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ASSOCIATION INC.**

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Purpose of Research

It is not too much to say that information is the most important business tool for freight forwarders, which are sometimes known as transport conductors. To provide its members with up-to-date information on local logistics affairs they need, Japan International Freight Forwarders Association Inc. (JIFFA) has sent research missions to other countries many times since it was established in 1981. In the beginning, the association focused on the U.S. and Europe in accordance with economic tides in those days, but the focus has gradually moved to Asia now. JIFFA sent a series of logistics research missions to the ASEAN region, to Indonesia and Malaysia in 1994, Vietnam and Thailand in 1995 and the Philippines in 1996. In 2000, it compiled a report on logistics in general in the region.

Early in fiscal 2006, JIFFA's Forwarding Committee formulated a long-term plan to research and report details of logistics (e.g. cross-border routes) in Southeast Asian nations when Southeast Asia's political and economic situations were beginning to change drastically in preparation for the establishment of an ASEAN Community by the region's 10 economies, which is scheduled for completion in 2015. The development of cross-border routes in inland areas was also beginning to advance rapidly.

As part of the plan, the Forwarding Committee did research and compiled reports on logistics in Thailand, and the Thailand-Malay Peninsula and East-West Economic Corridors in the spring of 2007; logistics in Vietnam and the economic corridor between China and Vietnam in the autumn of 2007; logistics in Indonesia and Laos as well as the North-South Economic Corridor in the autumn of 2008 and logistics in Singapore as well as the Southern Economic Corridor in the autumn of 2009.

In fiscal 2011, the Forwarding Committee decided to go to Myanmar. Normally, research missions are sent after six months or so of preparation. At that time, however, the country was closing its door to other countries, being afflicted with an economic malaise. Therefore, it was feared there was not much to research or report, that the committee would not be allowed to take pictures of or do other data-gathering activities on logistics infrastructures and that it would not be able to research and report as deeply as it had done in other nations.

In the height of summer of 2011, Forwarding Committee members called at the Japan-ASEAN Centre in Tokyo, and learned that visitors from abroad were rushing to Myanmar. In fact, drastic changes have been taking place. Research missions visiting the nation used to be subject to certain restrictions. However, the JIFFA researchers were even allowed to take photographs at almost all sites except for some port terminals. It is believed that this is because Myanmar held a general election in the autumn of 2010, and President Thein Sein, who took office as a result of the election, is promoting reconciliatory policies.

The on-site investigation into the logistics in Myanmar carried out in this context was able to report almost all issues—such as regulations on foreign investments and preferential treatment programs, both of which are important to forwarders and other foreign enterprises intending to launch operations in Myanmar (Chapter 1); port and harbour expansions in Yangon and plans for developing deepwater ports in Dawei and Kyaukpyu (Chapter 2); the current state of transport infrastructure as a whole, including railways, trucks and other means (Chapter 3); cross-border routes that are being developed rapidly

(Chapter 4); the country's export and import control as well as customs-clearance systems (Chapter 5) and the forwarding industry (Chapter 6).

Unfortunately, the mission only inspected two municipalities—Yangon and Mandalay—and was not allowed to go near to the nation's border areas. As such, it could not continue its research on cross-border routes. It is hoped the Forwarding Committee will be able to cover them next time.

Chapter 1: Overview

1. Political overview

(omitted)

2. Economic overview

(1) Economic scale and growth

It is estimated that Myanmar embraced a population of approximately 61.2 million people in 2010. In fiscal 2010, the nation's GDP reached US\$42.953 billion, increasing some 6.6-fold in 10 years, as it was \$6.478 billion in fiscal 2001. The GDP per capita was \$702, swelling 5.4-fold in the same decade. For comparison, Thailand, which is located adjacent to Myanmar, registered a GDP per capita of \$4,679 in fiscal 2010, greater than that of Myanmar by 560%; India, \$1,477, 100%; and China, \$4,393, 520%.

(2) Financial, currency-exchange and other movements

There are four state-run banks in Myanmar, but only three of them are licensed to provide foreign exchange services, which are, the Myanmar Investment and Commercial Bank (MICB), the Myanmar Foreign Trade Bank (MFTB) and the Myanmar Economic Bank (MEB). To date, foreign enterprises have not been allowed to have accounts with local private banks.

Two Japanese banks have representative offices in Myanmar, which are Sumitomo Mitsui Banking Corp. and The Bank of Tokyo-Mitsubishi UFJ Ltd.

As for the taxation system, a 30% corporate tax is imposed on foreign companies established according to the local foreign investment law, and 35% or rates calculated in a progressive taxation formula, whichever is higher, on foreign businesses' branch offices. The income tax rate is 15% for foreign residents and 2% for local residents. The commercial tax is 10%.

Regarding Myanmar's financial and foreign exchange systems, Japanese firms have strong dissatisfaction with the dual exchange rates, ways to send remittances to and from the nation and the appreciation of the Myanmar kyat.

(a) Dual exchange rates

Although it is entitled "dual exchange rates" above, there are, in fact, three different rates in Myanmar—the government rate, the official market rate and the market-determined rate. The official market rate is not commonly used, but when import goods prices and import tax rates are calculated, the following rates are applied.

Government rate: 5.578 kyats/1US\$

Official market rate: 450 kyats/1\$

Market-determined rate: 752 kyats/1\$

The government rate is determined by the government of Myanmar, and as its name indicates, it applies to official matters. For example, it is used, among other occasions, when data on trade statistics are converted from the Myanmar kyat to the U.S. dollar, when companies release financial statements and when investments to be made by foreign

businesses are converted to the local currency. It is not usually used in daily lives or for normal business activities.

As the government rate is much higher than the market-determined rate—by approximately 130 times, it can be said the former is not meaningful at all. Due to the government rate, when foreign enterprises invest in Myanmar, they make contributions in kind—not in cash—in many cases. The government rate could undermine the incentives of foreign businesses to invest in the country.

The government of Myanmar is well aware of the issue of dual exchange rates and in the process of promoting a reform to discontinue the government rate. As part of the reform, 17 private banks were licensed to provide foreign exchange services in October 2011. Now, they are officially authorized to exchange the U.S. dollar, the euro and the Singapore dollar with the kyat (market-determined rate).

(b) Overseas remittances and settlements

There is no problem in sending remittances to Myanmar from other countries. There is no limit to sending money from Myanmar to foreign nations either, although making payments for trade transactions—e.g., payments for goods—require cumbersome procedures.

The problem lies in making payments from Myanmar to other nations for activities other than trade transactions, such as payments for dividends. Therefore, enterprises intending to launch operations in Myanmar would need to decide whether to invest or not, assuming they cannot make such payments.

There are more problems. As Myanmar is under the U.S.' economic sanctions, banks located in America—including Japanese banks' local branch offices—cannot make U.S. dollar-based settlements with Myanmar banks. For this reason, many local businesses have set up bogus companies in Singapore and opened accounts with Singaporean banks.

(c) Appreciation of the kyat

The Myanmar kyat (market-determined rate) has been appreciating against the U.S. dollar since the beginning of 2011. Previously, the exchange rate was at around 1,100 kyats/\$1, but in 2011, the currency rose sharply to around 800 kyats/\$1. It was even higher at 752kyats/\$1 when the JIFFA mission arrived in Myanmar on Nov. 26, 2011. As of January 2012, no sign had been seen of drastically changing the trend, on which the kyat is strengthening against the U.S. dollar.

(3) Labor market

In Myanmar, the average wage is US\$41 per month, which is lower than half the averages in Cambodia (\$101 per month) and Vietnam (\$114 per month). Taking advantage of it, Myanmar enjoys overwhelming cost competitiveness in the sewing market, where most tasks are labor intensive. However, some of the sewers we interviewed said the productivities of local workers are much lower than those of Chinese and Vietnamese workers by one third to half.

The average salary for managers is \$238 per month, approximately half that in Cambodia (\$416) and about one third of that in Vietnam (\$641). Like other ASEAN members, we learned that Myanmar has a shortage of management-level human resources.

However, Myanmar's labor market enjoys a considerable advantage, as many local residents can speak and understand English. We felt there is no problem in communicating

with executives in English, and that even non-executive workers have higher English proficiencies than their counterparts in Cambodia, Laos, Vietnam, Thailand and other Southeast Asian countries. It is said that people in Myanmar boast a literacy rate of 90% or higher, which can be another big advantage.

3. Trade overview

(1) Export and import values, items and partners

(a) Trade to and from Japan

For Myanmar, Japan is a very important trade partner—the seventh greatest destination of exports and the sixth leading source of imports. Described in the table below are details of trade between Japan and Myanmar for the last four years. The exchange conversion is based on the government rate (5.5 kyats/1US\$).

Outline of Japan/Myanmar Trade

Category		Unit	2007	2008	2009	2010
1	Exports (total)	Value (million kyats)	35,298	37,028	41,289	49,107
		Value (million U.S. dollar)	6,418	6,732	7,507	8,929
2	Imports (total)	Value (million kyats)	18,419	24,874	22,837	35,509
		Value (million U.S. dollar)	3,349	4,523	4,152	6,456
3	Growth in exports (total)	%		4.70%	10.3%	15.9%
4	Growth in imports (total)	%		26.00%	-8.9%	35.7%
5	Exports to Japan	Value (million kyats)	1,021	1,006	966	1,314
		Value (million U.S. dollar)	186	183	176	239
6	Imports from Japan	Value (million kyats)	1,335	908	1,412	1,417
		Value (million U.S. dollar)	243	165	257	258
7	Growth in exports to Japan	%		-1.5%	-4.1%	26.5%
8	Growth in imports from Japan	%		-47.0%	35.7%	0.4%
9	Shipments to Japan (exports)	%	2.90%	2.7%	2.3%	2.7%
10	Shipments from Japan (imports)	%	7.20%	3.7%	6.2%	4.0%

Source: the table above was made by JIFFA from data provided by Myanmar's Central Statistical Organization.

Regarding Myanmar's trade, both exports and imports amount to approximately ¥15 billion to ¥20 billion (about ¥40 billion in total a year). The trade market is still much smaller than Japan's.

Items Traded between Japan and Myanmar

(unit: million U.S. dollars)

Exports

HS	Item	2007	2008	2009	2010	Ratio
62	Garments (fabrics)	95.34	132.39	148.84	182.70	47.0%
64	Footwear	49.25	56.78	72.31	78.54	20.2%
03	Seafood	70.09	63.68	59.47	57.90	14.9%
12	Sesame seeds	26.21	21.95	21.65	24.79	6.4%
07	Beans	8.64	11.66	8.58	13.15	3.4%
71	Precious stones (pearls and other)	12.97	9.76	6.88	7.53	1.9%
44	Wood	15.77	8.39	8.35	6.26	1.6%
61	Garments (knits)	0.16	0.20	0.31	0.48	0.1%
	Others	17.65	12.72	14.00	16.98	4.4%
		296.08	317.53	340.39	388.35	100.0%

Imports

HS	Item	2007	2008	2009	2010	Ratio
84	Construction equipment and other	52.06	58.49	57.35	116.97	44.3%
87	Construction equipment and other	72.21	65.14	87.27	53.30	20.2%
54	Synthetic long fibers and textile	7.02	8.00	8.67	15.08	5.7%
55	Synthetic short fibers and textiles	6.06	7.80	7.70	11.59	4.4%
85	Electric equipment	6.01	7.39	6.65	11.39	4.3%
90	Optical instruments and others	2.00	2.28	4.53	3.66	1.4%
	Others	30.93	39.31	29.62	52.25	19.8%
		176.29	188.42	201.79	264.24	100.0%

Source: The table above was made from data provided by the Yangon office of the Japan External Trade Organization (JETRO)

Looking at exports from Myanmar to Japan, garments (fabrics) accounted for 47% in fiscal 2010 and footwear, 20.2%. The two commodity groups hold a combined share of nearly 70%. Most business with Japanese companies is done on a cutting, making and packing (CMP) basis. CMP products are increasing year by year. In particular, it is noteworthy that CMP products doubled from fiscal 2007 to fiscal 2010 in the sector of garments (fabrics). We learned at a hearing session that Japanese sewers are very interested in Myanmar, indicating that their production activities are moving from China and other markets.

As for imports from Japan to Myanmar, construction equipment and others held a share of 44.3% in fiscal 2010 and trucks and others, 20.2%. Combined, they accounted for nearly two thirds of the pie. It is estimated that construction equipment, trucks and other items are imported from Japan for construction and infrastructure development projects.

Manufactured products rank high in both exports and imports, a very distinct feature of Myanmar's trade to and from Japan. Especially, export CMP products—e.g., garments and footwear—are a major contributor.

4. Investment climate

(1) Information on establishing companies

Foreign businesses can invest in Myanmar in the following five ways.

- i. Wholly-owned subsidiaries: Foreign businesses can establish wholly-owned subsidiaries.
- ii. Joint ventures: Foreign businesses can set up joint ventures with local private or state-run companies.
- iii. Branch and representative offices: Foreign businesses not allowed to found local affiliates may have footholds by opening branch or representative offices.
- iv. Partnerships: When foreign businesses establish partnerships, they can advance joint projects without establishing local companies.
- v. CMP contracts: When foreign businesses conclude CMP contracts with Myanmar firms, they can entrust production activities to the latter.

When foreign businesses establish subsidiaries in Myanmar in accordance with the local foreign investment law, they must have capitals of US\$500,000 or more ready for manufacturers and \$300,000 or more for service providers.

According to the local corporate law, manufacturing companies, construction companies and hotels must be capitalized at over one million kyats worth of foreign currencies; commerce companies, 500,000 kyats worth of foreign currencies; and service companies, travel companies, banks and insurance companies, 300,000 kyats worse of foreign currencies.

The foreign investment law is a relatively new act that is designed to boost exports from Myanmar by importing capital from other countries. The Myanmar Investment Commission (MIC) is in charge of issuing permits for establishing local subsidiaries. Overseas companies are even allowed to set up wholly-owned affiliates. When establishing joint ventures, foreign partners must have stakes of 35% or more, and can have as many shares as they want to. In an extreme case, there is even no problem in opening a new business in which a foreign partner holds a stake of 99% and a local partner, just the remaining 1%.

(2) Regulations on foreign investments and preferential treatment programs

From a national security standpoint, Myanmar—like many other economies—does not allow foreign businesses to hold stakes in 12 infrastructure-related fields of business, such as mining natural resources as well as providing aviation, railway and communication services. However, if authorized by the government, they will be able to advance into the 12 markets, which are governed by the State-owned Economic Enterprise Law.

Overseas companies intending to launch business in Myanmar can enjoy some following preferential treatments.

- i. Exemption from income tax for three consecutive years beginning with the year in which the operation commences, and a further tax exemption or relief for an appropriate period in case if it is considered beneficial for the state.
- ii. Exemption or relief from income tax on profit which is reinvested within one year.
- iii. Relief from income tax up to 50% on the profit from exports.
- iv. Right to pay income tax on behalf of the foreign employees and to deduct the same from the assessable income of the enterprise.
- v. Right to pay income tax of the foreign employees at the rate applicable to the citizens of Myanmar.
- vi. Right to accelerate depreciation.

vii. Right to carry forward and set off losses up to consecutive years from the year the loss is sustained.

viii. Exemption of relief from customs duty and other taxes on: imported machinery and equipment for use during the construction period; and imported raw materials for the first three years commercial production following the completion of construction.

To attract more foreign businesses by giving more incentives, the government of Myanmar enacted a new law in January 2011 for establishing special economic zones (SEZs), intending to develop SEZs at the following three locations.

Dawei: Financed by Thailand interests, a project is ongoing to develop a new deepwater port and an adjacent SEZ. Dawei was designated as a SEZ in January 2011.

Kyauphyu: A new deepwater port and an adjacent SEZ are being developed. Construction work has already begun, but as of January 2012, an SEZ designation had not been issued.

Thilawa: Thilawa, an existing river port located 25 kilometers south of the center of Yangon, is being expanded. As of January 2012, it had not been designated as an SEZ.

Preferential treatment programs provided under the SEZ law include—a) income tax exemption on the proceeds of overseas sale for the first five years, b) 50% relief on the income tax rate for the second five years, c) exemption from customs duty and other revenues for imported raw materials, machinery, equipment and d) concessions for 30 years or longer.

5. Japanese companies

The number of Japanese companies that have launched business operations in Myanmar—or members affiliated with the Japanese Chamber of Commerce and Industry in Yangon—reached 52 in fiscal 2011. The number went down to 50 in fiscal 2008, increased to 51 in fiscal 2009, remained unchanged in fiscal 2010 and rose to 52 in fiscal 2011.

Members of the Japanese Chamber of Commerce and Industry in Yangon (from fiscal 1996 to 2011)

Fiscal year	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11
Number	61	83	86	70	67	66	61	59	64	63	57	55	50	51	51	52

Source: Sumitomo Mitsui Banking Corp.

Breaking down the total number by type of business, 15 belong to the retail and service section, forming the largest group; 13, the industry section, which includes manufactures and others that have high interests in the forwarding business; and eight, the construction section, which includes construction equipment makers.

Among the Japanese firms doing business in Myanmar, sewers are notable in that they perform production operations under the CMP system. They import almost all raw materials from China, Japan, Vietnam and other sources. After processing the raw

materials at their local manufacturing facilities, they export all completed products to Japan. We interviewed some needlework product makers, which said they use airborne services when importing materials and exporting products urgently, but added that they normally use shipping (container) services.

As for logistics services, Nissin Corp. stations its employee at Myanma Five Star Line (MFSL), a former state-run shipping company. Flix International (Yangon) Ltd., a joint venture between Japan and Myanmar, is one of the few Japan-based operators that run forwarding services. Eastern Car Liner Ltd. (ECL) is the only Japanese shipping line to operate a liner service to Yangon, which is provided with a conventional ship and via Singapore.

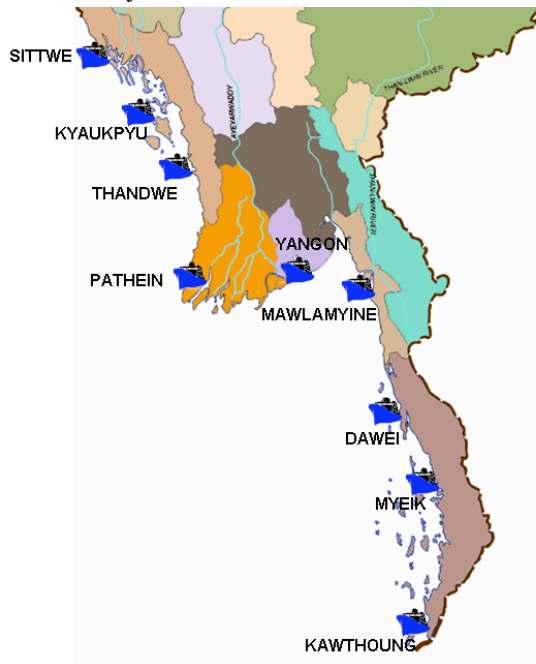
A variety of organizations are visiting and inspecting Myanmar, according to the ASEAN-Japan Centre, the JETRO and local companies. It is doubtless that Japanese enterprises are growingly interested in the nation.

Chapter 2: Ports and harbours

1. Port and harbours overview

(1) Outline

There are a total of nine ports in Myanmar, which extend from north to south. By region, one is in Yangon, three in Rakhine, one in Ayeyarwady, one in Mon and three in Tanintharyi.



Source: Data provided by the MPA

Myanmar ports of three kinds

Group	Ports
Port for exporting and importing cargoes	Yangon
Port for exporting cargoes	Sittwe , Patheingyi , Mawlamyine , Myeik
Port for handling domestic cargoes	Kyaukpyu , Thandwe , Dawei , Kawthaung

Source: Data provided by the MPA

(2) Port management

All of the Myanmar ports are managed by the Myanmar Port Authority (MPA).

In 1997, the Port of Yangon's Asia World Port Terminal (AWPT) was privatized. Several more terminals have since followed suit. Currently, private terminals account for 70% of the port's overall quay length.



Yangon Customs (left) and MPA (right)

2. Port of Yangon overview

(1) Approach to Yangon

Yangon is the only port in Myanmar that handles both export and import shipments. More than 90% of cargoes to and from Myanmar are handled at this nation's largest port. Ships of 20,000 dwt—or containerships of 800 TEUs—can only go upstream 16 kilometers from the mouth of the Yangon River. As such, this river route can only accommodate feeder and shortsea vessels. To process cargoes that have been increasing recently, a plan is on the table to deepen the draft to 12 meters to allow ships of 35,000 dwt to travel on the route.



Port of Yangon

(2) Cargo throughput

Cargo throughput is growing every year at the Port of Yangon. In fiscal 2010, it was 17.007 million tons, consisting of 11,217 million tons of exports (up 34% from a year earlier) and 5.79 million tons of imports (up 66%). Imports have been greater quantitatively than exports in recent years. In step with the growth in overall cargo throughput, containerized shipments are also increasing, as indicated in the table below. Year-on-year growth was 10% or more from fiscal 2005 to fiscal 2009. Today, approximately 20 percent of the cargoes handled at the port are transported in containers.

Container throughput

Fiscal year (Apr-Mar)	Import (TEU)	Export (TEU)	Total (TEU)	Total (M-ton)		
2005	86,130	85,775	171,905	10%	2,606,160	-2%
2006	99,942	97,337	197,279	15%	3,148,045	21%
2007	115,267	111,236	226,503	15%	3,462,489	10%
2008	133,712	130,294	264,006	17%	3,937,131	14%
2009	152,077	151,333	303,410	15%	4,372,025	11%
2010	163,186	165,487	328,673	8%	4,301,164	-2%

Source: Data provided by the MPA

(3) Yangon's Position in the world

The Port of Yangon handled approximately 330,000 TEUs of containerized shipments in fiscal 2010. Comparing to Japanese ports, it is even smaller than the Port of Shimizu, which processed some 470,000 TEUs

World's top 10 container ports in 2010 (unit: ten thousand TEUs)

Rank	Port	Country (Region)	Throughput
1	Shanghai	China	2,907
2	Singapore	Singapore	2,843
3	Hong Kong	China (Hong Kong)	2,353
4	Shenzhen	China	2,251
5	Busan	South Korea	1,416
6	Ningbo	China	1,314
7	Guangzhou	China	1,255
8	Qingdao	China	1,201
9	Dubai	UAE	1,160
10	Rotterdam	Netherlands	1,115

Japan's top container ports in 2010

1	Tokyo	Japan	420
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2	Yokohama	Japan	328
3	Kobe	Japan	256
4	Nagoya	Japan	255
5	Osaka	Japan	228
6	Hakata	Japan	85
7	Kitakyushu	Japan	48
8	Shimizu	Japan	47
	Yangon	Myanmar	33

Source: the Ministry of Land, Infrastructure, Transport and Tourism (MLIT)'s Ports and Harbours Bureau

(4) Major Terminals

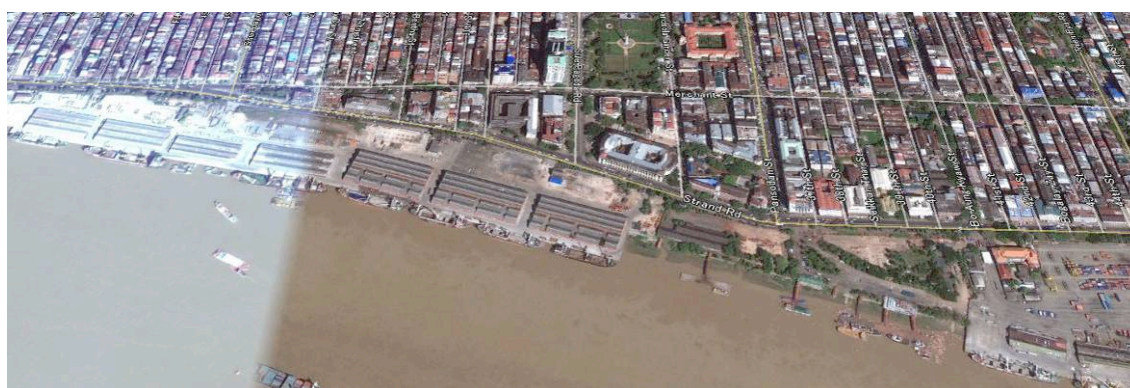
The Port of Yangon has six terminals, which boast 23 berths. Containers are handled at five terminals—Bo Aung Gyaw Wharves Terminal (BSW), Myanmar Industrial Port Terminal (MIP), Asia World Port Terminal (AWPT), Myanmar International Terminal Thilawa (MITT) and Myanmar Integrated Port Ltd. (MIPL). The five terminals have 14 container berths, while there are three inland container depots (ICDs).

Sule Pagoda Wharves Terminal (SPW)

Sule Pagoda Wharves Terminal (SPW) has seven berths, the total quay length of which is 1,040 meters. Boasting a longer history than any other terminal at the Port of Yangon, it is exclusively for handling general cargoes. Containerized shipments are not processed.

Bo Aung Gyaw Wharves Terminal (BSW)

BSW is made up of three berths, which have a combined quay length of 457 meters. No. 3 Container Wharf can handle containers, equipped with a gantry crane. However, in November 2011, the crane was not in operation, as it was out of order. The terminal has an annual capacity of 85,000 TEUs.



SPW on the left and BSW on the right

Myanmar Industrial Port Terminal (MIP)

MIP was completed in April 2003 in a built, operate and transfer (BOT) system by Myanmar Annawa Swan-er-shin Group (S) Co. Ltd. The terminal's two berths have an overall quay length of 310 meters. Major commodities are cement, which is exported, and wood, which is imported.

Cargo lifting is on the rise at MIP. In fiscal 2010, imports totaled 729,000 tons and exports,

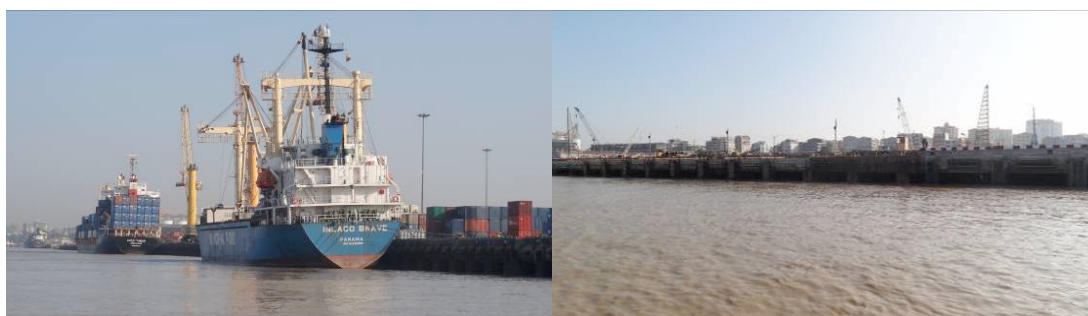
480,000 tons, growing a remarkable 61% from a year earlier. Container throughput is also swelling. In the fiscal year in question, it reached an all-time high of 72,771 TEUs, skyrocketing 170%.

At MIP, a new container berth is under construction (Phase 1). The new berth will have a quay length of 600 meters and cover an area of 48.071 acres. It is expected to increase the terminal's container capacity by 200,000 TEUs. Construction work has begun, and the berth is expected to become operational within three years.

Asia World Port Terminal (AWPT)

AWPT, which was also constructed in a BOT system, is the first privatized terminal at the Port of Yangon. Outfit with cutting-edge cargo-handling equipment, it processes 60% of the shipments imported to and exported from the port.

In fiscal 2010, AWPT handled 1.6 million tons of imports and 1.544 million tons of exports. As for containers, 108,000 TEUs were imported, and 100,000 TEUs exported. Container throughput has tripled in the last five to six fiscal years. In November 2006, construction work began for a fourth berth (Phase 4). The adjacent new berth is scheduled to go into operation in 2012.



Existing berth

New berth under construction

Myanmar International Terminal Thilawa (MITT)

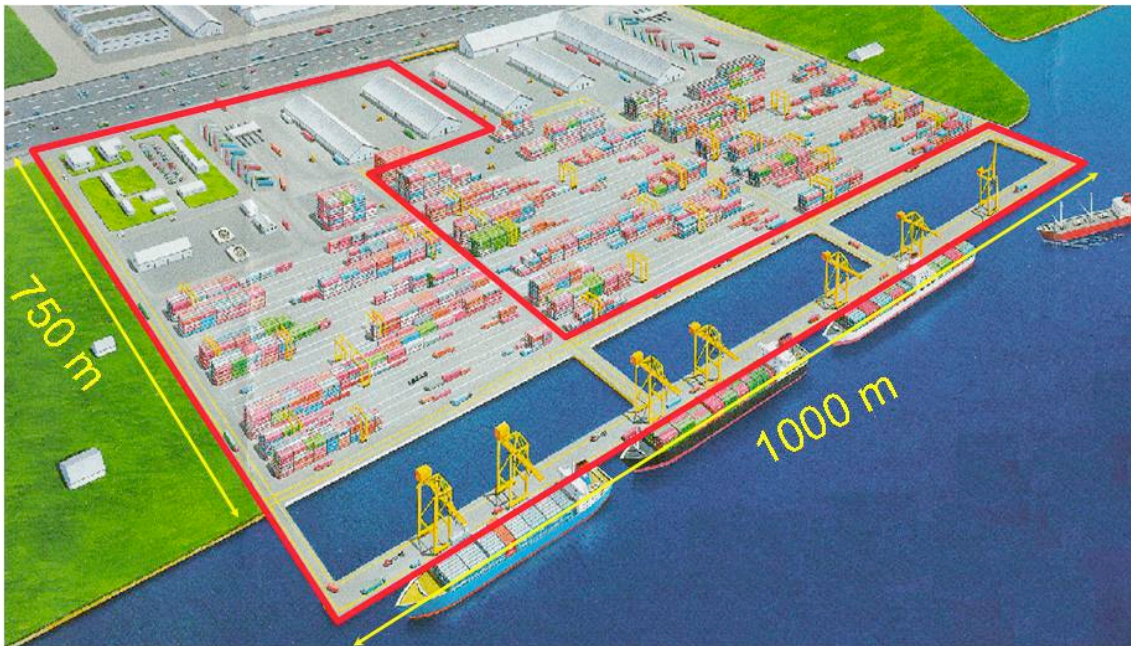
At MITT, Hong Kong's Hutchison Port Holdings (HPH) has been managing and operating the terminal's five berths (berths 5 to 9) on a BOT contract since 1997. The terminal's container berths measure 1,000 meters in total length, 750 meters in depth and 10 meters in draft. In fiscal 2010, 2.329 million tons of general cargoes and 9,500 TEUs of containers were handled. As it concerns general cargo throughput, MITT enjoyed a share of 39% at the Port of Yangon. Its container lifting only accounts for 2.9% but its capacity is large, amounting to 118,000 TEUs. An on-dock railway siding extending all the way to the container yard leads to an inland railway terminal.

There is a new logistics route to access Thilawa, but as it is used very frequently, it is very bumpy. As such, it is estimated that cargoes carried on this route could be damaged. Currently, a project is ongoing to upgrade nearby roads, and it is hoped to bring about smoother logistics services.

A total of 37 berths will be developed at the Port of Thilawa. Currently, four berths (berths 10 to 13) are under construction for installing gantry cranes.

Behind the Port of Thilawa, an SEZ is being developed. Cargo throughput is anticipated to

rise when the SEZ is completed. The SEZ will cover a total area of some 130,000 square meters. Japan will invest in 2,000 acres of land, while South Korea will finance as much.



MIT: The framed area is now operational and the above right area is an open yard

Myanmar Integrated Port Ltd. (MIPL)

Myanmar Integrated Port Ltd. of Singapore manages and operates the Port of Thilawa's fourth berth in a BOT system. With a quay length of 200 meters and a draft of 10 meters, the terminal can host vessels of 20,000 tons. It primarily handles wood, beans and other commodities, but we learned that containers have also been processed recently.

(5) Features and challenges

(a) CFSs in terminals

In Myanmar, terminal operators' container freight station (CFS) warehouses are located in ports' container yards, a feature the country's shipping business is known for. Customs officers are stationed at CFSs, being responsible for inspecting all import and export cargoes.

Consolidation cargoes are stuffed at CFSs in many cases. Japanese companies usually consolidate cargoes at their own manufacturing facilities, but many local enterprises do not have devices for handling cargoes or rooms for storing containers. As such, quite a few of them entrust stuffing activities to on-dock service providers. It is possible for forwarders that have cargo-handling facilities on their own to consolidate cargo there. They do not have to have any special licenses, such as those for offering bonded services. However, final customs inspections must be conducted at CFSs in terminals.

(b) Draft

As Yangon is a river port, the MPA always dredges the approaching channel. However, the draft is just nine meters, which is not deep enough to accommodate large ships. For this

reason, only small vessels can have access to the port, requiring transshipment activities in Singapore. As a consequence, it is difficult to anticipate lead time.

(c) Congestions

As the Port of Yangon does not have sufficient cargo-handling equipment, container loading and unloading activities are performed very poorly, generating a problem of long waiting time. As the port is not spacious, it does not have many facilities and much space, causing a chronic congestion. Because the port is close to the center of the city, it is vulnerable to nearby traffic jams. We heard some say that, for this reason, lead time can be long and unreliable. To eliminate these challenges, construction is ongoing to improve roads around Yangon. A project is being advanced at a rapid pace to build cargo roads directly to port terminals.



Access road to the port



Dedicated cargo road

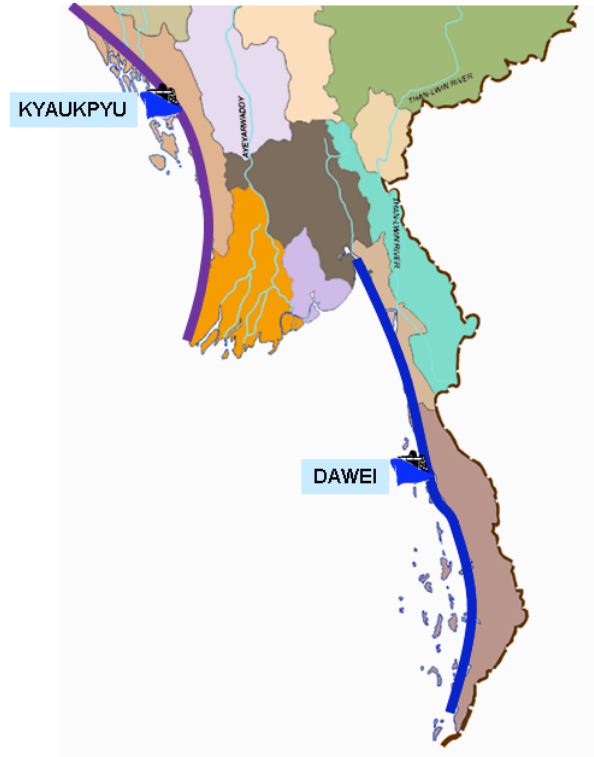
3. Deepwater port projects

Currently, the largest vessels that can enter the ports of Yangon and Thilawa are of 15,000 dwt and 20,000 dwt, respectively. As such, the MPA is advancing a plan to enable the ports to accommodate ships of 35,000 dwt. However, we were told that deepwater ports—like Laem Chabang in Thailand and Cai Mep-Thi Vai in Vietnam—cannot be constructed near Yangon for topographical reasons.

Deepwater ports are actually being developed in Dawei and Kyaukpyu. Nevertheless, as the municipalities are both situated distant from Yangon, the new ports will not be able to directly ease the congestion at Yangon or help Yangon process a growing volume of shipments more smoothly. Therefore, shippers located near Yangon will continue to use the Port of Yangon. As such, the challenges facing the river port will not be overcome for the time being.

(1) Dawei

Dawei is located some 600 kilometers south of Yangon and even close to Bangkok. When the new port is linked with the Southern Economic Corridor, which connects Ho Chi Minh City with Bangkok, a new logistics route will become available from Indochina to the Andaman Sea and the Indian Ocean. It is believed that transit time will also be shortened by three days from the current route via the Strait of Malacca. In May 2008, the governments of Myanmar and Thailand agreed on a memorandum of understanding (MOU) for a project to develop a port in Dawei and other facilities in adjacent areas. Currently, the Port of Dawei is being constructed by Italian-Thai Development Plc., a Bangkok-based general contractor.



Deep Sea Port Project

Schedule for developing the Port of Dawei

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Phase 1	█	█	█	█	█					
Phase 2				█	█	█	█	█		
Phase 3						█	█	█	█	█
Commercial complex	█	█	█	█	█					

Source: Myanmar Port Authority (MPA)

(2) Kyaukpyu

Kyaukpyu is in Rakhine state, which is located adjacent to Bangladesh. The government of China is passionately developing the port as part of a new logistics route from Yunnan province, China to the Bay of Bengal. The new route is as much as 5,000 kilometers shorter the existing oceangoing route via the Strait of Malacca to the east coast of China. In June 2009, Myanmar’s Ministry of Energy signed an MOU with a Chinese national oil company on the operation and management of a project to construct a pipeline for transporting gas from Kyaukpyu to Yunnan. It is scheduled that a petroleum and gas terminal will be completed in December 2012. Enjoying a draft of 26 meters, it will be able to accommodate 300,000-dwt tankers that measure 300 meters in length and 60 meters in breadth.

Architect’s conception of Kyaukpyu Port



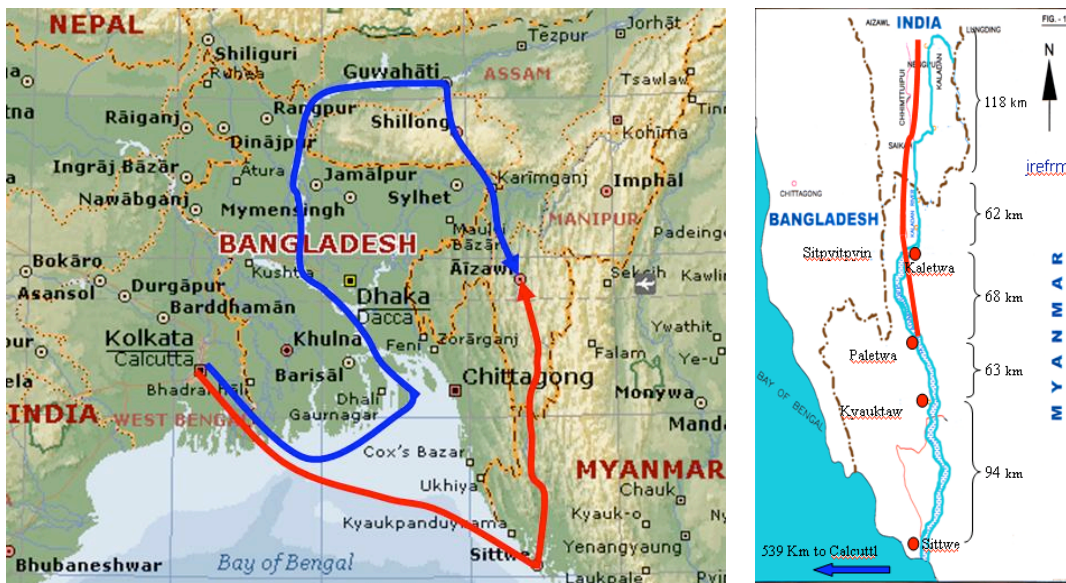
Source: Myanmar Port Authority (MPA)

(3) Sittwe

Sittwe is situated some 150 northwest of Kyaukpyu. A new plan had been on the table to develop a new logistics route on the Kaladan River from the Port of Sittwe to Aizawl in northeast India. In April 2008, the governments of Myanmar and India agreed on an MOU on the Kaladan Multimodal Transit Transport Project.

The total length of a previous route—from Kolkata via West Bengal to Aizawl—is 1,967 kilometers, while the new route—from Kolkata via Sittwe to Aizawl (shortsea transport to Aizawl)—is 1,294 kilometers, meaning the latter is shorter by 673 kilometers.

Entire route (left) and waterway route from Sittwe Port



Source: Myanmar Port Authority (MPA)

1. Cargo transport overview

(1) Cargo throughput by mode

(a) Domestic transport

The table below shows domestic cargo throughput in Myanmar from 2004 to 2010 and shares held by different transport modes. On a tonnage scale, the total volume more than doubled in the six years, skyrocketing 210%. In 2010, land (truck) transport handled more than half the total. On a ton-kilometer basis, meanwhile, water transport and railway services also held considerable shares. It is estimated that wood, stone, oil and other heavy commodities are moved for long distances.

Domestic cargo throughput and share by mode

Tonnage basis (unit: thousand tons/%)

Year	2004	2005	2006	2007	2008	2009	2010
Road	2,099	2,289	2,377	2,395	20,317	34,991	20,560
	23%	24%	25%	25%	–	81%	72%
Rail	2,847	2,894	2,901	2,825	2,976	3,236	3,322
	31%	31%	30%	29%	–	8%	12%
Air	2.8	1.52	0.86	2.21	0.62	5.58	0.69
	0.03%	0.02%	0.01%	0.02%	–	0.01%	0.00%
Waterway	4,307	4,262	4,284	4,479	N/A	4,733	4,786
	47%	45%	45%	46%	N/A	11%	17%
Total	9,256	9,447	9,563	9,701	–	42,966	28,669
	100%	100%	100%	100%	–	100%	100%

Note: Dashes indicate that data are not available.

Source: ASEAN-Japan Transport Partnership Information Center

Ton-kilometer basis (unit: million ton-kilometers/%)

Year	2004	2005	2006	2007	2008	2009	2010
Road	394	421	449	479	1,128	2,320	2,206
	–	–	–	–	–	52%	47%
Rail	867	922	909	828	905	1,021	1,085
	–	–	–	–	–	23%	23%
Air	–	–	–	–	0.03	0.07	0.04
	–	–	–	–	–	0.002%	0.001%
Waterway	–	–	–	–	–	1,092	1,394
	–	–	–	–	–	25%	30%
Total	–	–	–	–	–	4,433	4,686

Note: Dashes indicate that data are not available.

Source: ASEAN-Japan Transport Partnership Information Center

(b) International transport

Looking at international cargo throughput, water transport held the largest share in 2010, handling 22.22 million tons. It is followed by land transport, which moved 1.076 million tons, and air transport, 150,000 tons. Statistical data on the volume of shipments carried by rail are not released.

International cargo throughput by mode (tonnage basis)
(unit: thousand tons)

Year	2004	2005	2006	2007	2008	2009	2010
Road	-	-	-	-	457	1,105	1,076
Rail	-	-	-	-	-	-	-
Air	9.39	9.3	9.71	10.11	12.23	13.44	15.67
Waterway	-	-	-	-	-	15,787	22,220

Note: Dashes indicate that data are not available.

Source: ASEAN-Japan Transport Partnership Information Center

(2) Major logistics cities

In Myanmar, logistics functions are located mainly in Yangon, Nay Pyi Taw and Mandalay, which are described below.

Yangon

Yangon is the largest city in Myanmar and was the capital of the Southeast Asian nation until 2005. It has a population of more than four million people. In addition to local leading companies, many multi-national businesses are also there, including those from Japan. In Mingaladon, where Yangon International Airport is situated, Japanese and other sewing companies have manufacturing facilities. The city hosts Myanmar's busiest trade port, which is responsible for processing approximately 99% of the containers the country exports and imports.

Nay Pyi Taw

Nay Pyi Taw is now the capital of Myanmar, located some 300 kilometers north of Yangon. By March 2006, the government had relocated almost all of its functions. Applications for obtaining export and import license are submitted in Nay Pyi Taw. Applications can be submitted in Yangon as well.

Mandalay

Mandalay is the second largest city in Myanmar, situated 716 kilometers from Yangon. It is located in the center of an arid area. It is an important point for land transport services. Most of the cargoes handled at the city are imports by land from China (via Muse) and India (via Tamu). They are bound for Mandalay, from which they are distributed to municipalities in southern Myanmar. Japanese companies have not launched operations in the city yet.

2. Various transport modes

(1) Land transport

(a) Transport infrastructure (roads)

In 2012, Myanmar's total road length was 136,749 kilometers, 28,569 kilometers of which are paved. Running from north to south, a trunk route links Yangon, Nay Pyi Taw and Mandalay.

Road expansion (unit: kilometer)

Year	2004	2005	2006	2007	2008	2009	2010
Total road length (1)	90,713	92,859	104,050	111,740	125,355	127,942	136,749
Paved roads (2)	22,153	22,830	23,955	24,670	25,553	26,333	28,569
(2)/(1)	24.4%	24.6%	23.0%	22.1%	20.4%	20.6%	20.9%
Expressways	-	-	-	-	-	323.6	587

Note: Dashes indicate that data are not available.

Source: ASEAN-Japan Transport Partnership Information Center

Transit time between Yangon and Mandalay, both of which are major cities, is around 24 hours (including six-hour rests), according to local trucking companies, which added that freight rates are approximately 30,000 kyats (about ¥3,111) per ton, but they vary slightly, depending on what is transported. Roads in and around Yangon and other big cities are so well developed that there is no major trouble. But in rural areas, roads are frequently bumpy, causing accidents.

(b) Trucking companies

As of 2010, there were 546 trucking companies and 734 forwarders, according to the ASEAN-Japan Transport Partnership Information Center. When holding a hearing session among members of the Highway Commodity Transportation Entrepreneurs Association (MHFTSA), we learned that single trucking companies owned 17 vehicles at most, far from being major players. They were all small and midsize business operators that focus on local services. None of them provides services nationwide. From a viewpoint of Japanese shippers, challenges facing Myanmar's land transport service operators are as follows: (1) services are not punctual and (2) it is difficult to track cargoes. A Japanese shipper said it has truck drivers carry cellular phones and/or wireless communication devices so that it can always know where the drivers are.

(c) Domestic cargo throughput

In 2010, 20.56 million tons of shipments were carried by land. On a ton-kilometer basis, the total was 2.206 billion ton-kilometers. From 2008, it improved 1.2% on a tonnage basis and 95.6% on a ton-kilometer basis.

Year	2004	2005	2006	2007	2008	2009	2010
Thousand tons	2,099	2,289	2,377	2,395	20,317	34,991	20,560
Y-on-Y growth(%)	-	9%	4%	1%	748%	72%	-41%
Million ton-kilo	394	421	449	479	1,128	2,320	2,206
Y-on-Y growth(%)	-	7%	7%	7%	136%	106%	-5%

Note: Dashes indicate that data are not available.

Source: ASEAN-Japan Transport Partnership Information Center

(d) International cargo throughput

Until 2007, data were not compiled on international cargoes moved by land in Myanmar. In 2010, imports amounted to 1.076 million tons, surging 135% in the previous two years, or

International cargoes moved by land

Year	2004	2005	2006	2007	2008	2009	2010
Imports (1,000 tons)	-	-	-	-	457	1,105	1,076
Year-to-year (%)	-	-	-	-	-	142%	-3%

Note: Dashes indicate that data are not available.

Source: ASEAN-Japan Transport Partnership Information Center

Roads and truck terminals



In Yangon, there are traffic jams in the morning and evening. Two-wheel vehicles are regulated



In Mandalay, there are many passenger cars and two-wheel vehicles



Many trucks are overloaded



Diesel fuel (light oil) costs drivers about 3,500 kyats per imperial gallon (approximately ¥363, or ¥82 per liter) and gasoline, about 3,700 kyats per imperial gallon (approximately ¥384, or ¥87 per liter)

(2) Rail transport

(a) Overview

Myanmar Railways (MR) is the only player in the field of rail transport. It owns 37 steam locomotives and 313 diesel locomotives, meaning the Southeast Asian country's railway system is not electrified yet. It uses a one-meter gauge. Railway services are operated at a maximum speed of 75 kilometers per hour between Yangon and Mandalay. The operator has 150 container cars, around 20 of which are not in service, as they are broken. However, in fact, container transport is not very popular. Many shipments are handled in boxcars. Currently, there are six or seven rail express service operators, all of which are local companies.

The busiest route is between Yangon and Mandalay, and in many cases, commodities imported from China (Yunnan) are transhipped to freight cars at Mandalay and forwarded to Yangon.

Railway transport competes with land transport. However, as freight rates for trucking services go up in the dry season (October), those for rail services become relatively lower. As such, demand for rail services grows in the dry season. For this reason, we heard that rail services are fully loaded every day in October.

Although higher efficiencies and service quality have been required in recent years, MR has been severely criticized for having remained unproductive and inefficient, both of which are typical cultures of state-run corporations. When having a hearing session, we learned the following challenges facing Myanmar's railway sector.

- All routes are still unelectrified.
- All routes—but the one between Yangon and Mandalay—are single-track.
- As passengers enjoy priority over cargoes, freight trains are not allowed to travel in the morning. They can begin running afternoon. For the same reason, it is difficult to develop schedules for cargo services. As such, there is no established freight train schedule.
- Rails and other facilities are not well maintained. Moreover, it is not easy to buy spare parts and components. Therefore, there is a difficulty in managing and operating the railway system.
- Basically, cargo loading and unloading activities at train terminals are performed manually. Furthermore, they are provided so poorly that cargoes are sometimes damaged severely.

- Different routes have different communication and signaling systems. In addition, they are not well managed, operated or maintained, becoming a factor causing accidents.

(b) Rail cargo throughput

Described in the table below is rail cargo throughput in Myanmar. Most of the shipments moved by rail are carried between domestic points, including shipments imported from other nations. Railway services are hardly used for the bonded transport of export or import freight. We heard that containers are carried from Yangon to Mandalay for parts and components as well as construction materials, but they are not very frequent.

Rail cargo throughput

	2005	2006	2007	2008	2009	2010
Domestic cargoes	2,894	2,901	2,825	2,976	3,236	3,322
Export/import cargoes	-	-	-	-	-	-
±%	2%	0%	-3%	5%	9%	3%

Note: Dashes indicate that data are not available.

Source: ASEAN-Japan Transport Partnership Information Center

(c) Major routes

The busiest route in Myanmar’s railway transport system runs between Yangon, the nation’s largest city, and Mandalay, the second largest city. On the route, 40 one-way freight train services (80 round-trip services) are operated every month. One train is made up of 15 freight cars. One freight car weights 32 tons, meaning that one train of 15 cars is as heavy as 480 tons. The transit time between the cities is approximately 20 hours. Services are even available—but not frequent—all the way to Myitkyina, Kachin state, and Lashio, Shan state, both of which are mountainous states in northern Myanmar that border China.

At railway terminal



Roofs do not shelter cargoes from rain

Cargoes transshipped to trucks

(3) Domestic shipping

(a) Overview

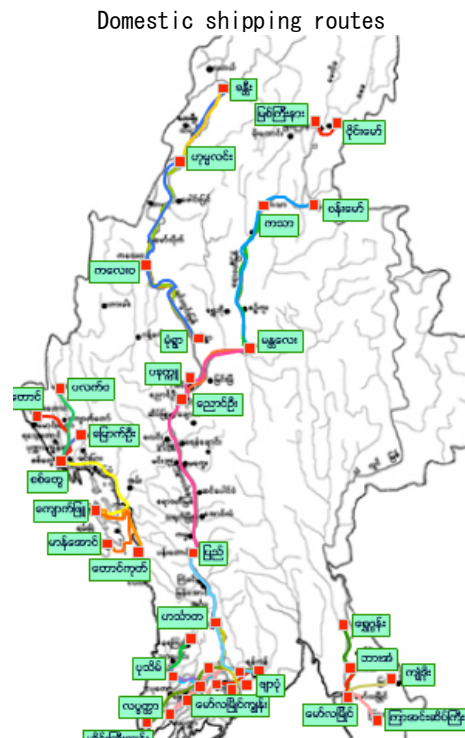
Shipping is a traditional transport mode in Myanmar, used to transport people and everyday goods. On a tonnage basis, it enjoys a share of 17% in the pie of domestic cargo transport.

Services are provided on a total of 11 routes, which extend 1,396 miles (approximately 2,233 kilometers)—872 miles (1,395 kilometers) in Ayeyawady and 524 miles (838 kilometers) in Chindwin Myit. It takes about a week to carry cargoes by water between Yangon and Mandalay, but we heard that freight rates are lower than trucking and railway services.

There are two outstanding challenges in the domestic shipping sector. i) In the dry season, ships cannot be operated on some routes. ii) As port facilities are aged, services are inefficient.

(b) Domestic shipping cargo throughput

In 2010, the total volume of shipments handled in domestic shipping services was 6.687 million tons. In 2007, a year-on-year increase of 9% was gained, but throughput remained nearly unchanged from the calendar year. Statistical data are not released on international cargoes moved domestically by water.



Source: Myanmar's Ministry of Transport

Domestic shipping cargo throughput

(Unit: 1000 tons)

年	2004	2005	2006	2007	2008	2009	2010
千トン	5,881	5,739	6,100	6,656	6,578	6,661	6,687
対前年 比 %	-	-2%	6%	9%	-1%	1%	0%

Source: Asean Japan Transport Partnership Information Center

River port of Mandalay



There are no warehouses or other facilities near the port. Work is done by humans

(4) Air transport

(a) Overview

There are 69 airports in total in Myanmar. Two international airports are located in Yangon and Mandalay. Yangon International Airport plays a leading role in handling export and import shipments, processing 99% of the international airborne cargoes to and from the nation. The airport has a runway that is 3,413 meters long and 61 meters wide. No direct flight service is provided to Japan, and as such, shipments bound for Japan need to be transhipped at Bangkok or Singapore, as services to these cities are operated more frequently. Cargo carriers are not operated to or from Yangon, and therefore, all shipments to and from the city are carried in passenger flights.

(b) Air cargo throughput

As the table below shows, airborne cargoes are increasing every year. They increased more than 50 percent for the five years from fiscal 2005 to fiscal 2010. Approximately 50 tons to 60 tons of shipments are exported from Yangon every day. Major destinations include Guangzhou, China; Hong Kong; Bangkok; and Hanoi. As described above, however, most commodities destined to these cities are transported via Bangkok or Singapore.

Air cargo throughput (unit: tons)

Year	2005	2006	2007	2008	2009	2010
Domestic cargoes	1,520	860	2,210	620	5,580	690
Imports	4,740	5,090	5,380	6,350	6,280	6,360
Exports	4,560	4,620	4,730	5,880	7,160	9,310
Total	10,820	10,570	12,320	12,850	19,020	16,360
±%	-11%	-2%	17%	4%	48%	-14%

Source: Asean Japan Transport Partnership Information Centerホームページ

(c) Airport sheds

Currently, the Myanmar Customs operates airport sheds for import cargoes. There are two for export cargoes—Myanmar Airways International Co. Ltd. (MAI)'s cargo terminal (old terminal) and Mingaladon Cargo Services Co. (MCS)'s facility (new terminal), which will go into operation in the future. Previously, the old terminal, which is managed and operated by MAI, was the only shed. However, as terminal operations have been handed over to the private business operator on a build, operate and transfer (BOT) contract, enabling the new terminal to become operational. In February 2012, it was in service on a trial basis.

At the old terminal, there were not many folk lifts or other cargo-handling facilities. As such, cargoes were delivered into and out of the terminal manually. In contrast, the new terminal, which will have cutting-edge facilities and is located adjacent to an airport, cargo will be handled much more smoothly. It is hoped that delays in cargo delivery schedules and other problems will be eliminated.

At the new terminal, declarations for export cargoes can be made outside the bonded area (e.g., when the cargoes are still at manufacturing facilities and being transported). When freight is delivered to the shed, documents will be examined to confirm whether or not declarations to be submitted to the customs office and cargo descriptions are correct. The customs office will conduct X-ray inspections on all cargoes and check 5% to 10% of them. If there is no problem, shipments will be forwarded to airports. In principle, when exported, cargoes need to be delivered to airlines by at least four hours in advance to airplanes' departures.

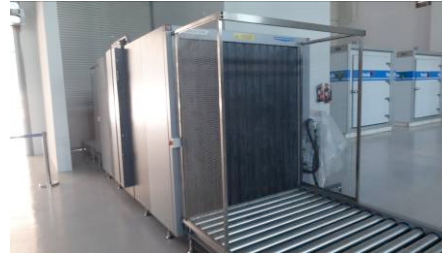
New Terminal



Front counter on the first floor of the terminal office building Cargoes are stored in this area



There are three refrigerators



X-ray machine

Old Terminal



When inspections are completed, cargoes will be transported on pallets to airports



X-ray machine and a mountain of cargoes waiting to be checked

3. Cargo insurance

(1) Insurance companies

In Myanmar, Myanmar Insurance, which is wholly owned by the government, is the only licensed insurance company. Other companies, including those from other countries have not yet allowed to do business in the insurance market. But as for Japanese insurance companies, Sompo Japan Insurance Inc., Mitsui Sumitomo Insurance Co. Ltd. and others have representative offices, making efforts to collect information.

Most marine and cargo insurance products only cover commodities transported domestically. This is because the government of Myanmar advises that shipments be exported on a free-on-board (FOB) basis. As such, exporters in Myanmar do not have to arrange insurance, but buyers in destination countries do.

(2) Cargo insurance products

Cargo insurance, which is usually bought by shippers, and liability insurance, by trucking companies are major products.

There is auto liability insurance in Myanmar too. Drivers are required by law to buy insurance regardless of whether they have passenger cars or cargo trucks. Like Japan, they must pay for it when having car safety inspections. The maximum amount of compensation for death is 25,000 kyats, which is approximately ¥36,000 according to the Southeast Asian nation's government rate. It is extremely low in consideration of local commodity prices.

(3) Challenges

- Cargo insurance products have policies that cover only total losses. Even when a truck

carrying cargoes is involved in an accident, the cargoes are not totally lost. In this case, the cargoes are not compensated. Insurance companies have very stringent standards for total losses, according to trucking companies, which added that it makes no sense to buy insurance.

- The government rate is applied to both insurance premiums and claims. The government rate indicates that US\$1 is worth 5.5 kyats, but according to the market-determined rate, it is 752 kyats. Even if a product that is valued at \$1,000, or 752,000 kyats, is totally lost, the shipper only receives a compensation of 5,500 kyats, or \$7.31. It is obvious that buying insurance does not help shippers when involved in accidents at all.

However, the government of Myanmar is aware of this issue and striving to eliminate it, according to Myanmar Insurance. Business operators have long been very frustrated with the dual rate system—the government rate and the market-determined rate. The insurance company said that Nay Pyi Taw has begun working to remedy the situation with guidance from the International Monetary Fund (IMF).

(4) Insurance subscription, accidents and thefts

In Myanmar, we could not find any published data on insurance subscription rates, accident probabilities or theft frequencies. We interviewed Myanmar Insurance executives, who gave us the following rough analysis. Usually, shippers buy cargo insurance, but we learned that in Myanmar, truck owners (trucking companies) sometimes do.

Cargo insurance subscription rate: 20% of all vehicles operated domestically

Accident probability: 5% to 10% of the vehicles covered by insurance

Theft frequency: Almost none

When interviewing trucking companies catering to the route between Yangon and Mandalay, we discovered that none buys cargo insurance. In addition to the abovementioned insurance-related problem, they said, among other comments, that it costs them less to make compensation when causing accidents, and that it is very cumbersome and complicated to call the policy and compile accident reports.

Regarding thefts, all of the parties we interviewed—Japanese manufacturers; Myanmar Insurance; trucking companies, shipping lines and other logistics service providers and others—said that thefts are very little in Myanmar.

(5) Japanese manufacturers

As for Japanese manufacturers operating in Myanmar, in most cases, their parent companies in Japan buy warehouse-to-warehouse insurance. They have hardly been involved in major accidents. Although some have been involved in accidents, they have been compensated by the products their parent companies had purchased in Japan. As such, there is no major trouble regarding insurance, they added.

In Myanmar, Japanese insurance companies sell U.S. dollar-denominated fire/property and car insurance products in partnership with Myanmar Insurance. No such products are available yet to cover cargoes.

Chapter 4: Cross-border routes

1. Overview

Myanmar has five neighboring countries, which are Bangladesh (border length: 271 kilometers), India (1,338 kilometers), China (2,204 kilometers), Laos (238 kilometers) and Thailand (2,107 kilometers). Between Myanmar and Laos runs the Mekong River, but no facility has been developed along the river for cross-border cargo transport. In contrast, there are several routes to and from the other four nations.



Source: <http://www.myanmar-embassy-tokyo.net/about.htm>

In fiscal 2010, Myanmar exported US\$664.3 million worth of products to and imported 719.3 million worth from its neighbors. When combined, they accounted for the total value of trade the Southeast Asian nation had with other countries.

Myanmar's cross-border trade value (Unit: U.S. million dollar)

Partners	Ex/Im	Fiscal Year			Share (%)
		2007-2008	2008-2009	2007-2008	
China	Export	555.484	490.847	500.159	75.3
	Import	421.945	495.751	576.652	80.2
Thailand	Export	148.957	137.860	139.221	21.0
	Import	155.778	189.488	135.428	18.8
Bangladesh	Export	31.333	23.107	17.177	2.6
	Import	1.204	1.545	1.303	0.2
India	Export	10.909	5.486	7.788	1.2
	Import	3.922	4.396	5.946	0.8
Total		746.683	657.300	664.345	100.0
	Export	154.028639	117.785778	719.329	100.0

Source: JIFFA from statistical data provided by the Department of Border Trade of Myanmar's Ministry of Commerce

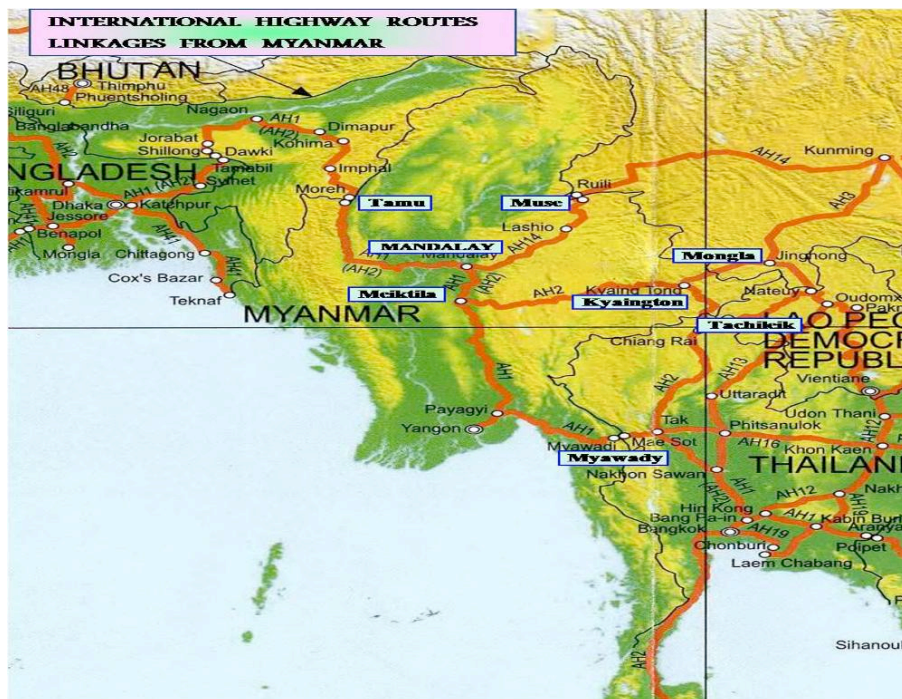
The value of trade that Myanmar has with its neighboring countries is small, although it

has a long national border. This is because most of the border is in rugged mountain areas, and political situations are not yet stable.

2. Land transport

Among the cross-border routes on which shipments are transported by truck, the following five points are important for forwarders in terms of trade value, which are Muse, which is located on the border with China; Tamu on the border with India; Myawaddy on the border with Thailand (East-West Economic Corridor) and Tachileik and Mong La on the border with Thailand (North-South Economic Corridor). These routes are all part of the Asian Highway project. A route from Thailand to the Port of Dawei will be described below.

Myanmar's cross-border routes (land)



Source: Myanmar's Ministry of Rail Transportation

(1) Muse

Muse is adjacent to Ruili, a town in China's Yunnan province. On this route, Mandalay has long played a role as a logistics base. The route—which includes Lashio and Muse, Myanmar and Ruili and Dali, China—leads all the way to Kunming, the capital of the province. During World War II, it was known as the Burma Road, on which goods were provided to China by the Allies (the U.S., the U.K. and others). Today, it is called the Asian Highway 14.

The distance from Mandalay to Muse is approximately 450 kilometers. There are many mountain paths on the route, but we learned that almost all parts have been paved. However, as there are steep ups and downs, trucks are involved in accidents many times.

As for Myanmar's cross-border trade with China, exports were worth US\$500 million in fiscal 2010, accounted for 75 % of the total. Meanwhile, imports amounted to \$576 million, enjoying a share of 80%. The Muse route is busier than any other cross-border route

between Myanmar and China. In 2006, a border trade zone was developed. In Muse's 105th Mile Trade Zone, a one-stop border trade service is available.

Road from Mandalay to Muse



(2) Tamu

Located 400 kilometers from Mandalay, Tamu is a border town in northwest Myanmar, neighboring Moreh, India. Tamu is essentially the only way out to go westbound to India and Bangladesh. Shipments going through Tamu are carried to and from Mandalay. There is a terminal in Mandalay for trucks and buses bound for India, to and from which cargoes are transported.

The route from Mandalay to Tamu runs in a mountainous area, many parts of which are not paved. For this reason, it takes drivers as long as 18 hours in the dry season (20 hours in the rainy season) to travel the one-way route, which extends slightly less than 400 kilometers. Currently, the route is under construction, and when it is completed, we heard that transit time will be cut by four to five hours.

At the gate where we held a hearing session, two bus services were operated every day between Mandalay and Tamu (one in each direction). Usually, cargoes were loaded on passenger seats and roofs. At the terminal, as such, we did not see containers or large trucks carrying cargoes.

Terminal in Mandalay for India-bound trucks and immigration office in Tamu



Source: Nittsu Research Institute and Consulting Inc.

In fiscal 2010, Myanmar exported US\$7.8 million worth of shipments to India and imported \$5.9 million worth. Of the total value of cross-border trade the Southeast Asian nation had, exports only accounted for 1.2% and imports, 0.8%.

(3) Myawaddy

In fiscal 2010, cross-border trade from Myanmar to Thailand was valued at US\$139.2 million, holding a share of 21% of the total, and from Thailand to Myanmar, \$135.4 million, 18.8%. Cargoes handled via Myawaddy, the busiest logistics base for those to and from Thailand, are estimated to account for 40% to 50% of the abovementioned total values, respectively.

Myawaddy is the nearest overland border town to Yangon, the largest city in Myanmar. Going through Myawaddy is the shortest route to Bangkok (from Yangon to Myawaddy: approximately 460 kilometers and from Myawaddy to Bangkok: approximately 500 kilometers). In 2009, a border trade zone—like Muse’s 105th Mile Trade Zone—was developed. The route is strongly hoped to increase cargo throughput in the future.

Trade zone in Myawaddy



Several dozen kilometers to Myawaddy on the route from Yangon and Mawlamyaing are in a steep mountainous area and very bumpy. For these reasons, this section is a one-way road. The direction in which traffic is permitted on the road alternates day to day. In the section, anti-government demonstrations are held sporadically. Therefore, foreigners are not allowed to walk.

To have the route used more effectively and increase cross-border cargo throughput, it is necessary not only to reinforce the trade zone, but also to improve roads and other transport infrastructure and maintain public order.

(4) Tachileik and Mong La

Tachileik, a border town in Myanmar, neighbors Mae Sai, Thailand. This route is known as the Asian Highway 12 and part of the North-South Economic Corridor. Some 160 kilometers north of Tachileik is Kengtung. Approximately 90 kilometers from Kengtung on the Asian Highway 3 is Mong La, which is adjacent to Daluo, China. Jinghong is situated about 80 kilometers east of Daluo. In Jinghong, the route joins the Laos route of the North-South Economic Corridor.

As Tachileik is geographically far away from Yangon, Mandalay and other major consumer markets, as a trade route to and from Thailand, it is not as highly expected as Myawaddy.

However, it is estimated the route from Tachileik to Mong La will be upgraded in the future as a route linking China with Thailand and a shortcut to Yangon.

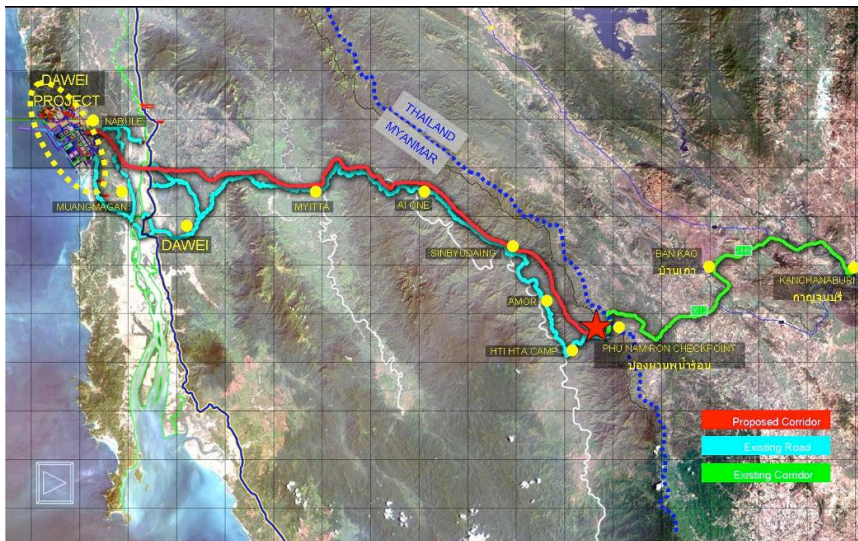
National border in Tachileik



(5) Dawei

As the Port of Dawei is being developed, a plan is on the table to construct a road from Thailand to Dawei. The road will go westbound from Kanchanaburi, Thailand; enter Myanmar in Ban Pu Nam Ron; and reach the port. By constructing a road in the Myanmar part of the route (approximately 130 kilometers), access will be ensured from Bangkok—via the Andaman Sea—to India, the Middle East and Europe, which is the ultimate goal of the road construction project. When the route is available, logistics lead time will be shortened remarkably from the current route from Bangkok—via the Strait of Malacca—to India and Europe. The government of Myanmar intends to incorporate it in the Southern Economic Corridor.

Cross-border route on the table in line with the development of the Port of Dawei



Source: Myanmar's Ministry of Rail Transportation

3. Myanmar and CBTA

The Asia Development Bank (ADB) is promoting the Greater Mekong Subregion Cross-Border Transport Agreement (CBTA), a system for facilitating inland traffic in the region that is made up of China (Yunnan province and the Guangxi Zhuang Autonomous Region), Vietnam, Laos, Myanmar, Cambodia and Thailand. Myanmar is the only member

that has not ratified the rules for implementing the agreement. As such, by the time when it assumes the chairmanship of the ASEAN in 2014, Myanmar must have resolved the issue and developed relevant road infrastructure. As Myanmar is the westernmost country in Southeast Asia, we believe it is important to improve the Asian highways that go through the nation to ensure routes from Southeast Asia to India.

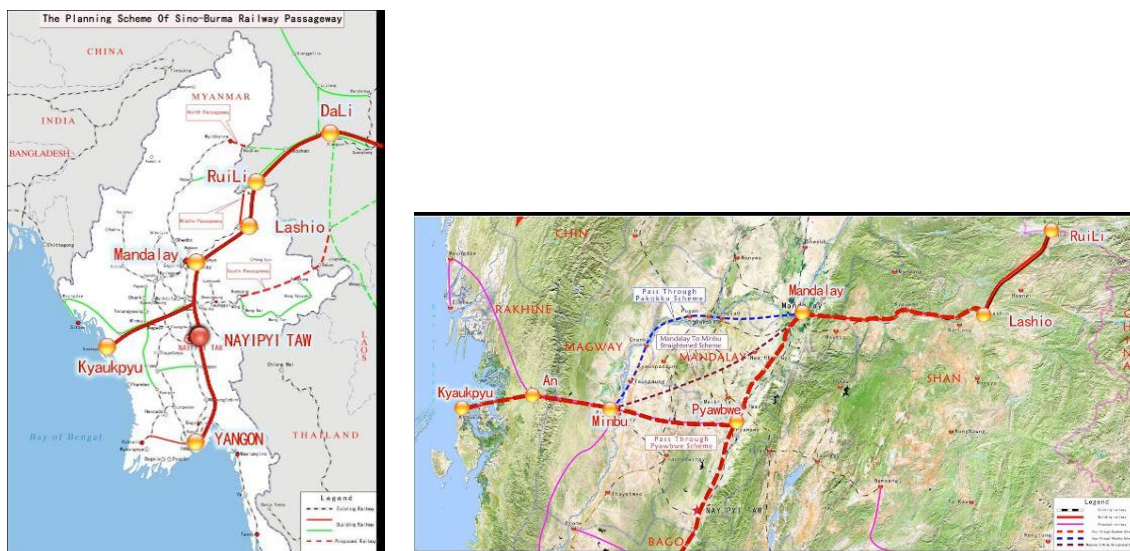
4. Cross-border routes by rail

Currently, Myanmar is not connected with other countries by rail. Therefore, no cargoes or passengers are transported in rail services provided on cross-border routes. However, the Southeast Asian country is interested in developing cross-border routes for railway services to and from China, India and Thailand. However, when we interviewed executives in October 2011, they did not tell us at all when construction work would begin or when projects were scheduled to be completed.

(1) China route

On April 29, 2011, it was reported in the media that Myanmar and China had signed a memorandum of understanding (MOU) to construct a high-speed direct railway route from Kyaukpyu in western Myanmar to Yunnan province, China. It was also reported the route will be completed three years later. The 1,215-kilometer railway route will run from the Port of Kyaukpyu to Kunming via Mandalay and Muse.

Cross-border railway route to and from China



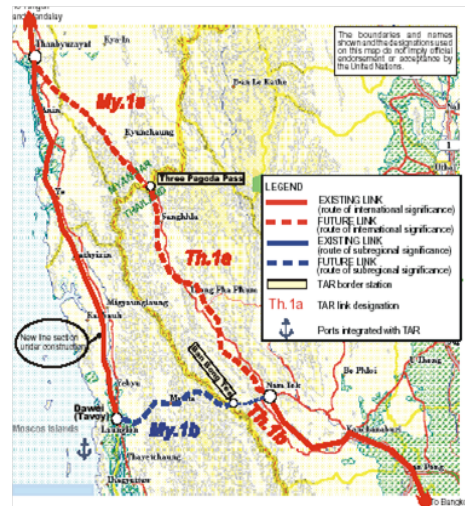
Source: Myanmar’s Ministry of Rail Transportation

Myanmar and China use different track gauges—one meter in Myanmar and 1.435 meters in China. As such, even if their railway systems are connected in Muse, cargo transshipment activities will still be needed. When we held a hearing session with Ministry of Rail Transportation officials, they told us it was possible that new rail routes will be developed with a 1.435-meters gauge. However, if they are, a total of 813 kilometers, including existing routes, will be developed. If so, completion in three years is a very ambitious goal.

(2) Thailand route

The route will run from Thanbuzayat in southeastern Myanmar, pass through the Three Pagoda Pass to enter Thailand, be linked with the State Railway of Thailand in Nam Tok and reach Bangkok. Myanmar and Thailand share the same rail gauge. When their railway systems are connected, there will be no physical problem in allowing their services to be provided in the other country.

Cross-border railway route to and from Thailand

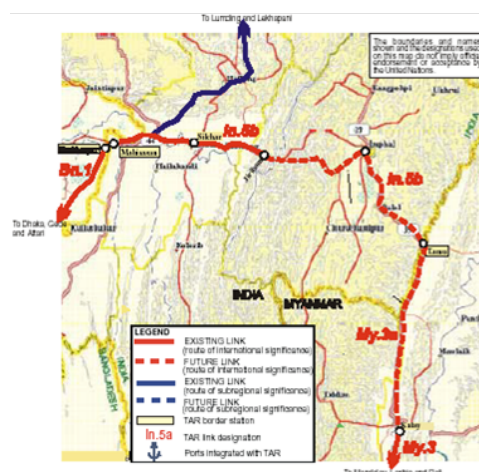


Source: Myanmar's Ministry of Rail Transportation

(3) India route

As with the overland route from Myanmar to India, a route via Tamu is a candidate. Shipments from Mandalay will go via Monywa, Kalay and Tamu to arrive in Moreh, the border town on the India side. To have access to Indian Railways (IR), a new route is needed to Jiribam, which is situated 219 kilometers from Moreh. In India, a 1.676-meter gauge is popular. As Myanmar uses a one-meter gauge, arrangements will be necessary.

Cross-border railway route to and from India



Source: Myanmar's Ministry of Rail Transportation

Chapter 5: Customs clearance system

1. Overview

In Myanmar, Japanese manufacturers are only allowed to engage in CMP services. Unlike other ASEAN members, manufacturers are usually not licensed to export or import shipments. We must say this is because the Southeast Asian country has a very difficult system for obtaining export and/or import licenses, and that the customs clearance system is also very strict. To obtain license for exporting and/or importing products other than CMP goods, business operators are required to station staff members in the capital city of Nay Pyi Taw to complete paperwork. As for the customs clearance system, meanwhile, X-ray inspections are conducted all cargoes, a procedure that is almost impossible in other nations that think it keeps logistics services from being provided smoothly. In addition, unpacking inspections are very frequent. As a consequence, lead time for having commodities pass all necessary inspections is very long. We concluded that Myanmar has a nearly perfect customs clearance system in terms of security, but that it is far from being efficient.

We believe it is impossible for overseas businesses to manufacture products actively in Myanmar, unless such factors that impede logistics are removed. However, we know the government is promoting deregulation—although it is very slow. In October 2011, a new customs clearance system went into operation. Called E-Trade, the system is now operated on a trial basis. We heard that in the middle of 2012, it will begin accepting applications on the Internet.

2. Export- and import-related licenses

(1) Registering as customs brokers

Certificates, which are known as the yellow card, will be issued to those who have completed courses from the Myanmar Customs and passed the customs specialist examination. If a company or a group of companies has three or more yellow-card holders, it can register itself with the Myanmar Customs as a customs brokers, even if it is a foreign company. Today, we learned there are some 300 customs specialists in Yangon and 70 to 100 customs brokers.

(2) Registering as exporters and/or importers

Individuals and companies (e.g., manufacturers) are required to register themselves with the Ministry of Commerce's Directorate of Trade as exporters and/or importers. Normally, they need to wait for a week or two until they are registered. They must also register themselves with the Chamber of Commerce and Industry.

They can choose whether to provide relevant services for just a year or a maximum of two years. Registration fees are as follows.

- 50,000 kyats for one-year registration
- 100,000 kyats for two-year registration

(3) Joining the Chamber of Commerce and Industry

The Chamber of Commerce and Industry charges joining fees of US\$300 and annual membership fees of \$150. When completing registration with the Ministry of Commerce and joining the Chamber of Commerce and Industry, individuals and companies are allowed to

export and import cargoes.

3. Laws and other regulations on exports and/or imports

(1) Laws on exports and/or imports

(omitted)

(2) Commodities that cannot be exported or imported

It is prohibited by a ministerial ordinance to export and import the following commodities.

(a) Commodities that cannot be exported

Agricultural products: Peanuts, peanut oil, red sesame, brown sesame, sesame seed oil, niger seed oil, mustard seeds, mustard seed oil, sunflower seeds, sunflower seed oil, oil cake (all kinds), cotton and cotton products

Minerals and metals: Gold, diamonds and petroleum

Animals and animal products: Ivory, buffaloes, cows, elephants, horses and other rare animals

Seafood: Shrimp powder

Others: Weapons, ammunition and antiques

(b) Commodities that cannot be exported without permission from relevant authorities

Agricultural products: Rice and rice products

Minerals and metals: Precious stones (e.g., jade and pearls), lead, tin, tungsten, a mixed ore of tin and scheelite, silver, bronze, zinc, coal and other metals

Animals and animal products: Leather products

Forest products: Teakwood

(c) Commodities that cannot be imported

Meat and poultry: Frozen chicken, beef, pork, sheep meat, canned meat products and processed meat products (e.g., sausages, hams and others)

Other food products: Mayonnaise, fresh cream, chocolates, ice cream, cake, cookies, pies, pizzas, noodles, milk, butter, cheese, yogurt, powdered milk and other baby food products and egg products

4. Export and import licenses

In Myanmar, business operators are required to obtain licenses for exporting and/or importing products for every purchase order. We heard this system places heavy burdens on them.

If information registered when obtaining export and/or import licenses is different from details in declarations submitted when customs inspections are conducted, it takes longer to have customs releases. Exporters and importers sometimes encounter trouble, which includes huge fines. As such, it is necessary to make sufficient arrangements in advance.

Fees for obtaining export licenses

FOB price	Service charges
~ 50,000 kyat	25,000 kyat
50,001 ~ 100,000 kyat	50,000 kyat
100,001 ~ 150,000 kyat	75,000 kyat
150,001 ~ 400,000 kyat	100,000 kyat

Import license fee

CIF price	Import license fee
~ 10,000 kyat	250 kyat
10,001 ~ 25,000 kyat	625 kyat
25,001 ~ 50,000 kyat	1,250 kyat
5,0001 ~ 100,000 kyat	2,500 kyat
100,001 ~ 200,000 kyat	5,000 kyat
200,001 ~ 400,000 kyat	10,000 kyat
400,001 ~ 1,000,000 kyat	20,000 kyat
1,000,001 kyat~	50,000 kyat

5. Customs clearance formalities

Normally, exporters and importers do not complete customs clearance formalities on their own, but do entrust them to customs brokers. In October 2011, an electronic customs clearance system was introduced, which is known as E-Trade. Currently, the system is in its first stage—where users are allowed to save export and/or import declaration data in USB flash drives and submit them to customhouses. It is hoped that relevant formalities will be completed much more smoothly when E-Trade is in full operation in the future.

(1) Customs clearance for exports

When commodities—other than those that cannot be exported without permission from relevant authorities—are exported by sea, customs releases are usually issued within one to two days after declarations are made. As for shipments vanned at manufacturing facilities, declarations can be made when commodities are all ready, and container numbers are known. CFS warehouses are located in CYs, where customs inspectors are stationed, a system called CFS customhouses. All export cargoes must be delivered to CFS warehouses for unpacking and/or X-ray inspections. In Japan, customs releases can be issued immediately (without inspections), but in Myanmar, they are not.

(2) Customs clearance for imports

When cargoes are imported by sea that are not products that cannot be imported without permission, customs releases are issued within two to three days after declarations are made. As with exports, all cargoes are inspected—either unpacking or X-ray inspections

In Myanmar, MFSL, a former state-run shipping line, is the only private carrier that can issue D/Os. As such, when other private shipping companies are used, B/Ls must be traded with D/Os at the Myanmar Port Authority's Shipping Agency Department (SAD). It is necessary to keep in mind that in this case, the SAD does not provide D/Os unless master

B/Ls are submitted. However, MFSL can exchange house B/Ls with D/Os.

(3) Export and import duties

When cargoes are exported, an export tax is imposed on rice, rice bran, beans, bamboo and other agricultural products, and a 2% corporate income tax on all items.

When cargoes are imported, meanwhile, an import tax, the rate of which extends from 1% to 40%, is applied to totals of cost, insurance and freight (CIF) prices and landing charges, which are 0.5% of CIF prices. A commercial tax of zero to 200% is also imposed on certain commodities.

Examples of duties

i) When cargoes are imported to Myanmar

Import items	Bumper for Vehicles
1. CIF price (described on invoice)	USD10,000.00
2. CIF price (estimated by customhouse)	USD12,000.00
3. Landing charge (0.5%)	USD60.00
4. Import duty (rate: 5%)	USD603.00
5. Commercial tax (rate: 20%)	USD2,521.20
6. Total (4)+(5)	USD3,124.20

(Note 1): The "CIF price (estimated by customhouse)" is just a price assumed by the writer.

ii) When the same cargoes are imported to Japan

Import items	Bumper for Vehicles
1. CIF price	USD10,000.00
2. Import duty (rate: 0%)	USD0.00
3. Consumption tax (rate: 4%)	USD400.00
4. Local consumption tax (rate: 25%)	USD100.00
5. Total (3)+(4)	USD500.00

6. Commodities that require special and no customs clearance systems

(1) Commodities that are not consumed domestically and re-exported

A 2.5% duty is applied to transit cargoes that are not consumed in Myanmar. However, in fact, transit cargoes are hardly imported to the Southeast Asian nation. As such, we heard the system is also hardly used.

(2) Imported secondhand machinery

Usually, the import of secondhand machinery for commercial use is prohibited. Myanmar only imports brand-new machinery. However, we learned that business operators will be allowed to import used machines when registering themselves with the Myanmar Industries

Association and meeting certain requirements. But it is desirable that more information be gained from local logistics service providers and customhouses.

(3) Bonded treatment for CMP companies

Import duties are exempted or reduced for raw materials that are imported to Myanmar as approved by the MIC and other relevant governmental organizations, processed at domestic facilities and re-exported as completed products. Similar exemptions and reductions are applied to imported commodities that meet requirements of investment projects approved by the MIC.

(4) Re-exports

When commodities imported to Myanmar are re-exported on certain conditions, seven-eighths of duties paid when they are imported are refunded.

7. Trouble

(1) Delays in LCL cargo inspections

Less-than-container load (LCL) cargoes are delivered to and unstuffed at CFS warehouses at ports, and then, customs officials inspect them. However, inspections cannot be conducted unless declaration documents are collected from all shippers. For this reason, if one shipper fails to submit documents, all cargoes consigned will be stopped. As officials tend to begin inspections from shipments consigned by major shippers, those sent by small and midsize shippers are often left until later. Consequently, they sometimes cannot be delivered on time. For these reasons, shippers in Myanmar do not like LCL services. Some even use full-container load (FCL) services when exporting and/or importing small volumes of cargoes.

(2) System problems

In October 2011, E-Trade, an export and import declaration system, went into operation. The system has not been linked online with customs brokers yet. Therefore, shippers are required to save declaration data in USB flash drives and take them to customhouses. However, there are problems. For example, data in USB flash drives cannot be opened on customhouses' computers, and power outages prevented customhouses from operating. It is reported that urgent cargoes are not inspected immediately for these reasons.

(3) Customs officials

Interpretations are frequently different from one customs official to another, and arbitrary judgments are made in many cases. We heard that sometimes, so-called "tea money" is paid to solve such issues. Some claim that paying and receiving tea money is a problem in the customs clearance system, and that it has a negative impact on forwarders' earnings. Improvements are needed not only on the hardware aspect, but also on customhouse quality.

Chapter 6: Forwarding industry

1. Overview

In Myanmar, freight forwarding is still a new industry. But the Ministry of Transport thinks it is important to promote and enhance the nation's economy. As such, the government of Myanmar signed the ASEAN Framework Agreement on the Facilitation of Inter-State Transport during the sixth ASEAN summit held in Hanoi, Vietnam in December 1998. It is said the Southeast Asian nation will in the near future ratify the GBTA, although it has remained undecided on it. As such, the freight forwarding industry is attracting attention. If the government ratifies the agreement, it will need to review domestic laws. It is also said that a resolution for doing so will be adopted when the congress meets next time.

Currently, no license is required to provide freight forwarding services in Myanmar, but approval must be granted from the ministry's Maritime Transport Services Supervisory Committee. We learned there are more than 100 local forwarders in and around Yangon, but quite a few are so-called "general logistics service companies," which provide both forwarding and customs clearance services. As for trade to other countries, cargoes are usually exported on an FOB basis and imported on a CIF basis. As such, many local forwarders only play a role as local agents, and not many are engaged in seaborne transport.

We also heard that no special approval is needed to operate facilities for consolidating cargoes, but as there are problems in customs clearance, consolidation services are not provided frequently. To date, only a few Japanese forwarders have made inroads in Myanmar, which include Flix International, Nissin Corp. and NYK Logistics.

2. Licenses

In Myanmar, no specific law governs the freight forwarding business. The Myanmar International Freight Forwarders' Association (MIFFA) makes standard trading conditions (STCs) for seaborne, airborne and intermodal services.

It is legal for foreign companies to set up wholly-owned forwarding subsidiaries in Myanmar, but in fact, no such a subsidiary has ever been approved. All overseas forwarders are joint ventures with local enterprises. Foreign partners are required to hold 35% or more and allowed to have up to 99%, meaning they can even hold majority shares. If local partners are private companies, joint ventures will be established in accordance with the Myanmar Companies Act.

In Myanmar, there is no specific definition of freight forwarders. They are registered as service providers. Licenses are granted from the Ministry of Transport's Maritime Transport Services Supervisory Committee. For registration as service providers, it is necessary to join the MIFFA and the committee. We heard that it takes as long as two months to complete registration formalities.

3. About MIFFA

The MIFFA consists not only of marine cargo transporters, but also of airfreight carrier and other forwarding service providers, customs clearance organizations and container associations. The industry organization is actively promoting support from the forwarding industry and other parts of the logistics business.

The MIFFA was established in 1999 under the management of the Ministry of Transport.

It has since been joined by new members every year. Currently, it is made up of 108 regular members, 73 associate members and eight honorary members.

The MIFFA has six committees, which are in charge of air transport, maritime transport, land transport, railway transport, inland waterway transport and multimodal transport logistics. They all play important roles. Another unit for training and development offers a variety of educational programs to encourage member companies to improve their skills. It works jointly with the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the ASEAN Federation of Forwarders Associations (AFFA) and the International Federation of Freight Forwarders Association (FIATA). In October 2011, the MIFFA enlarged its office, leasing facilities from the Ministry of Transport, and opened a logistics training center. It is projected that forwarders will become much more important in the future. In Singapore, Indonesia and other ASEAN member countries, logistics-related organizations are being consolidated around forwarders associations. We believe the MIFFA is trying to become such a central organization.

MIFFA's Logistics Training Centre

