

Analysis for adopting national level commodity economics essay

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Nowadays, in agriculture sector, pulses and beans occupy a key role with respect to domestic consumption as well as international market. Myanmar has been cultivating different varieties of pulses and beans since Myanmar King's era and was broadly sown in various places according to the traditional method of cultivation. Among sort of pulses and beans, black matpe, pedesein (Green Mung Bean), pesingon (toor whole), gram (chick pea), red kidney bean and butter beans are the most demanding in foreign countries. The agricultural production depends on many factors, such as seasonal pattern of weather condition, geographical dispersion, risk and change of technology. In general, pulses are grown all over the country. Black matpe is grown as mid-monsoon crop in upper Myanmar, approximately 85% of its growing area is situated in lower Myanmar. Pedesein (Green Mung Bean) is grown in the whole country. It is a rain-fed crop in upper Myanmar. In lower Myanmar, it is planted as second crop after rice. It is also grown as pre-monsoon crop in the irrigated areas. Posingon (Toor Whole) is cultivated as a monsoon crop, especially in dry zone area. It is generally a perennial bush, but Myanmar's farmers grow it as an annual crop. The traditional method of growing Posingon used by Myanmar farmers is not difficult enough. Gram whole is grown in dry areas, especially major producing areas are Magwe and Mandalay. It is an annual crop, stretching, and branches close to the ground. Source: CSO, Ministry of Commerce, Myanmar

At present, export earning received from pulses and beans exceeded that of rice and rice products. Thus, the government has been paying special attention to help improve sown acreage and production of pulses and beans. Thereby, pulses and beans production have gradually

been increasing in yearly. Across the globe, five countries account for 50 per cent of global pulse production. India is the world leader, with a 25 per cent share of world production; the other major pulse-producing countries are China, Canada, Brazil and Myanmar (FAOSTAT, 2007). Therefore, the conclusion can be made that Myanmar is the fourth leading pulses producer in the world. In Myanmar, pulses and beans trade can be classified into domestic trade and international trade. The key players in the pulses market are exporters, wholesalers, brokers/agents, local traders (Assemblers), commercial farms and smallscalefarmers. Trading may be defined by analyzing sales and business transactions between areas; sales between types of institutions or groups of people or transactions between individual buyers and sellers. It will be divided into sales between regions within the country and sales between countries. There are two major marketing areas, namely Yangon and Mandalay. Because of the scattered and small-scale nature of the Myanmar's production system, the role of aggregation in improving the agricultural marketing system is emphasized in the national agricultural marketing strategy. Buyers and sellers at Mandalay market depends on road transportation, while that of Yangon use the transportation of both road and waterways. In Yangon region, Yangon commodity exchange center plays a crucial role, where retail and wholesale take place. Yangon commodity exchange center is a network of distributing the selected pulses and others commodities in Myanmar. The market of Mandalay is closely connected with some major pulses production area. The fluctuations of price depend mainly on seasonality and market demand. The other important factors which affect trading situation are location of market

area, distance, transport and labors charges so on. As mentioned earlier, the total foreign exchange received from the export of agricultural produce was 2372. 98 million USD of which 58% on the average was received from pulses and beans. So, Myanmar has greater potential scope and demand for market demand in foreign marketing area. Among 45 trading partner with Myanmar dealing in export of pulses and beans, India is the largest importer with nearly 65% market share. According to the FAOSTAT, vegetarian Indians drive demand for pulses, making India the largest consumer of pulses at 30 per cent of global consumption. It is expressed that " India is strongly dependent on the import of pulses from developed countries (Tata Strategic Management Group). Foreign market prospects for pulses and beans because the partner countries, especially, India was importing Myanmar pulses and beans moderately above the level of the years" expressed in the Table(4). In fact, to promote all-around development of production and marketing both in the domestic and international markets for not only pulses and beans but also other exportable commodities, there are many factors to be taken into account; cost of production, cost of marketing, marketing functions, consumers, trade movements and price functions so on. Exports are subject to tariff duties in many countries and so are in Myanmar. Tariffs are levied for revenue but is should not be a barrier to domestic producers. It is needed to strive to reduce transportation costs to enable goods to move more cheaply and quickly so as to export to the international market in time. It is very important to remove barriers to foreign trade, for instance, tariffs, exchange control, packing, carriers, credit, documentations and custom offices and insurance so on. Some barriers can be removed with proper

assistance of the authorities concerned. Exchange control plays a vital role in foreign trade. It is an important part to be handled by the exporters. Under such controls, permission must be secured from the government within legal framework before exporting of goods can be made smoothly. As for Myanmar, the leading nation of ASEAN in the production of pulses and beans and it is also top in pulses and beans exporting countries. According to the finding of general condition of the marketable crops geographical and climate logically condition render favorable portion to grow pulses and beans all over countries. However, Myanmar's exporters have being relied on India market for exporting pulses and beans. Because most of pulses exporter have not trusted each other and they did not collaborated for the processing of export, eventually, the export price was decided by Indian market. Myanmar cannot occupy the India market otherwise. Moreover, the dealers who are exporting the commodities to foreign markets should try to penetrate into new market while firmly keeping the existing market through commodity exchange. So, the trading at commodity exchange is crucial role for the development of agricultural market. Nowadays, all those traders are being aware the benefits of trading at commodity exchange based on the past experiences and all are familiarized with commodity exchange. By trading in commodity exchange, all the players have becomes aware of the importance facts - exportable crops, quality controls to be meet growing demand, price situation, market information of certain commodities and packaging so on. Therefore, the trading at commodity exchange is crucial role for the development of agricultural market in Myanmar.

CHAPTER (5)

ANALYSIS FOR ADOPTING NATIONAL LEVEL COMMODITY EXCHANGE

5. 1Enhancing commodity exchange and its role

As mentioned in chapter 4, trade development is essential role for every country including Myanmar for its economic development in long term. In order to develop trade, it is necessary that having ability to compete in international markets is vital and commodity exchange have being essential tool to access in global market. It is generally accepted that not only sellers and buyers but also farmers generate many advantages by participating in commodity exchange. But, they are still facing some difficulties and constraint at the same time. In order to deal with this situation and develop competitiveness in international market, the study has been examined that accessing trade through commodity exchange is the best way because it can overcome some barriers of individual trading in certain place. The commodity exchange has been widely trade in some developed and developing countries as well as least developing countries. It is important structure for B2B and B2C in some developed countries such as USA and Japan, and other developing countries such as China and India. Alibaba. com and tradeboss. com are a good example of B2B model for trading of agricultural crops (ProductsReviews. in, 2013). As I explained earlier, Myanmar is agro base country and agriculture sector accounts for 38. 8% of its country economy. Many of developing countries depend to a large extent on commodities for their export and government(Larson, Varangis and Yabuki, 1996). Myanmar government paid crucial attention to agriculture

sector, and has been encouraging to the improvement of it's in various ways. Consequently, Myanmar has enjoyed surplus of commodities. Again, " Commodity price are notoriously volatile which is a major source of instability and uncertainty for commodity-dependent developing countries. Commodity price volatility affects government, producer (farmers), traders, processors, and local financial institution financing commodities in these countries(Larson, Varangis and Yabuki, 1996). Therefore, it is necessary to control not only price volatility but also high transaction cost, and trade facilitation on the other hand. In Myanmar at present, the existence of high transactions, linked to the lack of enough market coordination between buyers and sellers, the lack of market information, the lack of trust among market players, the lack of standard, the lack of infrastructure and the lack of contract enforcement, imply that buyers and sellers run within narrow market networks, that is, only those networks for which they can access information and in which they have insufficient trusted trading partners. To eliminate transaction costs and coordination risks, it is need to make more effective value chain in all area. As competition becomes an international, markets tend to differentiate and are best assisted by appropriate supply chains that coordinate information, infrastructure, finance, technology, and risk. As a market framework, supply chains eliminate transaction costs as well as lessen the institutional barriers parting the individual player in traditional distribution networks. Despite market liberalization in 1988, the presence of high transaction costs and contract risk have caused in limited arbitrage and poor investments by traders, leading to decreased trading volumes, less responsiveness to price signals and high price volatility, all of

which make hardships on smallholder farmers livelihoods. One of the objectives of the enhancing commodity exchange is to provide towards more effective agriculture sector, especially, pulses and beans value chain for all chain players. In this regard, the Yangon Commodity Exchange Center (YCEC), which was established September 1994, is expected to play crucial role as a stage for transparent and cost effective marketing.

5. 2Strategy for adopting national level commodity exchange

The main objective of any private company or an organization is to create long-term value for its partners and the strategy map would provide a framework to describe how strategy connects intangible assets to value-creating process. There are four perspectives in a strategy map and these perspective are connected each other by cause-and-effect relationships (Kaplan & Norton, 2004). Financial perspective: Commodity exchange intends to offer long-term value rather than short-term value. This long-term value provided by two strategies: productivity and growth strategy. By supplying a shared experience and common ways to reach success, the strategy map helped all traders as well as farmers acknowledge the value in collaborating toward common goals. That also helps such traders to get deeper understanding about how to explore sustainable market to penetrate their crops. Reducing high transaction cost and creating cost effective marketing are parts to productivity strategy while expanding revenue opportunities and creating customer value are major components for growth strategy. Not only traders but also producers can penetrate a sustained foreign market by trading through commodity exchange and they can also get on capacity from existing assets. In fact, since the successful commodity exchange can be

inspired by any importers from everywhere around the globe, national exporters will have a chance to explore both new partners and markets, and increase their income. It will also create higher benefits for national traders because of a cost-effective market. The financial perspective shows the outcomes of strategy in terms of finance. In addition, the financial perspective can be achieved only if the national exporter understands what their customer needs are by doing trading in commodity exchange, and then they can export in line with market demand by supporting its producers to produce certain crops. Customer perspective: Commodity exchange offers customers lower cost, marketable price, safety trade and reduce time because they do not need to go to the whole country wholesale market places to buy the certain crops, but just come to commodity exchange and can see many kinds of pulses and beans and other commodities as well. Commodity exchange makes improving cost-effective market and reducing high transaction cost. It creates better conveniences; they can bid marketable price, a guaranteed quality, bulk quantity as they wish which makes more in customers' satisfaction and as a result, it will lead to customer loyalty and grow long-term transactions. This is the preferred outcome of not only commodity exchange but also any company and in order to get with this outcome, internal processes play a crucial role. Internal perspective: Operation and management process, customer management process and regulatory and social process are three main pillars for internal perspective of commodity exchange. The transaction cost is reduced while all chain players are participating trading through commodity exchange. For example, only if buyers visit to commodity exchange not only can see all main export

commodities but also they can buy large volume at the same time if they are interested in one or more particular crops without traveling others market place. Moreover, YCEC offering only spot price for all commodities makes reduce certain risk, for instance, enables farmers to receive a guaranteed price from a buyers or immediately and helps avoid serious losses when prices fall for both sellers and buyers. Furthermore, commodity exchange laid down trading's rules and regulations for all chain players to become fair and facilitate market place. In addition, the effective commodity exchange function creates dissemination of market information, market liberalization and improvement of certain infrastructure. Learning and growth perspective: Commodity exchange alone seems not to create value effectively by itself but healthier its strategy is integrated properly with other assets, both tangible and intangible. It expresses intangible assets of organization and how they are essential in formulating the strategy. It can be classified into three parts: human capital, information capital, and organization capital. To achieve financial perspective, customer perspective, and international perspective, learning and growth perspective is the fundamental structure. Organization or company necessary to understand the requirements which to provide internal process's value creation: either human capital or information capital or organization capital or all of them. Moreover, it is important to know that these components must be aligned together to fulfill the strategy. In this commodity exchange structure, the availability of human capital such as experienced and eligible player, such as, buyers, sellers and farmers, is very vital to provide the strategy. In order to achieve this necessity, it is need to train all chain players as well as provide

education and awareness to them. Moreover, development of IT system and infrastructure, major component of commodity exchange structure, is crucial to support the strategy while developments of cooperation and coordination skills are needed to perform the strategy. Figure 5. 1: Strategy map illustrating commodity exchange trading platform Source: Adopted from lecture of IT strategy & policy planning, spring 2012 by Professor Jay Rajasekera

5. 3 Opportunities and Challenges for commodity exchange

YCEC was founded to help address some of the challenges facing buyers and farmers of agricultural sector in the emerging liberalized markets in Myanmar, and subsequently in the region. It is certain that commodity exchange offer many opportunities for exporters; therefore, it is being popular and most of both developed and developing, including Myanmar are using it as an effective strategy to promote country's trade volume, especially, agricultural produces. However, not only opportunities, but also challenges exist all the same time and these challenges are unavoidable for the players.

5. 3. 1 Opportunities

It is undeniable that the more opportunities available, the higher the number of market participants, and there is an increase in trade volume consequently. Among several opportunities available, some are expressed as follows: Market discovery and transaction cost are automatically reduced: farmers can sell directly to commodity exchange with marketable price if so they have to contact several buyers in order to get better price, and buyers

can buy through commodity exchange floor with reasonable price if so they have to travel the growing area in order to buy the crops. Hence, both can realize reasonable prices. Market risk are decreased, because of the assertion role of buyers, the exchange will know untrustworthy buyers and suppliers, and then has to remove as a member who is unreliable, and the feasible resource to arbitration in case of contractual conflicts. Risks concerned with crops quality are reduced, buyers can choose the best quality commodities among several quality of crops with different price through exchange trading floor because the exchange can classify grading and quality. Timely market information is provided; buyers and farmers can access timely market information from some region in Myanmar through the exchange's website, journals and automatic teller machine. Similarly, market information can use more localized if the commodity exchange plans to set up a network of warehouses into which suppliers can make delivery. Such localized market information system, in turn, gives increase to new arbitrage chances (i. e., different regional trade flows). Furthermore, timely market information may be generated not just on current trade opportunities, but also on future one; for instance, farmers to expect these opportunities by deciding to grow other potential crops for oncoming season and sell them through the exchange.

5. 3. 2Challenges

It should be stated that while a commodity exchange reduces market inefficiencies, it does not control the market- it cannot be an instrument for any community to execute certain price levels. Although a commodity exchange reflects buying and selling situations and allows market player to

respond better and prior to changes in these situations, does not change the underlying market fundamentals. Some constraints of agriculture sector caused all chain marketers to participate in commodity exchange are as follows:

Lack of access to commodity production: As young commodity exchange like YCEC cannot provide for all area of commodity production, but in order to attract more trading volume they should provide some inputs; seeds, fertilizer, and technical assistant to the primary producers of YCEC's major trading crops, especially, pulses and beans must have access to YCEC.

Lack of awareness to all chain marketers for the advantages of exchange trading: It is lack of awareness to all marketers about YCEC and the advantages they would generate from it, consequently, it caused their lack of access to the commodity exchange.

Sufficient timely market information cannot provided: To upgrade its role in facilitating trade YCEC service need to expend from just supporting market price information to all market situation of price, production, consumption and marketing for both local and international. Moreover, YCEC should provide not only radio broadcasting and uploading website of market information but also maintained database of historical price, production, consumption and trade that can be accessed through internet and improved capacity to get and interpret data are also required. Furthermore, not only exporters need market awareness on international market trends to decide on exports but also farmers require this information to decide on growing.

Adequate working capital cannot provide: It is doesn't matter for commercial farmers but it is need to provide certain working capital to the smallholder farmers for pulses and beans production as a main trading crops in YCEC. The farms which relatively less

volume of production create farmers less market options; they are mainly at the mercy of speculators during the peak season. They cannot excuse the cost of delivery to wholesale markets because do not have sufficient amounts and quality to satisfy the minimum requirements specified by the commercial traders. In contrast, the smallholders have to sell their commodity to some speculator who come and buy in farm directly, and cannot access the commodity exchange.

5. 4Policy and Strategy to be development

As leading organization of enhancing national level commodity exchange, UMFCCI is the most responsible organization to implement this project, but other relevant government organization such as Ministry of Commerce and Ministry of Science and Technology should be provided. In the regards, authorities and executives from UMFCCI are required to understand strategy map and its major components: four perspectives as mentioned earlier section because the strategy map exactly states that the objectives and key action programs needed to reach the goals. Hence, from this strategy map, both authority concerned of UMFCCI and other relevant organization understand their roles, responsibilities and how to create value for organization in order to reach the mission. The following picture illustrates the detail of value proposition paths to implement national level commodity exchange for healthy of growth of trade. Figure 5. 2; Detail in value proposition paths of commodity exchange

Source: Adopted from lecture of IT strategy & policy planning, spring 2012 by Professor Jay Rajasekera

To sum up, it is certain that UMFCCI is the most suitable organization to initiate and improve the platform. Besides, UMFCCI attracts its members to join this

commodity exchange platform more effectively and efficiently in order to improve its function and sustain long-term values in the future.

CHAPTER (6)

CONCLUSION

6. 1 Findings

The Myanmar government's recent policy changes towards market reforms have introduced new challenges and new opportunities for the agricultural sector. The most obviously reform measures are the elimination of price controls, liberalization of commodity trading, and drastic reduction of export tax (10% to 2%) and foreign exchange controls. As mentioned earlier, Myanmar is the leading producer country of most of the agricultural crops and agriculture contributes about 38% to the GDP of Myanmar economy. Agriculture sector is crucial role to increase country's GDP growth rate. All this suggests that Myanmar can be promoted as a major center for trading of commodity exchange in order to promote commodity trade and expand markets. It is undeniable that commodity exchange has being the most effective ways in penetrating international markets. To date, Myanmar has established 44 commodity exchanges across the country mostly in growing area. However, all of this has been trading only small volume with traditional way focusing on domestic except YCEC. Even though there are many advantages of trading in commodity exchange, it is found that all chain players could not participate because of having some difficulties. The objective of this study is to investigate and examine alternative option for promotion trade through commodity exchange apart from physical trade in fields. After making analysis based on SWOT analysis and comparing <https://assignbuster.com/analysis-for-adopting-national-level-commodity-economics-essay/>

advantages and disadvantages between commodity exchange and physical trade, it is found that trading in commodity exchange cannot be perfectly, but it is the best alternative option to be practiced. Among facing much hindrance which restraint not only buyers but also farmers to coordinating in physical trade, major findings from this research paper are described as follows: Lack of reliable and timely market information High transaction cost High counterparty risk No guaranteed for grade and standard High price volatility Lack of infrastructure (grain elevator or warehouse) Because, there are no trust between buyers and sellers and lack of timely market information make the different market players to push decisions based on supply, demand and price. By doing so, this hinders lead to raise the presence of many irregular speculators and unfair competition with regular buyers. In fact, cheating case was caused because when they bought the pulses and then they could not pay their dues when they had to settle their accounts because of the falling prices in Myanmar (Mizzima, 2008). High transaction cost for commodity buyer is one barrier under physical trading practices due to long distances area. In this physical market, buyers face several quality problems because most of farmers are still using traditional growing method. It is difficulty in setting prices for certain quality grades which considerably reduce the quality of pulses and beans otherwise the buyers have to spend additional cost for upgrading the quality by cleaning and grading in order to meet foreign demand. Furthermore, high price volatility problems are another barriers and limitation for all market participants. Prices change between the time of buying and the time of export, and between planting and harvest time.

6. 2Recommendations

Based on the above findings, development of commodity exchange platform is recommended as the best alternative option for market participants even though it still has some disadvantages which could not be replaced with physical trading platform. Therefore, initiating and participating in commodity exchange is strongly recommended following with the actions to be taken by concerned authorities; Monitoring program: Initiating and improvement function of commodity exchange is done by UMFCCI. However, Ministry of Commerce need to supervise the working process and monitor the performance of all chain players in order to provide certain infrastructure and take necessary action to enhance trading more effectiveness. Moreover, as a government organization, MOC is required to encourage both buyers and sellers to participate in commodity exchange platform. Identifying rules and regulations: As a government organization, MOC and MOST(Ministry of Science and Technology) need to review their trading procedures, rules and regulations with an analysis to identifying and removing unnecessary obstacles to the functioning of commodity exchange, or to its use different entities; Providing human resources management: UMFCCI need to provide seminars and training to both buyers and sellers occasionally to share knowledge concerned with international trading practice and share effective strategy to explore new market as well as buyer. On the other hand, both MOC and UMFCCI try to attract all those chain players to understand the advantages of trading in commodity exchange through social media, such as, TV, radio, newspapers and journals. Moreover, it is need to established buying and training center for all chain participants to give smallholders

access to YCEC services and wholesale markets. Building awareness: All exporters and importers in Myanmar are members of UMFCCI, so it has complete responsibility to give awareness about commodity exchange platform among its members and to increase more participants in commodity exchange. At the same time, collaboration with MOC and UMFCCI, provides farmers to get timely market information; local and foreign. Creating network with foreign countries: Being healthy connection with association of chambers of commerce from foreign countries, UMFCCI needs to build networks with them and link with commodity's importer, especially with potential importers based on the information provided in the assessment reports from MOC. Establishing market order: For the improvement of trade volume in commodity exchange, YCEC's administrators need to establish market order system through an organized trading platform, formal rules and procedures, standardized contracts and products, a system of membership based participation, monitoring and enforcement of compliance to the rules, and managing risks to the market. Building market integrity: YCEC's administrators need to build market integrity between buyers and sellers become more trustworthy through grading and certification of the quality and volume of commodities traded, warehouse receipting of commodities traded, encouraging fair competition and ethical business behavior, clearing all payments between buyers to suppliers. Supervising markets transparent: YCEC's need to supervise market becomes more transparent through a method of importers-accepted crops grades and specifications, prompt and reliable dissemination of market information to all players, and imposing disclosure and audit reporting

requirements for its members. Ensuring market efficiency: By ensuring information technology to automate the End-to-End system from warehousing trading to clearing and settlement payments to transportation of such crops, and a centralized trading place offering low-cost to all market participants. In conclusion, soon after reforming market-oriented economy, government tries to development all around sectors. But, Myanmar still lack of sufficient market size, supportive policy and infrastructural environment to support local commodity exchange and wholesale markets. In an emerging marketeconomy, the exchange needs to provide, in a way, the whole environment necessaryfor efficient commodity trade: management of counterparty risk, evaluation of productquality, access to finance and mechanisms for dealing with conflicts (Shahidur, Alex and Philip, 2010). As Myanmar is an agro based country, 70% of works forced are connected with agriculture sector and 38% of GDP comes from agro exports. So, for the development of agriculture sector is very crucial for not only economy development of Myanmar but also the improvement of social life of its nationals. Among several ways for improvement of agricultural trade, enabling commodity exchange is the best way to promote agriculture sector and all chain participants should be participated. Although commodity exchange alone cannot create all around the development of agriculture sector, it is the fundamental structure of the market improvement. Since the basic function of commodity exchange is to smoothly cash market that can be used to estimate the basis when making trades and can also be used to set the specifics of contracts. These functions are now obviously feasible and could generate several social benefits. In order to become more

development of commodity exchange platform, the role of policy makers has become very essential because it concern not only for agriculture sector or chain players but also for the trade development of Myanmar. Therefore, I believe that this study can give some beneficial information for the authority concerned when driving the strategy.