

Prospects for Agricultural Value Chains in Myanmar

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I am grateful for the invitation to speak to this important seminar. Please forgive me that I have to send this by written form and recording as I was unable to attend in person.

I will address the subject of “prospects for agricultural value chains in Myanmar” in three parts.

In the first part of my brief talk, I will discuss demand and supply side prospects for value chains going to export markets.

In the second part, I will focus on value chains going to Myanmar urban markets.

In the third and last part of my talk, I will discuss challenges that both categories of value chains have in common, and how these challenges can be turned into opportunities for growth and transformation of Myanmar value chains. There are severe data limitations and gaps about value chain development and impacts in Myanmar, so I base my points on general estimates and initial field observations.

1. Prospects from the demand and supply sides for Myanmar value chains aimed at export markets
 - a) For export markets, on the demand side, Myanmar is in one of the best situations in the world for value chain development: it is next to (and literally surrounded by) the fastest growing and largest food markets in the entire world, in China, India, Southeast Asia, and eventually Bangladesh. The food markets in these countries are growing 5-10 times faster than those in Western Europe and the US. Myanmar is in the best position to experience rapid value chain development fueled by regional trade, in the world. The development of highways, seaports, corridors, and full access to the ASEAN free trade area will continue to make the situation better and better.
 - b) The demand growth from the regional market is and will be fastest in “diversification products” such as fruits and vegetables, poultry, fish/seafood, pulses, and edible oil. This means rapid growth in direct demand for these products, as well as derived demand for corn to feed chickens and fish. Rice demand will continue to grow, but much more slowly, as demand for rice in the Asian region is slowing and even declining in per capita terms.
 - c) Myanmar has good prospects of supplying these regional markets, given that half its cropped area is under “diversification products”, it has abundant coastal areas and well-watered zones for aquaculture, and it has an important rice belt. Moreover, it has what can be a growing

advantage over South Asian and Southeast Asian competitors in and for the regional and world market, as it has lower labor, land, and water costs. Of course these are held back by high input costs, low productivity, and high transport costs, but those are part of the challenges and opportunities to unlock this supply side advantage.

- d) The booming demand side and promising supply side look very much like the situation in Mexico and Central America in the late 1980s and early 1990s. These countries went on to take advantage of the situation, with exactly the same sort of uncertain situation and rocky road at the start as Myanmar now faces, and went on to be among the most important exporters of fruits and vegetables, seafood and pulses, in the world.
 - e) I have only been working in and observing Myanmar a short time, but am already impressed at the data I have seen on the rapid rise of export value chains of fruit, fish, rice, pulses, and sesame. But it is what I have seen on the ground that has convinced me that value chains are “taking off.” I went by road from Mandalay to Lashio to Muse and then over the border to Ruili in China. All day on this trip I was riding along a massive river of watermelons convoy from the dry zone, hundreds and hundreds of new medium and large trucks filled with melons; I stood in an auction of those melons at the border, each morning with 300 trucks of 8000 dollars per truck of melons sold off and sent over the border; I saw over the border a massive new wholesale market built to receive the rapid rise of Myanmar produce exports. These melons were then packed and sent all over China. That same value chain that brought the river of melons to the border brings back a river of cash to the farmers in the dry zone, with what we understand to be the great majority under Myanmar farmer control. I am excited by this because I made exactly the same trip in the late 1980s in Central America, and saw exactly the same river of melons and vegetables to the ports to go the US, and a decade later those exports had brought prosperity to the rural zones feeding those value chains.
2. Prospects for rural-urban value chains in Myanmar.

- a) Rural-to-urban value chains are ALREADY very important in Myanmar, and due to develop quickly.

I cannot confirm this statement with exact numbers, but I have used data from the UNDP rural and urban household survey in 2010, and some assumptions about the size of the urban population and its growth rate; these are just assumptions because there has been no census for 30 years. But with these caveats in mind, let us examine some numbers.

- a.1) The urban population is important and appears to be growing. (The extent of the size or growth is, as I noted, uncertain). The most common estimate (such as by the World Bank) that one hears is that the urban population is about one third of national population.
- a.2) The latest UNDP-IHLCA survey shows the average urban food expenditure roughly 1.2 times that of the rural food expenditure (subsistence plus purchased) per adult equivalent.

a.3) Thus one could roughly estimate, based on these two figures, that the urban share in the Myanmar food economy is at about 40% overall, and maybe about 70% for the non-rice food economy. This is already an important market then for rural food producers, as by extension are rural-urban supply chains. By way of comparison, the urban share of the food market is already 50% in India, and about 70% in Southeast Asia. That is, in the rest of Asia, the urban food market has become the majority of the overall food economy; rural-urban value chains are extremely important in the region.

It appears that Myanmar is on that same path. indexmundi.org guesses that the overall population growth rate in Myanmar may be around 1% and the urbanization rate, 2.5%. At those rates, in a few decades the urban population share would be about 40%, and the share of the overall food economy, about 50%, like India now.

Even with the caveat of how rough the estimates are for figures, these figures point to two points: (1) the current importance of rural-urban food value chains to national food security; (2) the importance of those chains to cash incomes of farmers and by extension, farm workers. I have made a separate calculation that nearly 50% of the off-farm food economy (the parts of the value chains after the farm gate, in transport, wholesale, processing, and retail) is now in rural areas of Myanmar, and that possibly as much as 20% of rural off-farm jobs (outside hired farm labor) is linked to value chain activities.

b) Diversification products – beyond rice – are very important to rural-urban value chains, and have very good prospects.

b.1) I have calculated, based on the urban population estimates and the UNDP survey data, that about 70% of Myanmar's non-rice food consumption is in the urban areas. As urban areas grow, these markets will rapidly grow. Mirroring what has happened in Asia, they will grow more rapidly than overall food consumption as urban consumers diversify their diets. They may be already and can come to be even more important than exports to rural suppliers.

b.2) Moreover, as urban population and incomes grow, meat and fish consumption will rise quickly, creating a direct demand for value chains of these products, but also derived demand for corn to feed mills near cities. Byerlee of MSU estimates that already roughly 60% of corn goes into urban feed mills in Myanmar.

b.3) The indirect evidence of the growth of for example vegetable rural-urban value chains can be seen from the fact that MSU's agriculture sector diagnostic study found that horticulture production has grown quickly, ranging from 5% per year for potatoes to 6-7% for chillies, garlic, and onion – all products that are mainly consumed domestically - yet the overall population is only growing at about 1%. This suggests in particular the growth of urban markets for vegetables.

c) Again, as I said about export-targeted value chains, I will say again with regard to rural-urban value chains: while I am impressed by seeing the “take-off” of these value chains in the numbers and data, I am very excited by observing “on the ground” their growth. Again I give an example. I visited Southern Shan State and was amazed at the rapid expansion of fruit and vegetable farming, of adoption of irrigation, of rapid diffusion of small farm machines for farmwork and

transport. I saw the rapid growth of new wholesale markets in rural areas for fruit and vegetables. We visited potato traders and truckers and found them rapidly investing in new trucks and warehouses; potato farmers and traders supplying more and more to the Yangon and Mandalay Markets. We visited tomato growers and traders on and around Inlay Lake, where collection centers had gone from just a few a decade ago to 30 today, all rushing their product to the city markets. This is the kind of value chain revolution in the making that I have seen elsewhere in Asia and I fully expect to see this growing and growing here in Myanmar.

3. Challenges – and thus Opportunities – for Improving Value Chain Prospects in Myanmar

a) The emerging evidence and our field observations point to an emerging “take off” of value chains in Myanmar. My reading of the situation is that it is exciting and promising. However, I can also say that the value chains are “not flying at their full potential altitude” – and may only be at about 10-20% of their potential at present. What is holding them back? I will present a few hypotheses; I will steer away from discussing issues of regulations and business climate as I understand those subjects are dealt with in other talks in the seminar. I will focus in this last part of this short talk on but one set of challenges, the need for public and private infrastructure in rural areas and from rural to urban areas and export points.

b) A first and most obvious and glaring challenge is the high cost of transport and the poor condition of transport infrastructure - rural roads, rural-urban highways, border crossings, and ports. I watched those melon and potato trucks on the narrow and poorly surfaced roads and imagined how extremely overburdened these roads would be in 3 years let alone 10. Myanmar needs to plan and build its infrastructure for the boom that is already emerging, for the massive grassroots investments we are observing by truckers and traders, not for gradual growth that it has observed in the past. Myanmar also has to provide its rural producers and traders with more market channel options to the variety of regional markets and urban market points.

c) A second challenge is the too-sharply seasonal nature of produce supply. There is a large need to invest in affordable small greenhouses in the cool mountain areas, irrigation in the dry zone and hills, cold storage at urban and export market points, and icing facilities in the fish/seafood areas. These will extend the season and allow farmers and traders more bargaining power and flexibility and range of options in selling to domestic and export markets. The counterpart is that there will be a large need for triple-phase electrification in the rural areas to support this.

d) A final very important challenge is the need to develop both rural and urban wholesale markets. Throughout Asia (and Latin America) the spread of wholesale markets as collection points and conduits to cities has been extremely important to the development of value chains.

Thank you very much for giving me the chance to present these brief remarks and show my enthusiasm and optimism for the prospects of value chain development in Myanmar.