

## Analysis of the China-Myanmar Timber Trade

This policy brief analyzes recent trends in the timber products trade between China and Myanmar, using Chinese customs data from 2000 through 2013.

### Introduction

Myanmar is one of the top timber producers and exporters in the Asia-Pacific region, well known internationally for its supply of high-value teak and other hardwoods. Some of Asia's last remaining expanses of natural forest are found in Myanmar, supporting the livelihoods of rural communities and playing a key role in regional ecosystems. As the country emerges from decades of military rule and undergoes political reform, stakeholders are debating the future of Myanmar's forestry sector, spurring questions about how to balance conservation goals with economic development. The role of China is fundamental to this debate, given its strong trade and investment ties with Myanmar and a shared land border.

Timber is one of the primary commodities traded between the two countries, providing significant revenue to Myanmar's central government and ethnic political armed opposition groups, while supplying China with materials to feed its growing wood manufacturing sector. The cross-border timber trade between China and Myanmar has been the subject of international scrutiny in recent years, not only because both countries agreed to ban all such cross-border trade in 2006,<sup>1</sup> but also due to allegations of cross-border smuggling, illegal logging, and the use of timber revenues to finance internal conflict. Myanmar's government has publicly expressed concern about this cross-border trade of illegal wood (Eleven News 2014), which also undercuts the price of legal timber and has an adverse impact on legitimate traders exporting through Yangon ports (Forest Trends 2011). Meanwhile, the Chinese government has acknowledged the importance of restricting cross-border imports into Yunnan,<sup>2</sup> and Chinese officials have been increasingly participating in international dialogues promoting sustainable and legal trade with forest producer countries such as Myanmar.

This policy brief analyzes recent trends in the timber products trade between China and Myanmar, using Chinese customs data from 2000 through 2013.

### Key Findings

The following findings underline the important position China occupies as a leading importer of Myanmar timber:

- **Timber product exports from Myanmar to China reached an all-time high in 2013, by both volume and value.** China imports 37% of Myanmar's timber

<sup>1</sup> "Interim measures to manage timber and mineral cooperation between Myanmar and Yunnan Province." Issued by Office of Yunnan Provincial People's Government on 11 May 2006. Policy reference number: Policy Office, Yunnan [2006] 91. See also Xinhua, 2006.

<sup>2</sup> Ibid.

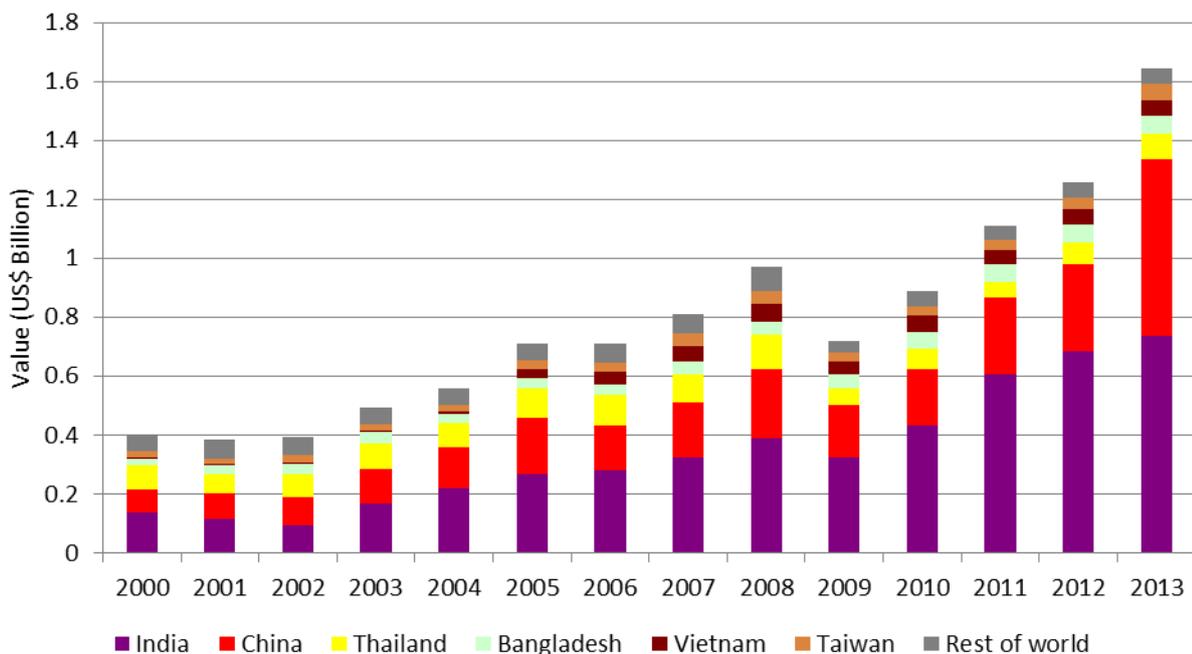
exports (2013), second only to India with its 45% market share. The value of China's imports of Myanmar's timber products doubled between 2012 and 2013, reaching a record US\$621 million. From 2009 through 2013, export volumes increased by 52% (1.10 to 1.67 million m<sup>3</sup>), while the value increased by 234% (US\$186 million to US\$621 million) (Figures 2 and 3).

- **Most Chinese imports of Myanmar's timber products enter and are recorded through the Kunming customs district, implying illegality.** The Government of Myanmar requires that all timber products be exported by sea from the southern port of Yangon and be stamped by the Myanmar Timber Enterprise (MTE). However, in 2013, 94% of Myanmar's timber product exports to China were registered in Kunming, the capital of Yunnan, a landlocked Chinese province bordering Kachin state in Myanmar. It is likely that all Myanmar timber imports registered in Kunming were transported overland through trade posts along the Yunnan border (Kudo 2008).
- **The trade in charcoal—almost non-existent in the early 2000s—is booming.** Charcoal exports to China exploded between 2006 and 2008 when volumes increased by more than 2,500%. While the overall volumes have stabilized around 0.5 million m<sup>3</sup> (2013), charcoal now represents 32% of Myanmar's total timber product exports to China. Preliminary Forest Trends research suggests that this dramatic growth is driven by the use of charcoal in the smelting process for China's silicon metal industry, with a likely end use in solar panel production (Forest Trends forthcoming 2015a). Almost 100% of Myanmar's charcoal exports are registered in the Kunming customs district, indicating cross-border rather than overseas transportation. Interviews with ex-forestry officials indicate that commercial charcoal production for export is likely prohibited by Myanmar law.

## China-Myanmar Trade Relationship in the Global Context

In terms of direct trade, at least 82% of Myanmar's timber (by value) goes to just two countries: China and India. As of 2013, India represents the primary market, but China remains a close second, with 37% market share compared to India's 45% (Figure 1). Trade data reveals Myanmar's importance as one of China's leading suppliers of hardwood logs. In 2013, Myanmar was China's second most significant source of hardwood logs by value and fourth most significant by volume (Table 1), providing 13% of China's hardwood log imports in 2013 (by value).

Figure 1. Myanmar Timber Product Exports by Country



Source: James Hewitt, compiled for Forest Trends<sup>3</sup>

<sup>3</sup> Data for this chart was compiled by James Hewitt for Forest Trends. The government of Myanmar does not publish bilateral trade statistics. Consequently, importing country statistics have been used to assess Myanmar's exports. The sources of the trade statistics used include: General Administration of Customs of the People's Republic of China (for China), Eurostat (for imports by EU member states), Japan Customs (for Japan), Korea Customs Service (for South Korea), Tradeline Philippines (for the Philippines), Directorate General of Customs (for Taiwan), Customs Department of the Kingdom of Thailand (for Thailand), United States International Trade Commission Dataweb (for the USA) and UN Comtrade. Vietnam chooses not to publish bilateral trade statistics other than in units of import and export value. Volumes and weights have consequently been estimated herein. Laos chooses not to publish trade statistics.

Table 1. China's Top 5 Hardwood Log Suppliers in 2013

Country	Value (US\$ million)	Country	Volume (m <sup>3</sup> )
1. Papua New Guinea	624.7	1. Papua New Guinea	2,751,777
2. Myanmar	532.4	2. Solomon Islands	2,035,743
3. Solomon Islands	403.0	3. Russia	967,715
4. Laos	308.3	4. Myanmar	938,092
5. Congo	198.6	5. Congo	502,131

Source: Chinese customs statistics.<sup>4</sup>

## Trade Statics Overview: Volume and Value

### Volume Up after 2006 Decline

China's timber product imports from Myanmar have grown substantially since 2000, reaching historically high levels in 2013 at 1.7 million m<sup>3</sup> (Figure 2) and surpassing the previous high of 1.6 million m<sup>3</sup> in 2005.

Prior to 2006, most of this timber was logged in Myanmar's northern forests and transported overland into Yunnan province (Global Witness 2009). Then, in 2006, facing domestic and international pressure to clamp down on illegal border trade, Myanmar and China signed a bilateral agreement to strictly regulate exports over their shared land border.<sup>5</sup> Overall export volumes declined for several years following these measures; however, apart from a dip in 2012 (likely due to the onset of war again in Kachin state), volumes have been rising steadily since 2009, reaching the record 1.7 million m<sup>3</sup> in 2013.

The increase in log exports in 2013 may have been driven in part by traders taking advantage of a window of reduced violence between the Kachin Independence Army (KIA, the main non-state armed group in the area) and the Myanmar Army, and in advance of monsoon season. Experts also speculate that there was a rush to transport increased volumes of roundwood in anticipation of Myanmar's log export ban, enacted on April 1, 2014.

### Value Doubled in 2013

The value of timber products exported from Myanmar to China rose gradually from 2000 through 2012, but then made a staggering jump in 2013 of more than 100%—up to US\$620 million from US\$309 million the year before (Figure 3). The high value of the trade may reflect increasing Chinese demand for luxury hardwoods such as padauk (*Pterocarpus macrocarpus*) and tamalan (*Dalbergia oliveri*), two species used in the production of high-end rosewood furniture.<sup>6</sup> Tamalan is worth approximately US\$7,000 per ton, and Myanmar customs officials reported that overland transport of illegally harvested tamalan increased in the first quarter of 2014 (ITTO 2014a). Myanmar's supply of valuable hardwoods is dwindling, and if the trade continues at current growth levels, there are concerns that padauk and tamalan could soon be logged to commercial extinction (ITTO 2014a).

## Shifting Product Mix

### Charcoal Boom

A booming charcoal trade has developed between Myanmar and China. Virtually non-existent before 2007, charcoal made up approximately 42% of the volume traded from 2008 through 2013. Chinese import statistics indicate that the growth in Myanmar's charcoal exports reflects a trend that is also occurring across Laos, Vietnam, and other countries in the region.

Forest Trends field research in Laos suggests that China's growing demand for charcoal is being driven by the silicon industry, which utilizes charcoal in the process of converting quartz (silicon dioxide) into pure silicon metal (Forest Trends forthcoming 2015a). China is by far the world's leading manufacturer of silicon, producing more than 50% of the silicon metal on the global market (U.S. Geological Survey 2013a). Due to its geographical access to quartz mines and affordable electricity, Yunnan province across the border with both Myanmar and Laos has become a silicon production hub, hosting

Its trade in wood-based products with Myanmar is assumed herein to be zero. Source data for the imports of some countries during some years (e.g. Bangladesh 2008-2010 and 2012-13, Vietnam 2013) have not yet been published but are assumed here.

<sup>4</sup> Unless otherwise noted, all charts and data are derived from Chinese customs statistics.

<sup>5</sup> "Interim measures to manage timber and mineral cooperation between Myanmar and Yunnan Province." Issued by Office of Yunnan Provincial People's Government on 11 May 2006. Policy reference number: Policy Office, Yunnan [2006] 91. See also Xinhua, 2006.

<sup>6</sup> Chinese luxury rosewood furniture is referred to as 'hongmu' which translates to 'red wood.' Although padauk is not technically a true rosewood, it has a similar look and is sometimes traded as such.

at least 68 silicon plants in 2011 and generating up to 50% of China’s national silicon production (U.S. Geological Survey 2013b). Many of these plants are located near the Myanmar border. Silicon is used in a wide variety of products, including electronics, automobiles, cosmetics, and even “green” solar panels.

**Sawn Wood Decline**

From 2000 through 2007, Myanmar exported a limited but steady supply of sawn wood to China, representing approximately 27% of total export volumes. However, sawn wood exports to China decreased by 62% in 2008 and have remained at this reduced level ever since. This decrease parallels a reduction in Myanmar’s global sawn wood exports which occurred from 2008 onwards, and the decline may be one of the reasons Myanmar enacted a log export ban in April 2014.

Figure 2. China’s Timber Product Imports from Myanmar by Volume

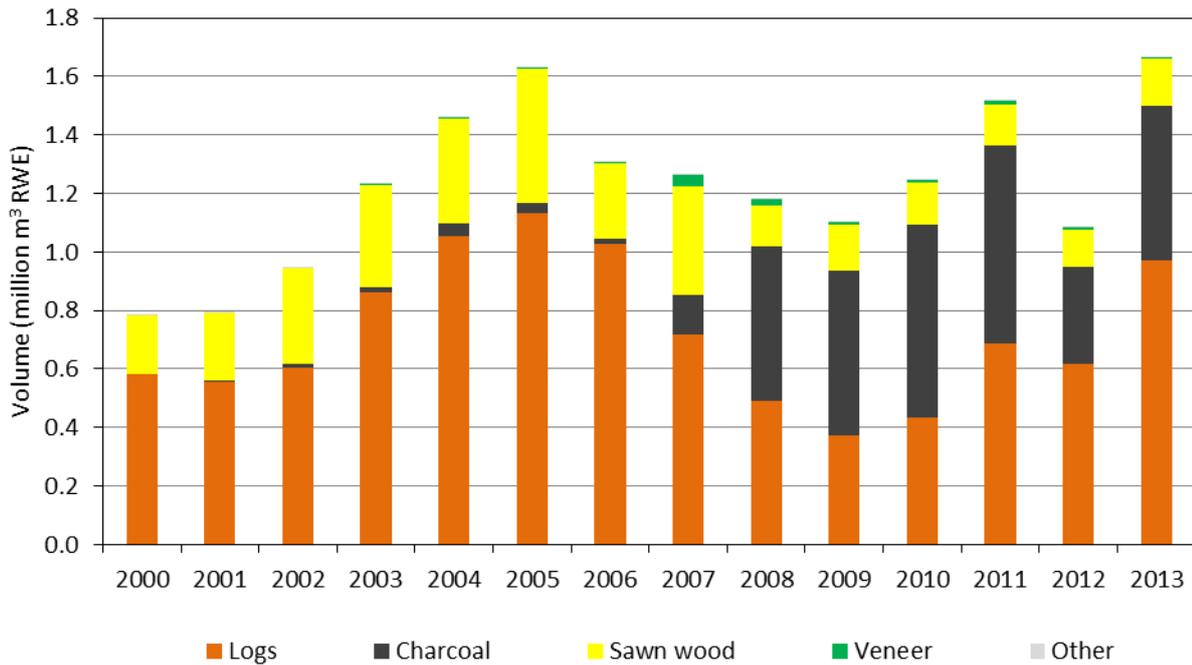
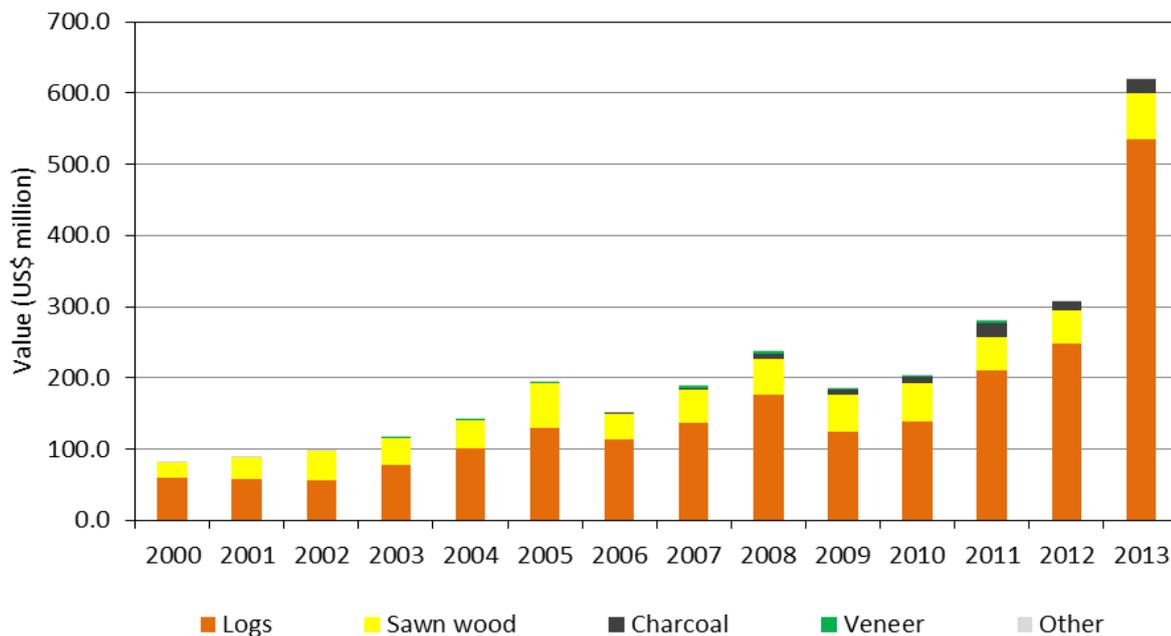


Figure 3. China’s Timber Product Imports from Myanmar by Value





Charcoal outside Ruili, Yunnan, near the China-Myanmar border, 2013. Source: Kevin Woods

## Issues with the Legality of Myanmar's Exports

### Overland Imports into Kunming

During the 2000s, investigations into the high levels of timber smuggling from Myanmar to China received significant negative attention. In response, in 2006, the two countries bilaterally agreed on "Interim measures to manage timber and mineral cooperation between Myanmar and Yunnan Province," deeming the overland trade of timber illegal (Xinhua 2006). In an effort to capture a greater share of timber revenues and deprive non-state armed groups of these funds, the Government of Myanmar requires that all timber be exported out of Yangon, the commercial hub of the country. Myanmar's wood is considered legal if it has the stamps of the state-owned Myanmar Timber Enterprise (MTE) and transits through Yangon for export by sea.<sup>7</sup>

However, despite these restrictions, Chinese customs statistics indicate that the vast majority of Myanmar's timber is registered by border customs in China's Kunming customs district, across the border from Myanmar's northeastern Kachin state (Figure 4 and Map 1). Yunnan is a landlocked province, so products registered in Kunming are generally assumed to be overland imports (Kudo 2008). In 2013, 94% of China's timber import volumes from Myanmar were registered in Kunming and are therefore considered illegal. This represents 100% of China's charcoal imports from Myanmar, 97% of sawn wood, 91% of logs, and notably, only 12% of veneer.

In November 2014, an official from Myanmar's Ministry of Environmental Conservation and Forestry (MOECAF) acknowledged that security concerns make it difficult for forestry officials to control illegal logging in border areas (ITTO 2014b). "I have requested that the minister of the State Forestry Administration of China and the regional government of Yunnan Province ban the illegal import of Myanmar's timber," said MOECAF Union Minister U Win Tin. "Also, I have asked the Chinese Ambassador to Myanmar to end the illicit timber trade using maps and photos as evidence. Although the Central Government of China does not seem to support the illicit trade, the Yunnan administration prioritizes its people's employment and the supply of raw materials," (Eleven News 2014). Dr. Nyi Nyi Kyaw, the Director-General of Myanmar's Forest Department, remarked that Chinese demand for tamalan (*Dalbergia oliveri*) and padauk (*Pterocarpus macrocarpus*) is driving the illegal trade (ITTO 2014b).

### Legal Exports from Yangon and Illegal Overland Exports via Thailand

In 2013, approximately 6% of timber volumes imported directly to China from Myanmar traveled by sea from Yangon to China's eastern seaboard (Map 1 and Figure 4). Forest Trends field research indicates that there are also indirect flows that go from Yangon to ports in Hong Kong, Thailand, and Malaysia before being re-exported to mainland China, and overland

<sup>7</sup> In some cases overland trade is deemed legal by high-level Myanmar officials through the exploitation of loopholes or granting of special exemptions.

trade into Thailand that is re-exported to China (Map 2). These flows are not captured in this report. Timber exports from Yangon would be considered legal if they have MTE stamps, while overland timber exports to Thailand are illegal.

Figure 4. China's Timber Product Imports from Myanmar by Customs District (Volume)

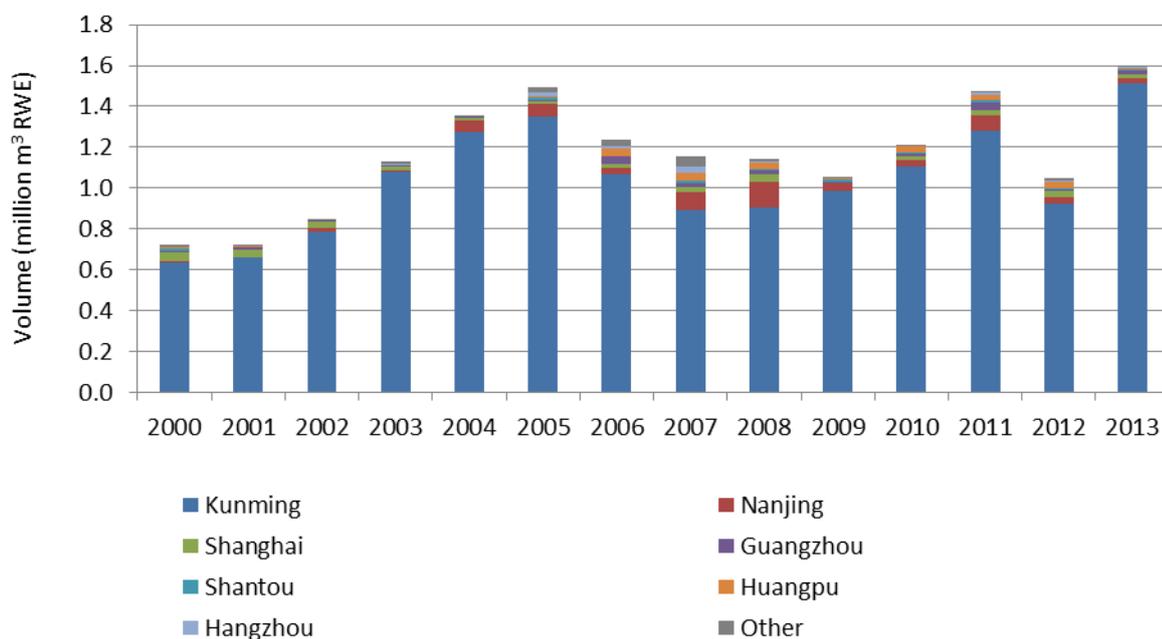
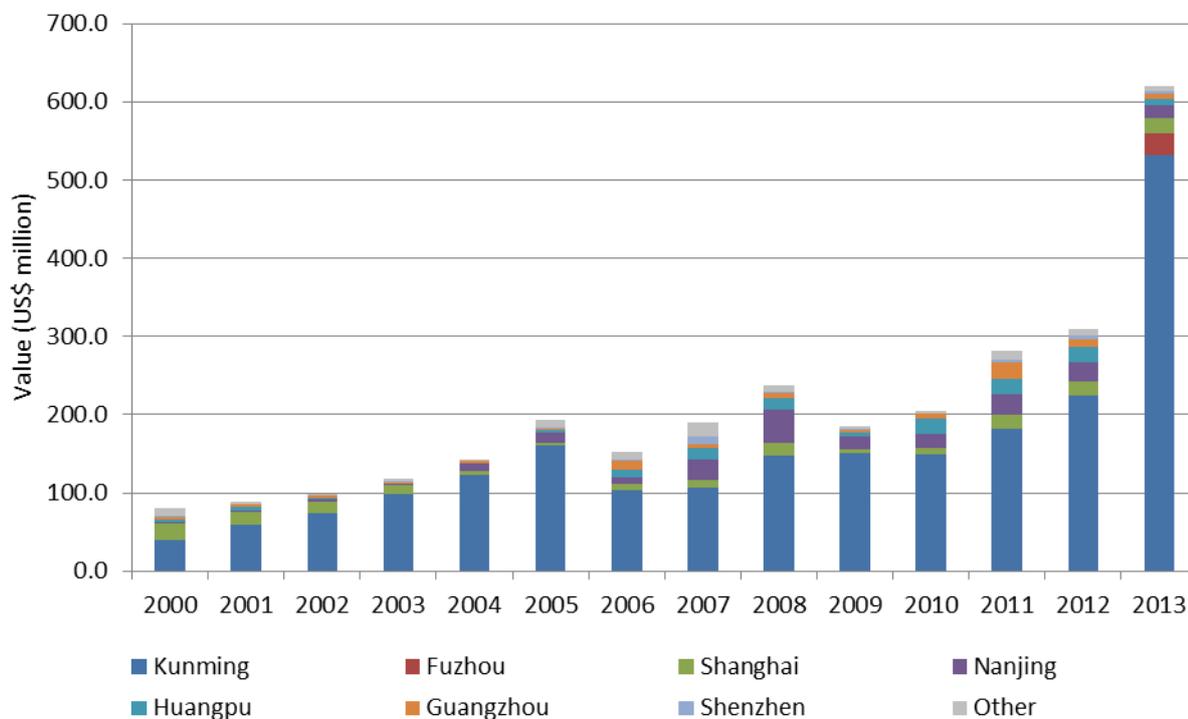
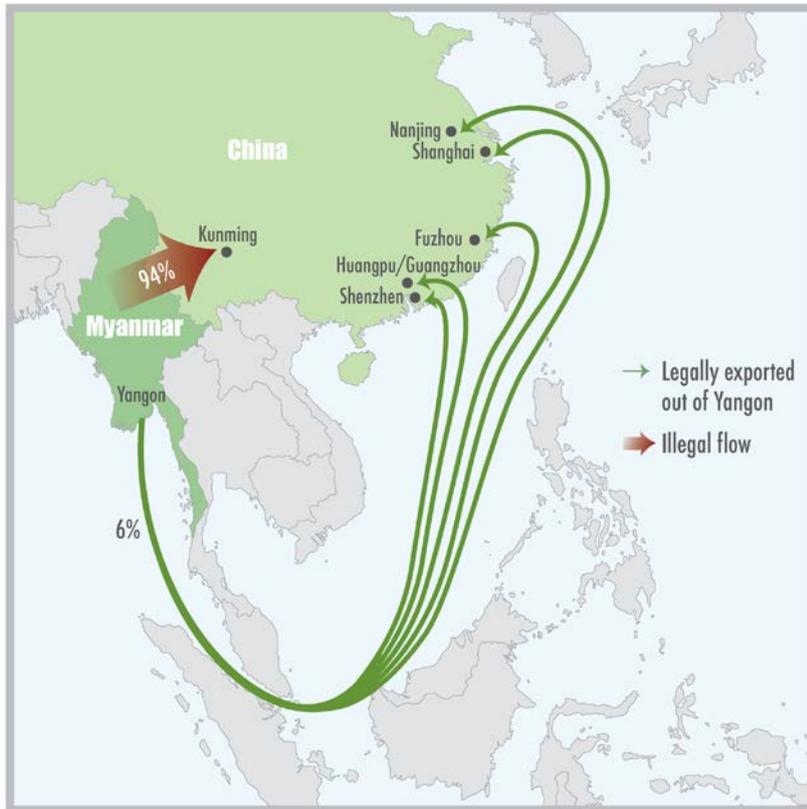


Figure 5. China's Timber Product Imports from Myanmar by Customs District (Value)



Map 1. Primary Direct Timber Flows from Myanmar to China\*



\*Does not include timber sent through other countries before being re-exported to mainland China. In 2013, 94% of China's imports of Myanmar timber were registered in Kunming.

Map 2. Timber Flows from Myanmar, Re-Exported to China Via Other Countries\*



\*Based on Forest Trends field research.

Map does not include timber exported directly from Myanmar to China.

## Conclusion

Myanmar's economy is heavily dependent upon its links with China, and this policy brief highlights China's continued role as one of the world's top importers of Myanmar's timber. However, experts have expressed concern about the high-volume, illegal nature of this trade and the historical focus on unprocessed log exports. From 2000 through 2013, 77% of Myanmar's timber exports to China were in the form of logs or roughly sawn wood (62% and 15%, respectively). Unlike other Myanmar export markets that emerged in the 1990s (e.g., beans and pulses for India or garments for the US and EU), Myanmar's timber trade with China has not contributed to broad-based economic growth or the development of a value-added downstream industry (Kudo 2008). In response to these concerns, Myanmar enacted a log export ban in April 2014. The Myanmar Timber Merchants Association (MTMA) has requested that China ensure local customs agencies respect the log export ban and prohibit the import of Myanmar's logs into China (Zin 2014). The effects of this policy remain to be seen, but the situation should be closely monitored, especially once roads become accessible in late 2014 with the end of monsoon season. Consistent nationwide enforcement of the ban will be crucial to instilling investor confidence and putting the proper incentives in place to promote the growth of a domestic wood-processing sector (Forest Trends forthcoming 2015b).

Myanmar has also begun to engage in international initiatives such as REDD+ (Reducing Emissions from Deforestation and Degradation) and the FLEGT (Forest Law Enforcement, Governance, and Trade) Voluntary Partnership Agreement (VPA) process. The government has expressed interest in negotiating a FLEGT VPA with the EU, a trade agreement that would involve developing a consensus around a definition of legality through a multi-stakeholder process, which would serve as a foundation for a national timber legality standard. Myanmar is only in the early stages of this dialogue, but some stakeholders are hopeful that VPA negotiations will encourage government transparency, clarify laws in sectors relevant to the forest, and increase opportunities for engagement between civil society and the national government.

In November 2014, a Myanmar government official spoke out about the challenges the country faces in tackling the illicit timber trade, with a plea to the Chinese government to more strictly enforce timber import restrictions (Eleven News 2014). Government and industry representatives from China and Myanmar are increasingly engaged in dialogue on timber trade issues, including at the Fourth International Forest Products Trade Forum and the China-ASEAN Forest Wood Products Expo in September 2014, where the role of Chinese and Myanmar industry associations in helping companies comply with laws and respond to international timber legality requirements as well as cooperation opportunities among associations to foster responsible timber trade were discussed. Yunnan's Southwest Forestry University is conducting a study on the cross-border timber trade, and an international workshop is set to take place in March 2015 to discuss these issues further. A range of stakeholders will be invited to participate, including government officials, academic experts, civil society, and the private sector. The workshop is meant to open a dialogue between parties on both sides of the border, so that strategies can be developed to promote a timber trade that is legal, beneficial to both nations, and sustainable in the long term.

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Other policy and information briefs can be found at [www.forest-trends.org](http://www.forest-trends.org)



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