

SNAPSHOT OF MARKET ACTORS' PERSPECTIVES: RAKHINE STATE MUD CRAB TRADERS (JUNE 7-12, 2021)

Mercy Corps – Market Analysis Unit

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During June 7-12, 2021, Mercy Corps' Market Analysis Unit (MAU) conducted phone interviews with mud crab traders across Rakhine State.¹ Questions focused on measuring the impact of recent events on business conditions from March to June, as compared to the same time last year. Data are primarily based on KIIs with 12 traders from Rathedaung, Myebon, Sittwe and Pauktaw Townships in Rakhine State.

Key Highlights

- **Traders say their primary challenge is the Myanmar-China border closure**, which has caused disruptions in transportation since the Covid-19 pandemic began;
- **Political events since February 2021 have also greatly impacted trade in crab**;
- **Reduced business activity is a significant concern for many traders**, who report decreases in sales of 25-50% during April - June and income reductions of 30-60% since June of 2020;
- **Traders noted a 70% decrease in mud crab prices as an ongoing challenge**;
- **A shift in focus to the Yangon export market has led to increased transportation time and cost**, along with higher levels of domestic competition;
- **All respondents are concerned with the potential of escalating political turmoil**, furthering uncertainties regarding their businesses' sustainability and ultimately jeopardizing the economic security of the more vulnerable fishers and collectors.

I. Key Challenges

Transportation Disruptions – All respondents said their primary challenge is the COVID-imposed closure of the Myanmar-Chinese border, which has caused significant disruptions in transportation routes. With the Muse border crossing to China being closed since July 2020, several traders leveraged connections to continue transporting mud crab to China via alternate routes. However, close monitoring of these “black routes” by the Chinese Government has led to further tightening of border controls and security.²

Using these alternate routes has led to increased transit times, resulting in high crab mortality rates. Transportation expenses have subsequently increased, as traders now have longer distances to transport their product and therefore bear additional wastage costs incurred in transit. Four respondents estimate their transportation costs have increased by 10-20% since January 2021.

Source of Challenges – Traders unanimously stated that recent political events have significantly impacted their business operations since February 2021. Only two respondents said that COVID directly impacted their day-to-day business operations over the last three months as COVID-imposed restrictions and regulations continue to ease. Furthermore, although armed conflict impacted businesses last year, none of the traders reported a recent impact on operations, possibly due to the cease-fire in Rakhine State since November 2020. However, government-imposed restrictions and checkpoints have further

¹ Mud crab traders primarily purchase mud crab from collectors (as well as fishers in some cases) across Rakhine State, selling them to international traders or importer companies.

² For example, transporting mud crab to China via the border town of Tachileik was considered a 'black route', until this was identified by the Chinese Government and shut down in early June 2021.

exacerbated transportation disruptions by increasing transit times. Several respondents said that trucks are now restricted from traveling past 6PM and/or overnight, forcing drivers to pull over and resume transit during daylight hours.

Additionally, several respondents cited political events as having disrupted their access to cash. Seven traders indicated increased lead times of two to four days in receiving payment from customers, which has depleted their cash reserves and strained working capital. This could be attributed to nationwide limits on cash withdrawals at banks.

II. Impact on Business

Sales and Demand – Reduced business activity was a significant concern for most of the traders interviewed. As a result of the challenges outlined above, most respondents indicated experiencing a 25-50% reduction in activity and volume of mud crab traded over the last three months. This has also been further compounded by increased operational expenses. All traders are concerned about their sales revenues, reporting declines of 30-60% between April and June 2021. This has led three traders to intermittently cease business operations (for several days or weeks) since mid-May to June, none of whom managed to replace this lost income with alternative sources.

Box 1. Respondent Profiles

Data in this report are based on interviews with 12 mud crab traders in Rathedaung (4), Myebon (4), Sittwe (3) and Pauktaw (1). Characteristics of respondents are as follows:

- **Activity** – All traders actively traded mud crab as their primary livelihood activity over the last three-to-twelve months.
- **Modality** – Nearly all traders use trucks to transport mud crab domestically (either across Myanmar or to border towns). Moreover, medium-to-large traders use air transit from Yangon to China to a greater extent in order to compensate for disrupted distribution channels. Two smaller traders reported using small boats.
- **Clients** – All respondents sell mud crab to agents, intermediary companies and/or international traders. Most clients are located in Yangon, Mandalay or Muse and eventually distribute to China. However, an increasing number of traders are adapting to new restrictions by transporting mud crab to Yangon for domestic sale (smaller percentage) and/or final distribution to China.

Despite challenges, several traders report that demand for mud crab has remained unchanged since 2020. Although demand from the Chinese market has remained relatively stable, fulfilling this demand has been difficult due to transportation restrictions and expenses. However, domestic demand continues to remain stagnant, and a few respondents noted that the unpredictability in domestic demand has disrupted supply chains. For example, a few traders said they are unsure of the quantity of crab to purchase from collectors and fishers.

Mud Crab Prices – All traders said that a large decrease in mud crab prices remains an ongoing challenge. The June 2021 market price for mud crab was approximately 2,000-2,500 MMK/kg, compared to 6,000-6,500 MMK/kg at the same time last year, amounting to a 70% drop. These lower prices, combined with increased transportation and operational expenses, have significantly affected traders' incomes.

Debt – This instability in income has subsequently led nearly all respondents to incur varying levels of debt.³ Traders expressed obtaining differing loan amounts, depending on monthly levels of income required to sustain both their business and household expenditures. High interest payments associated with this debt have further amplified traders’ concerns regarding declining incomes and potentially entering protracted cycles of debt. Additionally, many believe opportunities to access finance from both formal and informal sources will deteriorate from the uncertain domestic banking sector and/or a high requirement for assistance across the country.

Box 2. Trader Profile: Transforming Challenges into Opportunities

Although nearly all traders’ responses aligned, one large and extremely experienced Rakhine trader was able to translate severe challenges into business opportunities. This trader expanded his business to include mud crab farming prior to the onset of COVID-19, by securing financing from a private Chinese investor. This allowed him to build mud crab storage facilities on his property in order to both store and reproduce mud crab, providing him a substantial market advantage over other traders in the region. He also acquired knowledge regarding pond management and maintenance, including ventilation, temperature, salinity, as well as mosquito and feeding controls – thereby ensuring high mud crab quality and low mortality rates in transit.

Furthermore, he continued to leverage well established and long-standing relationships with agents in Yangon, resulting in relatively smooth ongoing transportation (via airplane) of mud crab to China. In stark contrast to other respondents, these connections equated to higher profit margins and a 30% increase in volume traded from April to June.

III. Adaptation Strategies

Diversification – More than half of all traders interviewed have either started transporting or have increased the frequency of mud crab sent to Yangon for domestic sale. In addition, some traders are now sending mud crab to Yangon for final transport to China via airplane. However, these alternate strategies can be expensive, resulting in different challenges and diminished margins, yet also presenting new opportunities (see Section VI and Box 2).

Supplier Relationship Management – One trader has waived repayment conditions on previously-disbursed pre-financed loans in order to maintain good working relations with his suppliers and alleviate other working capital pressures.⁴ Disrupted transportation channels and mud crab prices are negatively affecting all collectors and fishers, forcing many to invest less time in mud crab activities and/or pursue alternate livelihoods. Going forward, some traders reported limiting or eliminating cash advances to collectors and fishers. However, the majority of traders continue to maintain open lines of communication and promote amicable relationships with all value chain actors.

IV. New and Emerging Challenges

Domestic Markets – Traders reported several challenges related to domestic markets. Firstly, increased transit time and cost from Rakhine State to Yangon results in higher crab

³ Although not explicitly mentioned by respondents, it can be inferred that loans obtained are from informal (i.e., cash advances from other value chain actors or loans from moneylenders, family or friends) as opposed to formal sources (i.e., loans from financial institutions).

⁴ Traders typically provide cash advances to value chain actors in order to increase the quantity of mud crab received, as well as foster business relationships.

mortality rates due to infrastructural challenges and a lack of refrigerated trucks. One respondent claimed that typical crab mortality rates can reach more than 50% during transit in the hot season (March-May). Secondly, Rakhine traders must compete with mud crab originating from the Ayeyarwady region. Due to its close proximity to Yangon, Ayeyarwady traders can generally transport fresher and larger quantities of mud crab. Thirdly, respondents stated a lack of agency when dealing with Yangon agents. Regardless of the inventory, which traders have on hand, they are entirely reliant on the quantity of crab requested by agents, which can often fluctuate.

Air transit – Traders are unable to send large quantities of mud crab via airplane due to limited space and a finite number of flights between Yangon and China. Moreover, this option can be very expensive, lowering traders' overall earning potential. One trader explains that with current low market prices the total cost for sending one 30 Kg box of mud crab to China (via Yangon by airplane) is approximately 180,000 MMK. This box could potentially sell in China for 200,000-220,000 MMK, leaving traders with marginal profits, especially when accounting for potentially high mortality levels during transit. Medium and larger traders were the only respondents willing to absorb this risk.

V. Future Expectations and Assistance

Business Environment – All respondents are concerned with the potential of escalating political turmoil, furthering uncertainties regarding their businesses' sustainability and ultimately jeopardizing the economic security of other value chain actors. In addition, a worsening political environment may amplify the residual effects of both COVID and the armed conflict, especially for mud crab fishers and collectors who are likely more vulnerable.

Overall, traders are quite pessimistic about the future of the mud crab sector in Rakhine. Several believe that unmet demand in the Chinese market will grow due to limited volumes of mud crab deliveries. This will continue to impact other value chain actors, as traders are uncertain of amounts to purchase from fishers and collectors, and further diminish their ability to plan near-term business operations.

Business Operations – All traders are concerned about the sustainability of their businesses over the next three months. Most said they will continue to trade mud crab to some degree, fluctuating the volume traded dependent on the current market price and transportation costs. While many are willing to simply wait until market and business conditions normalize, two respondents said they may diversify their livelihoods in order to supplement their income (e.g., working in agriculture or construction).

Household Income – Almost all respondents stated they will struggle to meet basic household expenses if current market conditions persist. Traders anticipate declining incomes and increased expenses due to escalating commodity and transportation prices. However, they plan to continue reducing expenditures within their businesses and at home.

Needed Assistance – Some traders would like to see greater levels of financial assistance from either NGOs or microfinance organizations in order to temporarily sustain their operations. In addition, in order to ensure the sustainability of the entire mud crab value chain, a couple traders said they would also appreciate financial aid for the fishers who serve as their suppliers and who may be impacted more severely by shifting market conditions. However, many cautioned that all assistance should be packaged as "temporary relief measures" to mitigate against rising debt levels. This could include for example, immediate small business subsidies or loans, with flexible repayment terms.

VI. Implications

Business Continuity – Stagnant and limited domestic demand, and therefore low market prices, may lead value chain actors to pursue—at least temporarily—supplementary livelihood opportunities, further jeopardizing the sustainability of ongoing business operations. Yet, most traders believe that re-opening the Chinese border will significantly alleviate current pressures, allowing the sector to normalize.

Reduced Household Income – Should current market conditions persist, traders, collectors, and thousands of mud crab fisher households will find it difficult to obtain sufficient income, thus compromising their food security. This could lead to many adopting sub-optimal coping strategies and pursuing additional loans, which may further protract cycles of debt.

Mercy Corps' Market Analysis Unit (MAU)

The Market Analysis Unit provides humanitarian and development practitioners and policymakers operating in Myanmar with data and analysis to better understand the present and potential impacts of COVID-19, conflict and other crises on:

- **Household purchasing power, coping mechanisms and access to basic needs;**
- **Value chains**, including **trade** (ag. Inputs, machinery, supply), **cross-border dynamics**, and **market functionality** (particularly as it relates to **food systems**);
- **Financial services**, including **financial services providers**, household and business **access to finance** and **remittances**; and
- **Labor markets** (formal and informal), with a focus on agricultural labor and low wage sectors (construction, factories, food services).

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