowledge to the regional cooperation topic, it is hoped that this paper will draw the attention of concerned academics and policymakers in approaching economic integration from a new angle.

In order to give impetus to the Bangladesh-Myanmar relationship, formal institutionalisation of bilateral cooperation has become a necessary condition under the Track I initiative. Track II involving civil society should also be dealt with more emphasis through the deployment of a more energetic approach. Track III, involving civilians of both countries, would help to bring about cooperation that would provide the maximum level of integration and offer mutually beneficial opportunities by complementing the other initiatives. Then again, will Bangladesh be able to manoeuvre to its full potential without being oblivious to Indo-Sino dynamics? Who will facilitate initiatives in the future? Bangladesh should consider the priorities and views of the US, UK and EU, the silent observers, when negotiating with Myanmar.

Bangladesh still does not fully comprehend the potential that Myanmar possesses in terms of strategic and geopolitical advantage. Bangladesh needs to realise that cooperation with Myanmar will be of immense benefit from the many perspectives discussed above. After a long time, Bangladesh and the Myanmar leadership are demonstrating an awareness that the future is impinging on its present, much more rapidly than it did in the past. Bangladesh should contribute whole-heartedly in the regional framework involving Myanmar, rather than being context with the prevailing status quo. Bangladesh's main challenge is to seize the moment by acknowledging that strength lies in cooperation, not isolation.

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