

Myanmar's emerging coffee sector

Opportunities and constraints



- In brief:**
- Myanmar is home to ideal conditions for coffee cultivation, but the sector is still in its infancy.
 - Growing demand in the region and increasing interest in high-quality coffee in developed markets presents a significant opportunity for expanding cultivation.
 - Exports of coffee from Myanmar have increased in recent years. However, much of what is exported is sold to border traders at prices substantially below international commodity values.
 - This brief looks at the potential opportunities and constraints for the coffee sector in Myanmar.
 - The authors highlight the following constraints facing Myanmar's coffee sector: poor production technologies; a lack of infrastructure; small-scale agricultural production; a lack of a developed value chain linking growers to consumers; poor competition among farmers; and quality that can be improved.

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Overview of the research

Despite Myanmar's ideal conditions for coffee cultivation, the sector is only now emerging from infancy. Growing demand in the region, combined with increasing interest in high-quality specialty coffee in developed markets, presents a significant opportunity for expanding cultivation in the country. To meet potential demand, several key constraints on local supply – technology, financing, links with international buyers, and infrastructure – need to be alleviated.

More so, what initially presents itself as an opportunity for business also has far reaching implications for Myanmar's development as a country: The prime areas for growing coffee are in or near historically fragile contexts. An expansion of the sector would bring more economic activity to these areas and offer a legitimate alternative to illicit activities, such as the cultivation of poppy for narcotics production.

This brief touches on the current situation and potential for coffee in Myanmar, while drawing from our experience in other contexts, to discuss how some of the main constraints on the sector can be addressed.

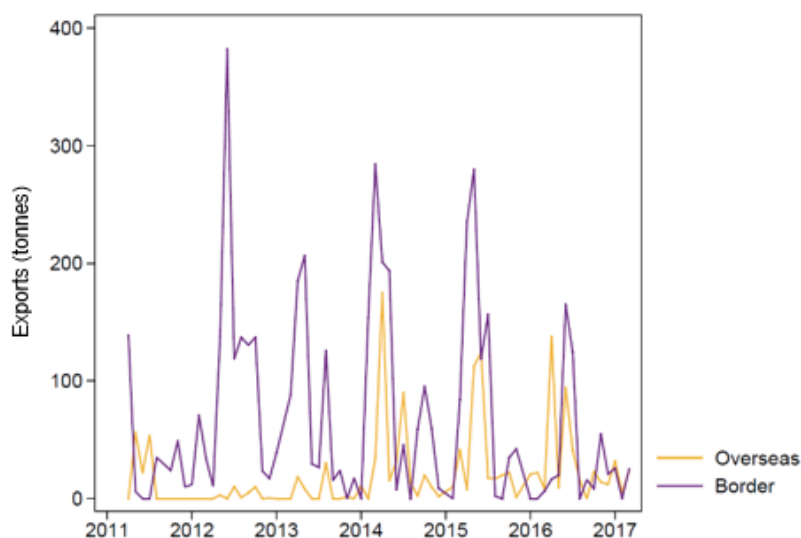
The findings: Coffee production in Myanmar

Northern Myanmar has the potential to produce large amounts of high-quality arabica coffee (Food and Agriculture Organisation, 2005). This region has plateaus with good-quality red and other suitable soils, elevations above 3,300 feet, well-distributed rainfall of 59 - 79 inches, and a distinct dry season. Areas with these requirements are found at latitudes of approximately 20 - 24° north.

At present, Myanmar coffee – almost exclusively arabica (Schmid, 2015) – is grown in Shan State, Mandalay Region, Kayin State, and Chin State. According to official statistics, coffee plantations amount to 27,000 acres in Shan State, 10,000 acres in Kayin State, about 5,000 acres in Mandalay (Pyin Oo Lwin – a scenic hill town), and 2,000 acres each in Kachin and Kayah States (Thant, 2017).

The sector produces raw coffee beans and products for domestic sale, with very little being exported (Tun, 2016). Technology adoption is lagging: For coffee washing, many processors are using outdated technologies that are inefficient (e.g. 1950s McKinnons). This becomes a big issue during the dry season, when water is scarcer.

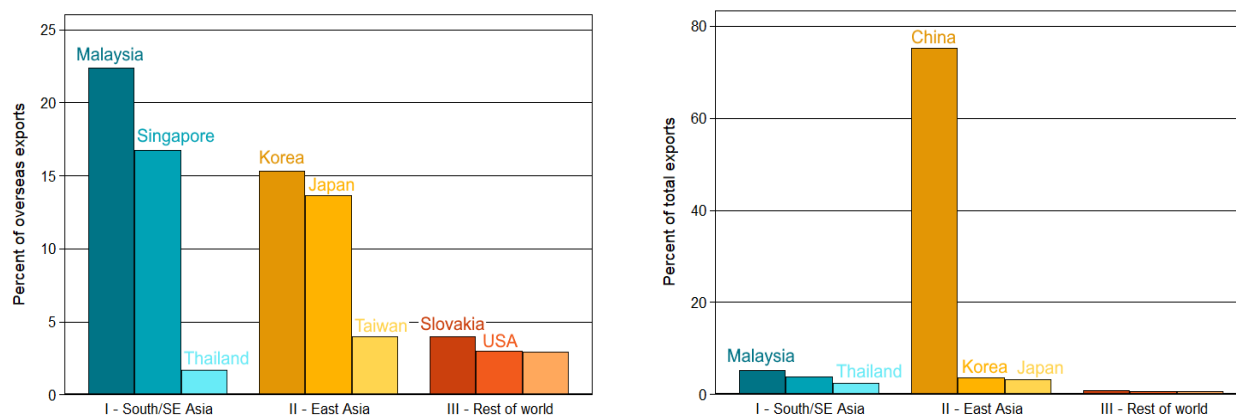
Figure 1: Volume of Myanmar coffee exports, 2011 – 2017



Source: Authors' representation using data from the Department of Trade

As shown in Figure 1, overseas exports have increased since 2014, with the various peaks reflecting the seasonal harvest and sale of coffee. By volume, the top three destinations for overseas exports are Malaysia, Singapore, and South Korea (Figure 2). Figure 2 confirms that border trading of Myanmar coffee is substantial: 92.6% of the total volume of border shipments of coffee between 2011 and 2017 went to China, with the share of total exports to China just under 80%.

Figure 2: Destinations of Myanmar coffee exports by share of volume, 2011 - 2017

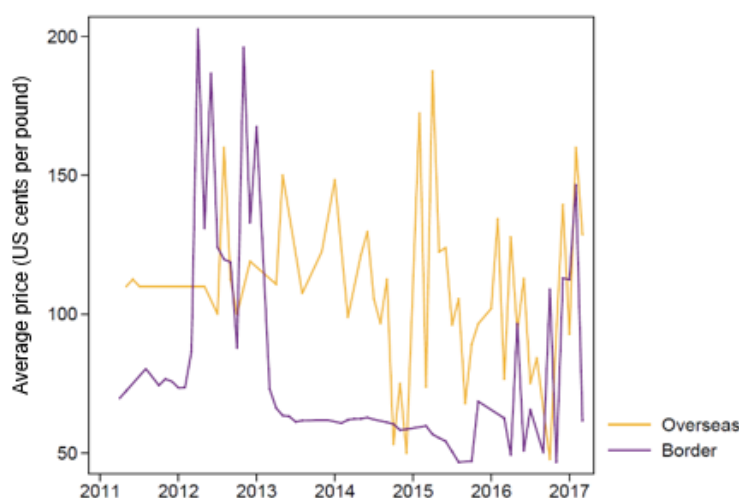


Source: Authors' representation using data from the Department of Trade

Anecdotal, much of what is exported is sold to Chinese border traders at prices substantially below international commodity values (Hetzel, 2015). The data confirms this observation, with coffee traded across the border generally receiving lower prices, except for in 2012 and more recently (Figure 3). The average price throughout the period was USD 0.85 per pound for border exports, compared to USD 1.06 per pound for overseas exports, which is below the prevailing international coffee price during this period (USD 1.34 per pound).

Most cultivation to date has not emphasised quality, which could be one factor explaining this price differential. Likewise, it may be the case that current buyers of Myanmar coffee – e.g. in China – are fine with buying lower-quality coffee and are hence buying at commensurately lower prices. Despite this, the potential for producing high-quality coffee is apparent, with contracts by large international buyers that strongly prefer quality on the horizon. Previous assessments have indicated that washed coffees presently produced in Myanmar are borderline specialty to sub-specialty in quality and are improving (Hetzel, 2015).

Figure 3: Average monthly price of Myanmar coffee exports, 2011 - 2017



Source: Authors' representation using data from the Department of Trade

Cross-country comparisons:

- **Vietnam**

Vietnam emerged as a major producer of robusta coffee (a coffee bean variety) in the 1990s, as a result of a series of reforms designed to reinvigorate the economy through greater productivity, investment, and participation in international markets (the “Doi Moi reforms”). The reforms improved land ownership and liberalised input and output markets, with significant changes in agricultural production and structural transformation towards higher value-added sectors (McCaig et al., 2017; McMillan et al., 2017). The reforms also resulted in fertiliser prices declining by 50%. Land reforms led to a wave of migration to the central highlands, which became an important centre for coffee production (Baffes et al., 2005). As of 2017, Vietnam is the world’s second largest producer of coffee (Statista, 2018).

Vietnam’s experience is different from what we might witness in Myanmar in at least three ways: First, Vietnamese coffee is dominated by robusta. Second, Vietnamese coffee was able to capture its global market as a competitive option during the 1994 price spike (Baffes et al., 2005), whereas the global coffee price is currently on a downward trajectory (Figure 4). Third, Vietnamese coffee was able to achieve its global status without assistance from either national or multinational funding (Baffes et al., 2005). This contrasts with Myanmar, where there is considerable donor activity in the sector.

Figure 4: International composite price of coffee, 1990 - 2019



Source: Authors’ representation using data from the International Coffee Organization

- **Indonesia**

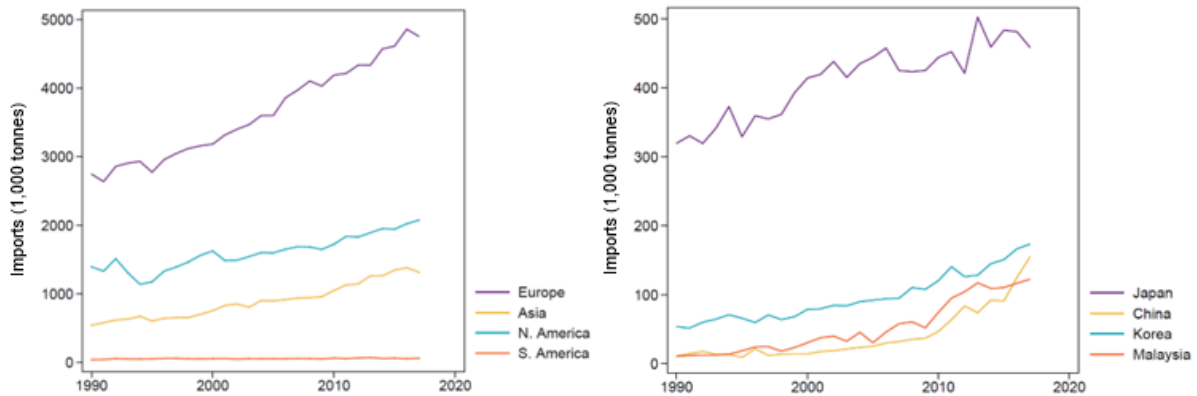
Coffee was introduced to Indonesia by the Dutch. As of 2017, Indonesia ranks fourth in the world for coffee production. Similar to Vietnam, most Indonesian coffee is of the robusta variety (representing roughly 80% of exports). However, unlike Vietnam, more than 90% of plantations are cultivated by small-scale growers (one to two hectares each) (TechnoServe, 2014). This scenario has contributed to unstable production volumes and quality, which undermines the competitiveness of Indonesian coffee on the international market (Indonesia Investments, 2017).

Beginning in 1984, the Indonesian Government implemented a quality standard for export coffee that classifies coffee beans into six grades according to the level of defects. The adoption of these standards may have helped increase the share of high-quality coffee exported from the country. The country’s quality improvement programmes have sought to change Indonesia’s reputation for producing lower-quality coffee, which has contributed to a loss in market share in countries where demand for quality coffee is growing (Masterman, 1998). More generally, such quality standards are common in major coffee-producing countries, such as Colombia and Ethiopia.

Opportunities: Growing demand in the international coffee market

Global coffee demand has increased by more than 50% since the 1990s. While Europe and North America remain the largest markets for coffee, emerging markets – particularly China – have been significant drivers of recent growth in the demand for coffee (Figure 5). While China is still a low per capita consumer of coffee, if it follows the evolution in consumption that a country such as Japan has seen, it is expected to see explosive growth in its demand for coffee.

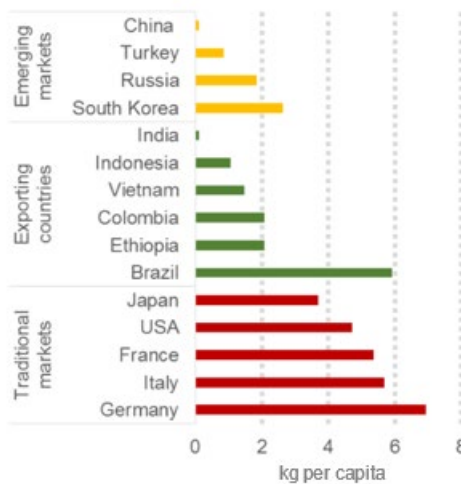
Figure 5: Coffee imports by region and neighbouring country, 1990 - 2017



Source: Authors' representation using data from the International Coffee Organisation

It is likely that emerging markets in general will be the core markets for coffee demand growth in the future, as their per capita consumption rates remain low (Figure 6). Overall, there has been a diversification of the countries that import coffee over the past two decades (Sänger, 2018).

Figure 6: Per capita coffee consumption in selected markets



Source: Sänger (2018)

Myanmar is therefore entering the global coffee market at an opportune time: A central location in a region that seems poised for growth, both in absolute and in per capita terms. The demand for quality or specialty coffee is also set to grow, especially in established markets in Europe and North America. Current demand from neighbouring countries may place a lower weight on high-quality coffee today; however, as consumer tastes change and incomes in the region increase, preferences may shift towards favouring higher quality.

Constraints and potential solutions

Coffee farmers grapple with a variety of constraints in Myanmar. Some constraints, such as low productivity due to limited awareness of agricultural best practices, are well documented. Others, such as difficulties in accessing markets or rigid and insecure land markets, are less understood. Future growth in the sector depends on the extent to which these constraints can be lifted. Doing so will require investments in all links in the value chain, from producers to processors to sellers.

- **Technology and infrastructure**

Current production technologies rely on traditional approaches for planting and harvesting, resulting in lower yields, lower quality, and lost harvests (Winrock International, 2017). Post-harvest, improper storage of cherries deteriorates quality, while inadequate drying complicates the processing of coffee cherries. An inadequate water supply coupled with inefficient processing technologies make this process costly. In addition, many growing regions lack access to electricity and are only connected through dilapidated road networks.

- **Small-scale production**

Estate-based farming, as in parts of northern Shan and Mandalay, and smallholder cultivation, as in southern Shan, present different challenges for farmers. For smallholders, high land prices and weak land records make it harder for farmers to expand cultivation. At the same time, a lack of aggregation among farmers means there are limited economies of scale for processing. Furthermore, pre-season capital and credit is hard to come by for growers and processors.

- **Value chains**

Lastly, there is a lack of a developed value chain linking growers to consumers. Strengthening this chain is essential for ensuring that farmers benefit from being integrated into wider markets – an issue which will grow in importance as Myanmar tries to increase its exports of coffee. While there appears to be high competition among processors, there is minimal appreciation for the retail value of growing quality coffee. One view is that high competition among processors is beneficial for farmers because it may raise the prices offered to farmers. However, greater competition also erodes the ability to make profits, which could end up weakening the desire for processors to form close relationships with growers.

- **Competition and export**

Previous research by the International Growth Centre (IGC) on the coffee value chains in Rwanda and Colombia has looked at this tension between competition and trust-building. The presence of a highly concentrated export sector among a small set of large firms – and in some areas, a near monopsony, as with Nespresso in parts of Colombia – fostered a tight relationship between growers and processors. These relationships brought much-needed pre-season financing to mills, as well as, in some instances, backward vertical integration (Macchiavello and Miquel-Florensa, 2018; Macchiavello and Morjaria, 2019).

- **Quality**

Value chains foster relationships but can also be used to encourage quality upgrading. Myanmar has ideal conditions for growing high-quality coffee that can fetch a sizeable premium above standard prices for coffee. Often, however, farmers need a combination of training and financial support to invest in improving quality. Coffee quality is determined by plantation characteristics as well as post-harvest processing and milling.

- **Development programmes**

Evidence from Colombia's Sustainable Quality Programme – a quality upgrading programme in the coffee sector, implemented by a large international buyer – induced greater investments in improving the quality of cultivation by farmers. The programme commits to purchasing farmers' production at a price premium, assuming certain quality standards are met. Farmers are not obliged to sell to the programme; hence, it becomes important for the buyers to forge strong relationships with farmers. The evidence shows farmers in this programme were duly rewarded by capturing nearly half of the surplus generated from higher demand for quality coffee (Macchiavello and Miquel-Florensa, 2018).

- **Regulation**

Addressing the constraints faced at key stages along the value chain will be important for the future expansion of coffee cultivation in Myanmar. Careful regulation of processors in the middle of the chain, between growers and consumers, can help ensure contracts are enforced. Where this is not possible, the arrival of a large international buyer or processor may bring benefits to farmers even when overall competition is reduced.

A fragile state

Fragile areas face unique constraints: weak land security; low contract enforcement; near unavailability of credit; and poor infrastructure. The ongoing conflict in large swathes of the country that are outside the purview of the central government makes fragility one of the most pressing development issues for Myanmar (Egreteau and Mangan, 2018). Fragile areas facilitate informal and illicit activities and trade. This is seen most clearly in the mass informal trade of natural resources and in the production and sale of narcotics.

Many suitable areas for coffee cultivation in Myanmar are in fragile contexts, whereby they are either in previously or currently disputed zones. In these areas, notably in Shan State, illicit cultivation, such as of poppy for narcotics production, has flourished. Myanmar, as one of the largest growers of opium poppy in the world, has been grappling with how best to crack down on these activities.

On the ground, farmers who grow poppy are likely choosing to do so because it presents the best opportunity for earning a living, even when taking into consideration the considerable risks involved. The lack of meaningful alternatives for earning an income disincentivises substituting out of growing poppies. Small farmers who grow poppies take on substantial risks in the form of land seizure or destruction and extortion. Coffee could potentially provide an attractive alternative to opium poppy cultivation. Despite this, the evidence on the success of drug substitution programmes elsewhere is, overall, mixed.

Conclusion

A successful intervention should aim to build up all stages of the coffee value chain. Doing so requires addressing the supply constraints discussed in the previous section. Importantly, this means focusing not only on growers but also on processors and consumers. Overcoming these challenges could reap long-term economic rewards for some of the country's most troubled areas, while helping the country to combat its illicit economy by sustainably pulling farmers out of drug cultivation.

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