

THE ANT ARMY : A SIGNIFICANT MECHANISM OF THAILAND-
MYANMAR ILLEGAL TRADE (1988-2012)

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จุฬาลงกรณ์มหาวิทยาลัย

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ประเทศไทยและประเทศพม่ามีเขตแดนร่วมกันยาวกว่า 2400 กิโลเมตร ในอดีตที่ยังไม่มีแนวคิดเรื่องเส้นเขตแดนผู้คนที่อาศัยตั้งรกรากในบริเวณนี้ต่างไปมาหาสู่กันอย่างมีอิสระการแลกเปลี่ยนสินค้าและการค้าขายระหว่างกันมีพัฒนาการต่อเนื่องยาวนาน กิจกรรมทางการค้าและการแลกเปลี่ยนของผู้คนในบริเวณนี้มีรูปแบบหลากหลาย แม้ภายหลังจากที่แนวความคิดเรื่องเส้นเขตแดนมีผลบังคับใช้ในช่วงที่พม่าถูกผนวกเข้าเป็นดินแดนในอาณานิคมของอังกฤษการไปมาหาสู่และการแลกเปลี่ยนสินค้าระหว่างกันก็ยังมีอยู่เสมอมา บริเวณเส้นเขตแดนระหว่างไทยและพม่านั้นเป็นที่รับรู้กันว่าเป็นพื้นที่ครอบครองของชนกลุ่มน้อย ภายหลังจากพม่าได้อิสรภาพจากอังกฤษชนกลุ่มน้อยเหล่านี้ล้วนแต่จับอาวุธขึ้นต่อสู้เพื่อเรียกร้องอิสรภาพในการปกครองตนเอง ภายใต้อิทธิพลของวุ่นวายภายในที่เกิดจากการสู้รบระหว่างรัฐบาลกับชนกลุ่มน้อยและความล้มเหลวในการใช้มาตรการทางเศรษฐกิจแบบสังคมนิยมของรัฐบาลพม่า การลักลอบค้าชายแดนระหว่างทั้งสองประเทศได้ทวีความสำคัญมากขึ้นในฐานะที่เป็นช่องทางในการลำเลียงสินค้าจำเป็นพื้นฐานในการดำรงชีวิตประจำวันของประชาชนในภาวะขาดแคลน ทั้งยังเป็นแหล่งรายได้สำคัญของชนกลุ่มน้อยเพื่อใช้ในกิจกรรมการต่อต้านรัฐบาลพม่า การค้าในลักษณะขนสินค้าข้ามชายแดนโดยไม่ผ่านพิธีการทางศุลกากรที่ทางการไทยเรียกว่า "กองทัพบก" นั้นดำเนินไปอย่างเสรีเพื่อตอบสนองรูปแบบการค้าที่เรียกว่า "ตลาดมืด" ภายในประเทศพม่า แม้กระทั่งเมื่อรัฐบาลพม่าประสบความสำเร็จในการยึดพื้นที่บางส่วนจากการครอบครองของชนกลุ่มน้อยและดำเนินการตั้งเป็นด่านศุลกากรถาวรในช่วงปี 2539 จนถึงปัจจุบันการค้าแบบลักลอบโดยไม่ผ่านระเบียบพิธีการทางศุลกากร หรือ "กองทัพบก" ก็ยังคงดำเนินอยู่และมีมูลค่ามหาศาลในแต่ละปี วิทยานิพนธ์ฉบับนี้ศึกษาถึงมูลเหตุความจำเป็นในการลักลอบค้าชายแดนจนรูปแบบการค้าและการรวมทั้งคาดเดาอนาคตของการค้าในลักษณะกองทัพบกเนื่องจากการช่วงเวลาที่ผ่านมา รัฐบาลพม่ากำลังดำเนินการปฏิรูปประเทศไปในทิศทางที่เป็นที่ยอมรับจากสังคมโลกมากขึ้น ทั้งในแง่ของเศรษฐกิจที่มีการผ่อนปรนระเบียบข้อบังคับต่างๆและรูปแบบการปกครองที่มีความเป็นประชาธิปไตย

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AKKANUT WANTANASOMBUT: THE ANT ARMY : A SIGNIFICANT MECHANISM OF THAILAND-MYANMAR ILLEGAL TRADE (1988-2012). ADVISOR: ASSOC. PROF. SUNAIT CHUTINTARANOND, Ph.D., 147 pp.

The “Ant Army” is a general term which the Thai authorities refer to an individual person or a group of people involved in smuggling business. People that have been employed to carry goods cross the border along the river and hill paths, back and forth without customs declaration to avoid tariffs and taxes in the same manner as the ants that always carry food back to their habitats.

In 1988, the military regime that ruled Myanmar since 1962 stepped down after the nationwide protest, known as 8888 uprising. However, another group of soldiers, the so-called the State Law and Order Restoration Council (SLORC) came in. It was also in 1988 that Thailand under Prime Minister Chatchai Choonhavan implemented a new policy “from a battlefield to a market place” to promote regional trade between Thailand and neighboring countries. Therefore, Thailand-Myanmar border trade has reached a crucial turning point.

This thesis studies the causes and processes of the illegal trade along Thai-Myanmar border. Several theories have been used to explain these phenomena, such as the world-system analysis to elaborate the economic relationship between Thailand and Myanmar, the smuggling theory to explain how the smuggling was conducted, and finally, the rational choice to explain how the economic cooperation among ethnic groups and Burmese authorities still going on amid their political conflicts.

Fieldworks were mainly conducted in Mae Sot and various places along Thailand-Myanmar’s border including several Myanmar’s major cities such as Yangon, Mandalay, Mawlamyine, and Hpa-An to observe the smuggled goods’ destinations and its routes from Mae Sot to Mawlamyine.

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Advisor's Signature

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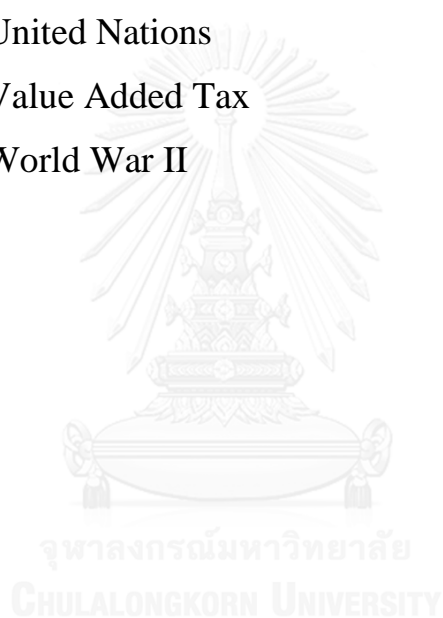
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List of Abbreviations

ABSDF	All Burma Students' Democratic Fronts
AEC	ASEAN Economic Community
AFPFL	Anti Fascist People's Freedom League
APSC	ASEAN Political-Security Community
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of Southeast Asian Nations
BOI	Board of Investment of Thailand
BOT	Bank of Thailand
BSPP	Burma Socialist Programme Party
CPB	Communist Party of Burma
CPC	Communist Party of China
DKBA	Democratic Karen Buddhist Army
EPZ	Export Processing Zone
EU	European Union
FDC	Foreign Currency Deposit
FDI	Foreign Direct Investment
GDP	Gross Domestic Products
IMF	International Monetary Fund
IOM	International Organization of Migration
KIO	Kachin Independence Organization
KMT	Kuomintang
KNPFL	Karenni National People's Liberation Front
KNU	Karen National Union
KPF	Karen Peace Force
KTA	Knappen-TippettsAbbett Engineering Company

L/C	Letter of Credit
MFTB	Myanmar Foreign Trade Bank
MICB	Myanmar Investment and Commercial Bank
MSG	Monosodium Glutamate
SLORC	State Law and Order Restoration Council
SPDC	State Peace and Development Council
SSA	Shan State Army
T/T	Telegraph Transfer
UN	United Nations
VAT	Value Added Tax
WWII	World War II



Chapter 1

Introduction

Trading is a fundamental activity since prehistoric times. People has been exchanged their resources and services from each other to fulfill their basic desire. Originally, it was in a form of a good barter until the medium of trade was invented. People started to use other things they agreed such as cowry, silver, gold, and money as a medium for trading. People on both sides of today's Thailand-Myanmar border have been living there for centuries before the existence of border line in the 19th century (Winichakul, 1994, pp. 62-73). It was during the British colonial period that a modern concept of state and territory were brought in to this region from the western world. Borderline become a constraint for trade and other activities. People living along the border who used to freely interact between communities were forced to follow new regulations that come together with the borderline.

The practice of smuggling is certainly bound up with the concept of state territory and borderline. Without state borders, smuggling would never exist (Matin Jones, 2004, p. 33). In case of Thailand-Myanmar border, the smuggling exists along the borderline from the north to the south.

Thailand-Myanmar border trade has a long history. Trade volume between Thailand and Myanmar has been increasing over the decades. According to a report by the International Monetary Fund (IMF) in 2010, Thailand is Myanmar's first trade partner, accounting for 30% of Myanmar's total trade with the world. The report was based on official

trade data and thus did not reflect the strong presence of Thailand-Myanmar smuggling trade which the estimated smuggling volume in 2010 was more than 922 million US dollars¹.

Ant Army is a general term which the Thai authorities refer to an individual person or a group of people that involved in smuggling business. It also refers to the porter who is employed to carry goods back and forth from one country to another without customs declaration to avoid tariffs and taxes.

The term 'Ant Army' was coined by a Thai press during the World War II². It referred to people in southern Thailand who smuggle rice from Thailand to Malaysia and commodity products back to Thailand in a small scale. Since then the term 'Ant Army' has been widely used to describe people or behavior of people that carry things across the border illegally for commercial propose.

The Ant Army is an important mechanism that supports illegal trade between Thailand-Myanmar for decades. Since Myanmar was taken over by the military regime in 1962, Thai-Myanmar border trade has been influenced by the presence of various ethnic minorities, namely the Kayin, Kayah, Mon, and Shan. These minorities formerly had freedom to collect taxes and other service charges without any interference from the central government. In 1988, there was a dramatic change in Myanmar as the military regime that ruled the country since 1962 collapsed by the nationwide protest, known as 8888 uprising. However, another group of soldiers, the so-called the State Law and Order Restoration Council

¹ According to the primary data collected from Thai Customs and Myanmar border trade department.

² A comment given by Assoc. Prof. Wittaya Suchariththanarugse during the Southeast Asian Symposium "Southeast Asian Studies in ASEAN and Global Context", June 2nd 2014, Chulalongkorn University.

(SLORC) stepped in, which later had transformed to the State Peace and Development Council (SPDC) in 1997. Since then the Myanmar government troops started to attack those ethnic minorities and tried to take over control of the border trade themselves. It was also in 1988 that Thailand under prime minister Chatchai Choonhavan has implemented his new policy “from a battlefield to a market place” to promote regional trade between Thailand and neighboring countries instead of supporting the ethnic minorities, early known as a buffer policy (Chachavalpongpun, 2005, pp. 57,66). Therefore, Thailand-Myanmar border trade has reached a crucial turning point.

1.1 Rationale, Motivation, and Usefulness of research

Since 2008, I have been exporting my products to our neighboring countries including Myanmar. My interest in illegal border trade between Thailand and Myanmar incurred after my customers in Yangon asked me to deliver the goods to Mae Sot, the border town in Tak Province, as they wanted to use illegal channel instead of ocean freight shipping as usual. At the beginning, I thought my customers wanted to reduce their cost by avoiding the taxes to their government, later I found that they have many more reasons behind.

There are many studies about illegal border trade between Thailand and Myanmar but most of those research papers look at narcotics, timber, gems or human trafficking. A very few studies examine illegal trade activities, often considered as a problem for economic development. None of the research has conducted in-depth study in order to find out the causes and the processes of illegal trade by the so-called “Ant Army”. Perhaps it is not important from an academic or scholar’s point of views since those

researches mostly reflected that this type of illegal trade has obstructed the economic growth. But from the entrepreneur angle, the study in this topic might be used for the better understanding of the cross-border trade processes between two countries. Moreover, if the economic development is truly obstructed by these illegal trade activities, the understanding of its causes will be very useful for the government or policy makers in order to create the prevention measures for improvement.

The knowledge of these illegal trade activities is very limited, probably because of its difficulty to get the inside information from the parties involved. I have good opportunities to get access to the information through interviews with people involved in these activities, which were introduced by my Burmese customers both in Yangon and Mae Sot border town.

This thesis portrays the nature of Thai-Myanmar border trade together with the existence of massive smuggling which has been changed from the 1960s in terms of process and format since 1988 up to 2012. It allows us to understand various causes of smuggling between Thailand and Myanmar as it could fulfill requirements of the border trade entrepreneurs, both Thais and Burmese, or even foreign firms that would like to trade with Myanmar by using Thailand as a transit port. This thesis would also be useful for the policy makers in the state level to improve Thailand-Myanmar border trade formats in order to boost up the economic cooperation between two countries.

1.2 Statement of the Problems

This study aims to find out the reasons behind the smuggling at Thailand-Myanmar border in order to elaborate the real motivations of the Ant Army.

To understand and to predict the future of these illegal activities in the light of the recently political and economic change in Myanmar, it is a must to know the process of the smuggling, the routes and the destinations of the smuggled goods.

1.3 Objectives

- 1) To examine the process of the illegal trade known as the “Ant Army”.
- 2) To study the causes of illegal border trade between Thailand and Myanmar.
- 3) To analyze the current situation and predict the future of the “Ant Army” after the economic and political changes in Myanmar.

1.4 Theoretical Framework and Literature Review

It is impossible to find a single theory that perfectly fit the Thailand-Myanmar smuggling. Though there is a smuggling theory which is developed mostly by the economist since 1970s, but it cannot be used to explain the Thailand-Myanmar smuggling case because of its unique and complicated context. Therefore, several theories are used in this research, namely, core-periphery theory or world-system analysis, smuggling theories, and rational choice theory or social exchange theory.

I use the world-system analysis to elaborate the economic relationship between Thailand and Myanmar. The smuggling theory is used to explain the smuggling, unfortunately, it cannot cover every aspects. Another theory, rational choice theory, is used to explain how the economic cooperation among ethnic groups and government is going on amid their political conflicts.

In his book, Immanuel Wallerstein (1974) describes the concept of capitalist world-economy, known as the world-system analysis or core-periphery theory. By observing the dynamism of world economy during 1450 to 1640, he found that Europe utilized its advantages and gained control over most of the world economy, presiding over the development and spread of industrialization and capitalist economy, indirectly resulting in unequal development (Wallerstein, 1979, pp. 25-26). He categorized countries in the world into three groups; the core countries, the semi-periphery countries, and the periphery countries according to positions in the economic system.

Wallerstein argues that core countries benefit the most from the capitalist world economy as these countries usually focus on higher skill and capital-intensive productions, while semi-periphery and the peripheral countries always lack a strong central government or being controlled by other states. Countries in latter groups mainly focus on low-skill and labor-intensive productions. Semi-periphery and periphery countries usually extract their resources, sell or export to core countries, and import value added products from core countries in return.

Modern smuggling theory was developed in 1970s mostly by the economists. In their pioneer work, Jagdish Bhagwati and Bent Hansen (1971) considered smuggling as a welfare-reducing activity, they explain the relationship between tariff and the cost of smuggling by using economics frameworks that the smuggling will be incurred if the tariff is greater than the cost of smuggling. In some special circumstances, the tariff may equal to the smuggling cost which make it possible to have both smuggling and legal trade coexist, anyway, since smuggling is considered a welfare-reduction, the less smuggling, the better.

Shiekh (1974) studies Bhagwati and Hansen's smuggling cost and adds that smugglers also take a "risk costs" in terms of confiscatable goods and fines. Additionally, risk of smuggler increases if the number of smugglers rises.

Bhagwati and Srinivasan(1974) compares benefits the state could get from tariff and taxes from legal trade with the confiscated goods and fines from smuggling, they suggested that the revenue which can be collected from legal trade is greater than what the state could get from the presence of smuggling.

Pitt (1981) studies the smuggling phenomena of coffee and rubber in Indonesia over the period of 1955-1965. He argues that smuggling and legal trade may coexist under a certain situation when trader makes more profit from foreign exchange in the black market because the government's fixed rate for foreign exchange fails to reflect the world's genuine market rate.

Rational choice theory is a fundamental framework in sociology; it is a model that explains the behavior of social systems. It bases on an assumption that people always calculate their cost and benefits before deciding what to do. Its application to social interaction between individuals or groups is known as the social exchange theory. George Homans (1961) argues that human behavior is not free but determined. He defined the social exchange as the exchange of activity between at least two persons which he believed, is motivated by rewards or punishment. Homans also explains that approval is the most fundamental human goal. He saw approval as a direct parallel to money, and both money and approval are general means of exchange in social interaction(Scott, 2007, p. 4).

As mentioned earlier, there are very few in-depth accounts on Thailand-Myanmar smuggling, none of those researchers have focused on micro economics level which directly affected by the smuggling. Nevertheless, few reports on Thailand-Myanmar smuggling as a part of the border trade between Thailand and its neighboring countries have been made by Institute of Asian Studies, Chulalongkorn University.

Khin Maung Nyunt (1988) observes the Thai-Myanmar border trade and found that prior to 1988, when all cross-border trade were considered forbidden by the Burmese government, the border trade already existed along the border. He describes that there were at least 5 major points being used as border markets, namely Mae Sai, Mae Sot, Mae Hong Son, Mae Sariang, Ranong, and Kra Buri. Thailand's major exports to Myanmar were miscellaneous edible preparations, commodity products, boiler machinery, pharmaceutical products, wadding rope, iron, steel, aluminum, apparel, and clothing. In return, Thailand imports precious stones, fish, and teak.

Based on his observation, he further proposes the models that describe the border trade flow system and financial flow system, anyhow, I found that his models cannot be used to describe the period of the study in this thesis (1988-2012) because the circumstances were dramatically changed. Abundant migrant workers from Myanmar in Thailand who send money back home become a part of the financial flow inducing the growth of smuggling trade volume.

Trichote and Tipakorn(Sucharithanarugse & Jitpratoom, 1994), points out that after the 1988 coup, the Burmese government wanted to boost up their economy by improving policy on foreign investment to assure that the government has no willingness to seize any foreign business

in Myanmar. Despite some foreign investments on forestry, petroleum, and fishery, most of the investors were reluctant because of the lack of infrastructures and government policy that strictly fixed the currency exchange rate. Since this account describes the border trade between Thailand and its neighboring countries in general, there are no in-depth details on Thailand-Myanmar smuggling activities. Trichote and Tipakorn describe the nature of the border trade between Thailand and Myanmar along the borderline from Chiangrai to Ranong as the goods were smuggled mainly from Thailand to Myanmar. The minority ethnic groups are the main players of the border, however, causes and details smuggling processes was not mentioned.

Winston Set Aung has published two accounts related to the illegal border trade which he uses the term 'carrier' to refer to the people involved in the border trade. In 'the role of informal Cross-border Trade in Myanmar', he concludes that the illegal trade has been done under the main reasons which are 1) to avoid the lengthy licensing process 2) to import products without having earnings from exports 3) to import/export products that are restricted on a temporary or permanent basis 4) to evade tax (Aung, 2009, p. 5). In his latest account 'Informal Trade and Underground Economy in Myanmar: Cost and Benefit', two more possible causes were added. He states that the economic sanction by the west, especially the U.S. since 1997(Aung, 2011, p. 80), was one of the reasons that boost up the illegal border trade. Anyhow, he only used the primary data from the Myanmar's Ministry of Commerce and from his angle, the government policies was the only cause of smuggling.

Seeing that there is a gap in the published literatures to explain the illegal border trade between Thailand and Myanmar comprehensively, this

study aims to portray the whole picture of the illegal border trade from its causes, processes, and its future in the light of political and economic changes.

1.5 Hypotheses

The illegal border trade between Thailand and Myanmar is a normal activity that can be seen along the border line. Smuggling is an open secret that helps people to maintain their normal lives. As an alternative channel they can get commodity products which their government fails to provide after its adoption of the socialist economy known as “the Burmese way to Socialism” in the 1960s. At the beginning, it fulfilled the needs of people who live in the frontier areas, later; it serves the countrywide demands for basic needs overlooked by the military regime. The economic and political conflicts between the government and ethnic minority groups in Myanmar were a main factor which promoted the enlargement of smuggling. The ethnic groups who usually control the frontier areas are involved with the smuggling by collecting the passage tax or operate the smuggling by themselves. The Myanmar government has noticed that the smuggling is one of the main sources of revenue for the ethnic groups. To terminate this, the government strictly created regulations to control trade transactions. But these policies are double edged swords. It resulted in an increase of illegal trade as it was more difficult for traders to follow government regulations. The rapid expansion of the Myanmar army with the failure of the rations distributions and the inadequacy of basic salaries of soldiers and officers motivated them to take bribes from the smugglers.

The process of smuggling by the "Ant Army" are involved by many parties, entrepreneurs, Thai revenue officers, Thai customs officers, Thai military officers, ethnic minority groups, etc.

Insufficiency of border trade channels is another cause of smuggling. The information from my primary research pointed out that the Thai-Myanmar border customs posts are much lesser in numbers, compared to customs posts of Thailand and other neighboring countries.

The influx of Burmese migrant workers to Thailand seeking for a better economic opportunity is also indirectly related to the increase of illegal border trade volume. The method normally applied for purchasing payment is actually the same circle with the underground remittance of the Burmese migrant workers.

The final hypothesis is that the political and economic changes in Myanmar and the ASEAN Economic Cooperation at the end of 2015 will force the illegal trade activities and its movements to be transformed. This could affect entrepreneurs and the way of life of people involved in illegal border trade business.

1.6 Definition of Terms

The term "Burma" refers to the name of the country before it was changed to Myanmar in 1989.

The term "Burmese" in this thesis refers to all citizens in Myanmar regardless of ethnicity.

The term "Burman" in this thesis refers to the major ethnic group of Myanmar.

The term 'Ant Army' in this thesis refers to the illegal cross-border trade activities in a broad context. It also refers to the people who involved

in the transportation of goods across the border to the destinations inside Myanmar for commercial propose illegally.

The term "smuggling" in this thesis refers to the unlicensed and untaxed trade of legal goods. Illegal goods such as narcotics or timber are not included. Thus, the smuggling trade is defined as three types of contraband;

Type 1 Goods that do not undergo customs clearance in both countries (exporting country and importing country)

Type 2 Goods that receive customs clearance of the exporting country, but not the importing country

Type 3 Undervalued, invoiced goods that receive customs clearance in both countries

The most common case of smuggling found from Thailand to Myanmar is Type 2. Most of Thai traders declare their export goods at Thai Customs post in order to claim back the value added tax (VAT) of 7% of the goods value from the Revenue Department while the smuggling goods from Myanmar to Thailand are Type 1 as the traders on Myanmar side do not have any tax privilege for exporting.

This thesis mainly focuses on Type 2 smuggling especially from Thailand to Myanmar which is the most common case along Thailand-Myanmar border.

1.7 Limitations of the Study

The first delimitation of the study is the lack and unsystematic data collection on both Thailand and Myanmar side. The data collected from the different authorities, for example, the Thai customs, the ministry of commerce, and the Bank of Thailand are contrasting. Even in the same

organization like the Bank of Thailand, they employed different data collection method for northern Thailand and western Thailand.

The study of illegal activities is time-consuming. Only a few informants that were introduced by whom they trust were willing to be interviewed. Most of the informants were reluctant to impart information because they are concerned of the impact on their businesses.

1.8 Research Methodology

The methodology employed in this thesis is a qualitative method with the following procedures:

1.8.1 Documentary Research – These consist of reading, sourcing, and analyzing the primary data of trade volumes on both historical and current context, historical background on economics, politics, and ethnic conflicts.

1.8.2 Field Research – Although the study was conducted mainly in Mae Sot as it is one of the important border towns that smuggling trade takes place. It also consist of visit to various cities in Myanmar and semi-structured interviews of the border trade stake holders along Thailand-Myanmar borderline, mostly at the major border towns where permanent border posts located as followed:

- 9 Thai border traders (2 in Ranong, 3 in Mae Sot, 2 in Mae Sai, 2 in Prachuabkirikhan)
- 3 Burmese traders in Yangon
- 6 Customs Officers(1 in Ranong, 2 in Mae Sot, 2 in Mae Sai, 1 in Prachuabkirikhan)

- 3 Burmese illegal posts owner (1 in Ranong-Thai side, 1 in Mae Sot-Thai side, 1 in Maesot-Burmese side, 1 in Mae Sai-Thai side)
- 22 villagers (5 in Ranong, 12 in Mae Sot, 1 in Prachuabkirikhan, 4 in Mae Sai)
- 3 Revenue Officers (1 in Ranong, 1 in Mae Sot, 1 in Mae Sai)
- 1 Tak Chamber of Commerce officer

For Burmese informants, I used English language as a medium for the interview. Burmese informants who could not communicate in English were interviewed by the Burmese-Thai translator. Most of the Burmese informants were introduced by my customer.

1.8.3 Visited Myanmar's major cities to Yangon, Mandalay, Mawlamyine, and Hpa-An to observe smuggled goods destinations and the travelling through the inland-route from Mae Sot-Mawlamyine to observe the major smuggling route from Thailand to Myanmar.

Chapter 2

Background of study

2.1 Burma Economic Development before World War II

Trade is an activity that connecting people who would like to exchange products or goods in order to fulfill different desire of both sides since ancient times. In the past, people in this region had freedom to travel between villages or kingdoms to trade with each other, firstly by land route, as we frequently heard about the historically famous "Silk Road". Later, after the technology of sailing had been developed, ships can be sailed for a longer distance. Since then sea route became more popular and the cross-continent trade had emerged. For Burma, in the past, there was no doubt that the prosperity was a result of worldwide trade. Since ancient times the Burmese still called themselves "Mranma" and they were referred in the Mon inscription as "Mirma", in the Chinese chronicles as "Mien" (Hall, 1960, p. 13). All evidence demonstrated that Burma was known as "the rice-country" after the Burmese successfully seized Kyaukse area from the Mons, who had built an irrigation system and intensively cultivated the area (Hall, 1960, p. 12).

Soon after Burma was under British rule, Burma was introduced to worldwide commercial and industrial activities which the country had never experienced before. The original European colonial power in Asia had strong interest in collecting the Asian products such as pepper, spices, rice, tea, silk, and ceramics. In return, they introduced their European products to Asia. This system was transformed when the Industrial Revolution began in Europe. The investments of outside capital were

injected into Burma in order to accelerate colonial productions of basic commodities demanded by the European market, such as food products, rubber, minerals, and timber. Thus, traditional subsistence agriculture of Burma was rapidly replaced by commercial productions of a single cash crop for export. In this period, there were heavy foreign investments in land developments for paddy fields, railways and river transportations, gain and timber mills, rubber plantations, oil extraction and refineries, cement plants, teak wood, and mining operations (Cady, 1958, p. 156). The American civil war and the opening of Suez Canal in 1869 were also other major driving forces that accelerate the rice productions in Burma for exporting. The export quantity was increased from 400,000 tons to 3.5 million tons by the end of 1930s (Hall, 1960, p. 156). In return of its huge export, Burma imported a substantial amount of consumer goods, such as textile, clothing, paper, coal, metallic manufactures (hardware, iron and steel), machineries, motorcycles, and whisky. Although most of the businesses belong to European, Indian, and Chinese, the Burmese were able to enjoy the fruitfulness of the capitalism world. Even in the remote villages, there were demands for imported goods, such as Japanese umbrellas, Indian cottons and hurricane-lamps, and British bicycles (Tinker, 1967, p. 253).

	Export (\$)	Import (\$)
Burma	12.65	5.60
Siam	5.10	3.55
Netherlands Indies	6.70	4.00
Indochina	4.05	2.60
British Malaya	75.55	63.00
India	2.00	1.60
China	0.40	0.70

Table 1 Per Capita Foreign Trade in Southeast Asia, India and China (Annual Average during 1936-39 in US\$)

Source: J.R. Andus, *Burmese Economic Life*, Stanford University Press, 1947

The information from table 1 shows that the economics of Burma can be considered as the leader in this region. The table indicates a high number of both export and import by the British Malaya because the British Malaya exported a tremendous amount of rubber and tin while their population is much smaller than in Burma.

However, the trade greatly benefited the foreigners not the Burmese. The important teak industry and sawmill were dominated by the European companies. The most important petroleum company, accounted for 75 percent of the colony's production, was monopolized by the Burmah Oil Company, owned by the British. The peasants were relegated to the position of landless, losing their land to the Indian moneylenders so-called "Chettyars" (Cady, 1958, p. 159). The Burmese were involved in the small local trade for food, handicrafts, and other necessities, while the Indian and Chinese monopolized the trade of imported commodities. Thus, under these unjust situations, the Burmese nationalism had gradually emerged and demanded the political reforms.

	Total Land Occupied	Land Held by Non-Agriculturists	Land Held by Chettyars
1930	9,249,000	2,943,000	570,000
1937	9,650,000	4,929,000	2,446,000

Table 2 Land Occupancy in Lower Burma (in Acres)

Source: Furnivall J.S., *An Introduction to the political Economy of Burma*, Rangoon, 1938

2.2 Burma Economic Development during WWII

During the Japanese invasion, almost every sectors of businesses were interrupted. All western and Indian market were completely cut off. Imports were limited to just a small amount of sugar from Java, some textiles from Malaya, cigarettes from Siam and Japan. At this period of time, the prices of consumer products were increased to 20 or 30-fold from pre-war period (Tinker, 1967, p. 254). While the surplus stocks of paddy had no channels to move out, thus, the Japanese executed a special order to reduce rice production and to increase raw cotton production instead. The Japanese military regime under the Greater East Asia Co-Prosperity Sphere plan toward the Area B (Trager, 1971, p. 49).

"...Important industries, trading and exchange shall be controlled by the occupation forces. Economic blockades against the United States and Great Britain (including India) must be enforced so that Japan's war aims can be achieved. A close check will be made on the outward flow of important resources especially rice, petroleum, tungsten and tin..."

It was the most difficult time since the Burmese were controlled by the external powers, hence, the Burmese leader, who at first brought the Japanese in, had realized that it was even worse than being under the British rule. The Burmese leader General Aung San, had finally switched back to support the British.

After the war, the country was virtually bankrupt (Tinker, 1967, p. 255) when the British returned, Burma had to accept assistance from the British Treasury for the following years. Although Burma trade recovered very fast with the world shortage of food and the high demand of rice from the rice-consumed countries after war, it was still far to reach the level of

the pre-war trade. Anyway, the same situation remained, the foreigner still exploited the local by earning more than the majority of Burmese.

2.3 Myanmar's Ethnic Conflicts and Political Problems

Myanmar is one of the most ethnically diverse countries in the world, with more than one third of the whole population composed of 135 ethnic minority groups. Ethnic states make up about 50% of the total land. The estimates of population in Myanmar is nearly 60 million. The country is divided into seven states and seven divisions ("CIA World Fact Book, "). Each state has been named to reflect the dominant ethnic group in each respective area such as Kachin, Shan, Kayah (Karenni), Kayin (Karen), Mon, Arakan (Rakhine), and Chin. As for the divisions, they are populated by the Burman majority.



Figure 1 Myanmar's states and divisions

The conflict between the Myanmar government and ethnic groups dates back to the British colonial rule (1842-1948). The British separated their administration into two areas(Oo & Min, 2007, p. 5); Burma Proper (where Burman predominated) and the Frontier Areas (where non-Burman were concentrated). The British recruited only non-Burman (Karen, Kachin, and Chin) into the colonial army and used them to suppress Burmese nationalist movements. During World War II, Burmese nationalists who joined Japanese troops in driving the British out of the country took revenge and massacred hundreds of Karen villagers, who then responded with revenge killings(Smith, 1999, p. 62).

Independence was granted by the British in early 1948 on the condition that the residents of the Frontier Areas would be allowed to join Burma as a union state³. In February 1947, Burmese leader General Aung San met Chin, Kachin, and Shan leaders at the 2nd Panglong Conference. They agreed to form a federal union and promised to give the ethnic states full autonomy and to allow Shan and Karenni states to become independent after ten years. The Karen leaders, however, wanted immediate independence, so they rejected the invitation and refused to participate in Panglong, while the Mon and Arakanese leaders were not even invited (Oo & Min, 2007, p. 5).

Unfortunately, six months before independence Gen Aung San, who had earned the trust of both non-Burman leaders and Burmese political groups, was assassinated. U Nu became the first prime minister of the Union of Burma. The Communist Party of Burma (CPB) was the first group to take up arms against the government. In 1949, the Karen National

³ Interviewed U Aung, U Nu's son on June 15th, 2012

Union (KNU) became the second group to rebel. Due to disagreement regarding the terms of autonomy and the boundaries of Karen state, top Karen officers in the Burma Army were forced to resign and Gen Ne Win was promoted as the military chief. Armed movements rapidly spread to other parts of the country. The Mon and Arakanese began to wage war against the central Burmese government in order to achieve independence. Ten years after independence, the Shan and other signatories of the Panglong Agreement began to consider the secession option, frustrated by U Nu government's deviation from the federal spirit of the agreement. The Shan people established the Shan State Army (SSA) in 1958, claiming their rights to secession. The Kachin also formed the Kachin Independence Organization (KIO) and initiated armed resistance in 1961, due to persistent government attempts to make Buddhism the state religion. After 1958, other ethnic groups (including Palaung, Lahu, Wa, Chin, and Naga) also took up arms.

The conflicts arose among leaders in the Anti Fascist People's Freedom League (AFPFL) which was the governing party. After general election in 1958, these conflicts were the main reason that divided AFPFL into two factions; Clean AFPFL and Stable AFPFL. The members of both factions took part as ministers in the cabinet. The new government was in a difficult situation to govern the country since the cabinet itself are not united. The tension between government and military was built up since the AFPFL split also spilled over into the army (Callahan, 2003, p. 185). With the pressure from the army, U Nu as a head of the Clean AFPFL faction and prime minister decided to transfer his administrative power to General Ne Win on October 28th, 1958. This temporary government led by

General Ne Win was known as "the Caretaker Government" which governed Burma until early 1960.

After the general election on February 6th, 1960, U Nu was elected as a prime minister again. His Clean AFPFL had won 203 seats out of 250 seats. However, the new government did not last long. In March 1962, General Ne Win seized power in a coup d'état, criticized that U Nu's policies could break up the country and the government had strayed away from the socialist path laid down by the Independence Hero, General Aung San.

After the coup, Ne Win proposed a new constitution and created a plan, the so-called "Burmese way to socialism" on April 30th, 1962. On July 4th, 1962 he established a one-party socialist government, the Burma Socialist Programme Party (BSPP), and put many political leaders in jail. The reaction of the public and student on the new restrictions could be seen through the demonstration of some 2,000 students on July 7th, 1962. The military fired upon the demonstrator. More than 100 of students were killed, despite the fact that the government only admitted that 15 students had died (Steinberg, 2010, p. 63). On the following day, the military blew up the Yangon University Student Union building (Myint-U, 2006, p. 313). Since then there has been no love lost between the military regime and the student movement.

There were several demonstrations and they mostly ended up the same way, fired by the military and many students killed. For example, on November 25th, 1974, U Thant, former secretary of U Nu who served as the Secretary-General of the United Nations (UN) during 1961-1971, passed away in New York. U Thant's family would like to bury his body in the motherland. For the Burmese, U Thant is regarded as an architect of

peace since he won many accolades as a UN's secretary-general. His most notably role was to help defusing the Cuban missile crisis (Myint-U, 2006, p. 310). U Thant's body arrived in Yangon on December 1st, a crowd of people were waiting with no sign of government representatives., U Aung Tin, the Deputy Minister of Education and a former student of U Thant, suggested the cabinet to announce U Thant's funeral day as a holiday and he was immediately discharged. On the assigned funeral day, the students came to seize the coffin and moved it to Yangon University. The students demanded to place the coffin at the site of the old Student Union building which Ne Win had blown up in 1962 (Myint-U, 2006, p. 313).

The government then offered a compromise solution to bury U Thant's body at the foot of the Shwedagon Pagoda. At first the family managed to agree with the students and the government but later the radical students seized the coffin again with the intention to bury U Thant at the Student Union site, no matter what. At two in the morning of December 11th, riot police and soldiers invaded the Yangon University and finally able to take control of the situation. Then, they took the coffin back as dozens of students were killed. Hundreds of them were arrested and riots broke out around Yangon (Myint-U, 2006, p. 314).

The government was occupied ethnic minority and political problems, so national economic development was almost completely neglected. The government policies aimed to stimulate economy turned out to be worse.

On March 12th, 1988, a quarrel between two groups of youth in a teashop turned out to be a spark of nationwide uprising that reached its peak on August 8th, 1988. It was known as '8888' incident (Steinberg, 2010, p. 78). The local youth, who started the brawl over what music to

play and hit another student in the head with a stool (Rogers, 2010, p. 79), son of a BSPP official. He was arrested and was almost immediately released by the police. Students from the Yangon Institute of Technology gathered in front of the police station to protest. While the riot police tried to disband them, one student got killed (Fink, 2001, p. 51). This led to more student and public joining in the demonstrations. On March 18th, the police captured a number demonstrators and put them into police van. Later, 41 people were found dead of suffocation (Steinberg, 2010, p. 78).

Demonstrations spread out, not only in the Yangon Institute of Technology and Yangon University but it also spread in central Yangon. Many more students were arrested and the government closed the universities once again for two months. When the universities reopened again in June, the students escalated their demand to end the one-party rule and asked for the multi-party democracy (Fink, 2001, p. 52). On July 21st, thousands of students marched towards central Yangon. They were stopped by tear gas and some riot police fired on students. The result of the crash was the death of 80 civilians and 20 riot police officers. The situation became more intense when the communal violence between Buddhists and Muslims broke out in Prome and Taunggyi with the questions to the military authorities which could be trying to divert attention from political problems (Lintner, 1990, pp. 80-81).

The BSPP called for an emergency meeting on July 23rd when Ne Win resigned from the chairmanship of the BSPP. It was believed that his hidden motive was dishonest and he attempted to avoid any blame (Steinberg, 2010, p. 78). Unexpectedly, Ne Win called for a referendum on a return to democracy and outlined a specific process that could lead to a multi-party system of government (Myint-U, 2006, p. 32). He said that

he accepted responsibility for the death of student in police custody in March. In his resignation speech, he also warned that (Charney, 2009, p. 152):

“When the army shoots, it shoots to hit; it does not fire into the air to scare. Therefore I warn those causing disturbances that they will not be spared if in the future the army is brought in to control disturbance.”

On July 26th, the BSPP replaced Ne Win with General Sein Lwin who was known to be loyal to Ne Win. Sein Lwin was also known as ‘the butcher of Yangon’ since he was in charge as a commander that ordered the slaughter of students in 1962 and March 1988.

The student called for a nationwide demonstration on the auspicious date of August 8th, 1988 at eight minutes past eight in the morning. The so-called "8888" uprising was initiated by students in Yangon and spread throughout the country. Hundreds of thousands of monks, young children, university students, housewives, and doctors demonstrated against the regime. It was around 11.30 p.m. that night, the military began to brutally suppress. Some believed that Sein Lwin had followed Ne Win’s resignation speech ‘it shoots to hit; it does not fire into the air to scare’. Hundreds of demonstrators were shot dead, but the protest still went on for several weeks. By August 12th, the government admitted that one hundred people had been killed, but hospitals claimed more than 3,000 died (Charney, 2009, p. 153). Sein Lwin was forced to leave and replaced by Dr. Maung Maung, the only trusted civilian of Ne Win (Steinberg, 2010, p. 78). On August 24th, troops were called back. The shooting stopped while the tension was growing. Some elements of military also joined the demonstrations. Rumors of intervention by external powers spread out.

The U.S. had fleet of five ships with the aircraft carrier on standby to evacuate Americans in Burma(Ibid, p. 79).

On September 18th, the armed forces launched a coup under the name of ‘The State Law and Order Restoration Council (SLORC). Troops appeared on the street all over the country to crack down protests. Anyone who resist was shot, finally, the military was able to re-establish control. Many students fled to the borders. Some of them, for example, the All Burma Students’ Democratic Fronts (ABSDF), reunited and took up arms to fight against the military (*Deciphering Myanmar's Peace Process: A Reference Guide 2014*, 2014, p. 93).

2.4 Burma Economic Development during 1948-1962

The Burmese’s struggle for independence was finally succeeded in 1948, when Burma achieved her self-ruled freedom from the British. Despite the fact that General Aung San was assassinated by his political rival, the pre-war Prime Minister, U Saw, the British elected U Nu as the first prime minister of the Union of Burma. At the beginning of its civilian government, the socialist ideology was applied to the economic system. Many of basic industries had been developed on a state-owned basis. As discussed in the previous parts, the Burmese had suffered from non-indigenous people involved in all business sectors. To make sure it will never happen again, it was stated in Chapter II, section 23, article (3) (4) and (5) in the 1947 constitution that

"...(3) Private monopolist organizations, such as cartels, syndicates and trusts formed for the purpose of dictating prices or for monopolizing the market or otherwise calculated to injure the interests of the national economy, are forbidden.

(4) Private property may be limited or expropriated if the public interest so requires but only in accordance with law which shall prescribe in which cases and to what extent the owner shall be compensated.

(5) Subject to the conditions set out in the last preceding sub-section, individual branches of national economy or single enterprises may be nationalized or acquired by the State by law if the public interest so requires..."

Thus, the businesses which had previously been monopolized by the foreign firms during the pre-independent era were nationalized by the new government. Some of business such as Burma Corporation and the Burmah Oil Company were reorganized as a joint venture company with the state. In order to end the prevalent landlordism, the government passed the Land Nationalization Act in October 1948. It is believed that more than three million acres of land were in possession of non-resident landlords. This new piece of agricultural legislation aimed at redistributing the land to the actual cultivators, who were then allowed to hold a maximum of 10 acres each. (Kyi et al., 2000, p. 7).

The first economic plan in Burma history was announced in April 1948. The plan had no specific name, known as the Two-Year Plan. It was an outline with a list of targets to be achieved within the following two years. However, the plan was never implemented since the rebellion broke out in many parts of the country a few months later. Thus, government had to set its priorities on restoring law and order.

After a few years of quelling insurrection, U Nu initiated a new economic development plan. It was said that, U Nu was impressed by a report about the successful case study of Iranian Government which

employed a foreign firm to carry out a survey and report upon the economic and resources of Iran in the English newspaper (Tinker, 1967, p. 98). The Burmese government then, chose the Knappen-Tippetts-Abbott Engineering Company of New York, known as KTA, for an economic and engineering survey of Burma. Following the studies, KTA came out with the so-called "Eight-Year Plan" or "Pyidawtha Plan" which named after the Pyidawtha conference held during August 4th-17th, 1952. U Nu was said to give a marathon speech "Towards a Welfare State" which was four and a half hours long⁴. This could be indicated how the Burmese government took the economic improvement as one of its top priorities. However, the "Pyidawtha Plan" was abandoned four years later, after 1955/1956 fiscal year. The reasons for the failure mentioned by U Nu were (Thein, 2004, p. 20):

"...the standard of efficiency in most of the state enterprises has been low and that some of them have been incurring losses. The causes attributed are pilferage, excessive expenditure, idleness on the part of the employees, and mismanagement."

According to the KTA, the plan failed mainly because of three factors; 1) internal security 2) the shortage of technical skills and 3) the personnel policy of the government. From the interview, U Aung, U Nu's son has mentioned that the Eight-Year Plan was not accomplished because the lack of foreign exchange expected from the rice export as it was lower than the target. Moreover, it was related to the international relationship issues. The United State of America under President Eisenhower had exercised PL480 (Public Law 480) by giving donations of foods, including rice, to the

⁴ Interviewed U Aung, U Nu's son

developing countries that somehow used to import rice from Burma. The exercise of PL480 was one of the anti-communist policies of the US government.

Subsequently, the Burmese government came out with the new plan that was more modest and realistic. The new plan, known as "The First Four-Year Plan", was a revised version of the former "Eight-Year Plan" with reduced numbers as targets, especially on the public sector.

	Eight-Year Plan Three Operative Year 1953/54 - 1955/56		First Four-Year Plan 1956/57 - 1959/60	
	Plan	Actual	Plan	Actual
Gross fixed Capital formation	668	505	507	484
Government	512	392	-	549
Private	1,180	897	-	1,033
As % of GDP	21.1	18.5	-	18.4
Net Fixed capital formation				
Total	812	617	-	709
As % of GDP	14.5	12.7		12.8

Table 3 Annual Average Performance of the Eight-Year Plan and the First Four-Year Plan (Million Kyat)

	Eight-Year Plan 1952/530-1955/56	First Fore Year Plan 1955/56-1959/60
Agriculture and Irrigation	154.6 (7.7%)	211.8 (10.9%)
Forestry	30.6 (1.5%)	24.7 (1.3%)
Mining	15.7 (0.8%)	8.6 (0.4%)
Industry	186.6	187.9

	Eight-Year Plan 1952/530-1955/56	First Fore Year Plan 1955/56-1959/60
	(9.3%)	(9.7%)
Power	202.6 (10.1%)	303.1 (15.6%)
Transport and Communication	414.8 (20.6%)	496.5 (25.7%)
Social Services(including construction)	438.9 (21%)	195.6 (10.1%)
Law and Order	370.1 (18.3%)	387.5 (20.0%)
Others	199.2 (9.9%)	122.6 (6.3%)
Total	2,013.1 (100%)	1938.3 (100%)

Table 4 Allocation of Investment in the Public Sector of Eight-Year Plan and First Four-Year Plan (Million Kyat)

Source: Myat Thein, *"Economic Development of Myanmar"*, Institute of Southeast Asian Studies, Singapore, 2004, p.22-23

Table 3 indicates the comparison of figures between both plans. As mentioned earlier, the First Four-Year Plan had reduced the total figure according to the real situations. The target of the First Four-Year Plan was almost identical with the average number of the last three fiscal years of the Eight-Year Plan. Table 4 shows the allocation of Burmese government's investment in each sub-sector. Interestingly, although the total number was reduced, the number in some sub-sectors such as Power, Transportation and Communication, and Law and Order had been increased. These figures indicate that the government put greater emphasis on basic infrastructures and the ongoing insurrection was a major problem needed to be solved by the government. The number of 20 percent of the total investments injected into Law and Order sector by the government was considered to be a high number for a newly independent country like

Burma that still put in a great deal of effort into economic development. Even though, the government set its priority to promote the progress of Burma economics, it still could not reach the level of the pre-war period as the statistic for some selected fiscal years shown below.

	1938-39	1951-52	1959-60
GDP Index	100	74	107
Per Capita GDP Index	100	64	85
Agriculture Production Index	108	75	100
Paddy Production (million tons)	8.05	5.25	6.92
Teak Production (thousand cubic meters)	453	141	333
Non-Teak Production (thousand cubic tons)	502	349	611
Rice Export (million tons)	3.3	1.16	2.1

Table 5 Main Commodities Aggregate Indices, 1938-1960

Source : Walinsky, *Economic Development in Burma 1951-1960*. New York: The Twenty Century Fund, 1962

2.5 Burma Economic Development during 1962-1988 and the Emergence of Black Market

One of the reasons that the military regime used to legitimize the coup was that the government policies did not conform to socialism. On April 30th, 1962, the Ne Win regime launched "The Burmese Way to Socialism" hoping to drive the country back to the socialist system with the self-reliance economy strategy. Hence, the second wave of nationalization that was often called "Burmanization" had begun (Thein, 2004, p. 52).

At the beginning of August 1962, the Burmah Oil Company with the British-owned Imperial Chemical Industries which was transformed from foreign-owned to the state-joint-venture during U Nu's first wave of nationalization, once again, was burmanized to be a state-owned enterprise in January 1963. All banks, both foreign and domestic were also

burmanized by the government in February 1963 (Bunge, 1983, p. 62). At the time of burmanization, there were 24 private banks, 14 foreign banks, and 10 local banks. They had been nationalized simultaneously, after which their individual names disappear to be replaced by serially numbered 'People Banks' (1 to 24) (Turnell, 2009, p. 226).

In 1964, the government began to burmanize the big private-owned wholesalers and large retail shops as they established the state-owned co-op, the so-called People's Shops. Totally, more than 15,000 enterprises were burmanized by the government during 1963-1972. As a result, approximately 97,000 out of 109,000 Indians and 12,000 out of 26,000 Pakistanis who used to dominate Burmese economy had left the country (Bunge, 1983, p. 62). In many areas, the local economy collapsed as a traditional supply chains were ended (Smith, 1999, p. 98).

At first, the burmanization made the government prided itself on taking a good care of the people. The shop were well-stocked, people could buy their daily necessities at subsidized prices (Fink, 2001, p. 33). However, after a short while, even the stocks of the most basic goods were insufficient. The commodities such as rice and others were controlled by the government at the officially fixed prices. It can be asserted that the military's economic policies during the first decade of its rule were to end the foreign exploitation of the country, rather than to promote economics' growth. The consequences of these policies turn out to be worse. There was no Foreign Direct Investment (FDI) from outside and Burma had to rely on its export of rice and agriculture products. During this period of time, the earning of foreign exchange was considered very important, since Burma needs to purchase raw materials for its own primary industries. But unfortunately the military government had no experience to develop its

economy. The lack of foreign exchange turned Burma to the semi-paralysis stage where government's factories cannot produce goods because of the inadequate raw materials. Some machines cannot be operated because they had no spare parts for maintenance. The lack of transportation facilities had affected the distribution of goods. Consequently, the mismanagement of the inexperienced government was leading to shortage of supply chain all over the country.

Year	Retail		Procurement		Ratio of Export Price/Govt. Price	Export Price
	Govt.	Free Market	Govt.	Free Market		
1962/63	222	378	149	166	2.973	443
1963/64	222	395	149	159	3.00	447
1964/65	229	357	149	155	3.167	472
1965/66	229	499	149	147	3.248	484
1966/67	251	1,400	163	165	3.196	521
1967/68	265	1,300	172	209	3.360	578
1968/69	265	900	172	528	4.087	703
1969/70	311	568	172	244	3.877	667
1970/71	311	628	172	281	2.703	465
1971/72	311	1,038	172	538	2.436	419
1972/73	427	1,109	204	582	2.509	512
1973/74	640	1,344	431	729	1.916	826
1974/75	710	1,368	431	744	3.733	1,609
1975/76	804	1,283	431	679	4.074	1,456
1976/77	870	1,123	431	579	2.684	1,157
1977/78	894	1,368	431	732	3.185	1,373
1978/79	935	1,674	446	1,132	3.226	1,439
1979/80	935	1,176	446	1,211	3.349	1,494
1980/81	935	1,647	472	1,253	3.190	1,506
1981/82	894	1,289	472	1,833	4.978	2,350
1982/83	894	1,500	472	1,986	5.317	2,510

Year	Retail		Procurement		Ratio of Export Price/Govt. Price	Export Price
	Govt.	Free Market	Govt.	Free Market		
1983/84	894	1,834	472	2,291	3.750	1,770
1984/85	894	2,022	472	2,444	3.341	1,577
1985/86	894	2,126	472	2,521	2.790	1,317
1986/87	894	2,139	472	2,597	3.010	1,421
1987/88	894	5,747	472	2,897	1.737	820

Table 6 Price of paddy/Rice, 1962-88 (In Kyat per ton)

Source : Myat Thein, *Economic Development of Myanmar*, ISEAS, Singapore, 2004. p.92

The exports values fluctuated. Since the colonial era, Burma used to be one of the biggest rice exporters which they enjoyed revenue from the massive surplus of rice. Before WWII, rice alone represented about 46.5 percent of total export amount (Walinsky, 1962, p. 49). Even in the early 1950s, when the country recovered from wars and still under the tense situation of ethnic rebellions, Burma was controlling 28 percent of world rice trade. By 1970s, Burma's share in world rice trade reduced to two percent, which can be partly explained by the increase of population at about 70 percent from 1940 to 1973 while the cultivation areas and yields were not much developed (Steinberg, 1981, p. 90).

In order to earn foreign exchange and keep the living cost low, the government created the paddy procurement program which offered a fixed price to the farmers. The program forced the farmers to sell paddy to the government at the fixed amount of quotas. In some years, the farmer was allowed to retain enough for their consumption and kept the seed for next season. The surplus amount shall be sold to the government at a little higher than the quota fixed price (Thein, 2004, p. 92). Table 6 indicates the gap

between the government's procurement price and free market. Thus, the farmers often hide their rice and sold in the black market for a better price.

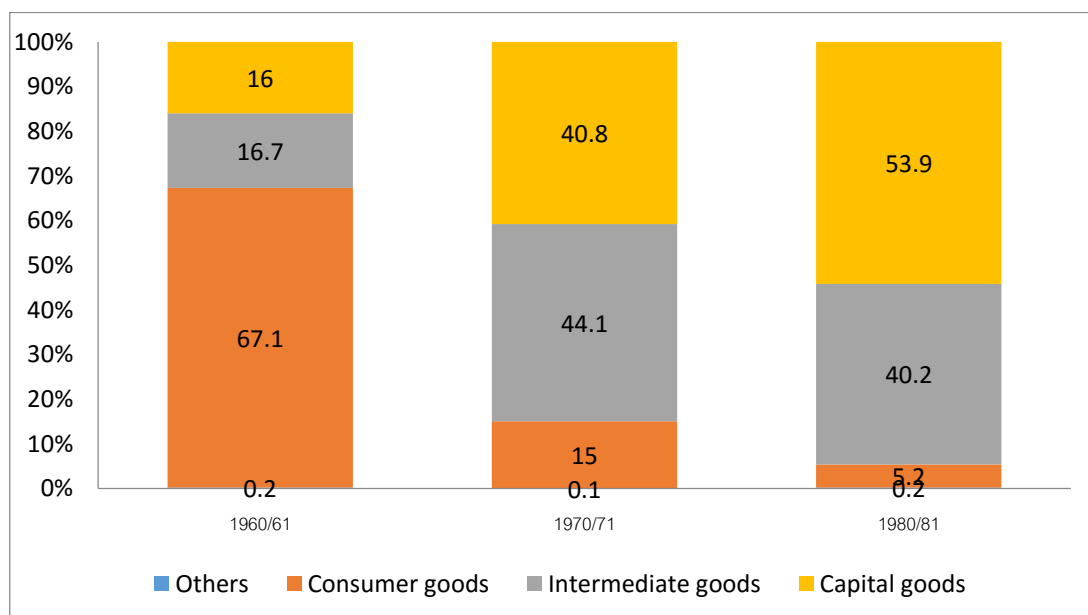


Figure 2 Structure of Import, 1960-1980

Source :Myat Thein, *Economic Development of Myanmar*, ISEAS, Singapore, 2004. p.78

Figure 2 shows the structure of imported goods between 1960 to 1980. It was very obvious that Burma was facing a serious problem of consumer goods shortage, since the proportion of the import volume had reduced from 67.1 percent at the beginning of 1960s to 5.2 percent at the beginning of 1980s.

Year	Value (US\$ millions)		Balance of Trade
	Export	Import	
1961/62	222	215	7
1962/63	265	219	46
1963/64	270	234	36
1964/65	233	271	-38
1965/66	225	247	-22

Year	Value (US\$ millions)		Balance of Trade
	Export	Import	
1966/67	194	158	36
1967/68	124	124	0
1968/69	111	114	-3
1969/70	132	165	-33
1970/71	108	155	-47
1971/72	124	168	-44
1972/73	120	133	-13
1973/74	130	106	-18
1974/75	188	176	12
1975/76	173	197	-24
1976/77	206	177	29
1977/78	214	241	-27
1978/79	242	307	-65
1979/80	383	319	64
1980/81	472	353	119
1981/82	462	373	89
1982/83	391	409	-18
1983/84	278	268	10
1984/85	301	239	62
1985/86	303	283	20
1986/87	288	304	-16
1987/88	219	268	-49
1988/89	147	244	-97

Table 7 Exports, Imports, and Balance of Trade, 1961-89

Source: adapted from Myat Thein, *Economic Development of Myanmar*, ISEAS, Singapore, 2004. p.75

Table 7 shows the figures of exports, imports, and balance of trade in U.S. dollars. The values of export dramatically decreased from the first half of 1960s until the second half of 1970s. The balances of trade were minus in 15 out of 28 fiscal years. Most of the export items that share the value as shown in the table 7 were capital goods not consumer goods.

In 1986, the government faced difficulty with paying back its external debt. The ration of public debt per GDP, which normally used for

measuring the government's ability to pay external debt, had arisen from 20 to 40 percent. This situation forced the country to seek "the Least Developed Country" status from UN in order to reduce interest rates and to receive new economic support from the International Monetary Fund (IMF) in 1987 (Thein, 2004, p. 80).

It should be noted that one of the most failed policies of the Ne Win's regime was the demonetization. Under Ne Win, demonetization schemes were used for three times in 1964, 1985, and 1987. The first demonetization was introduced in 1964. The government called back 50 Kyat and 100 Kyat bank notes with the conditions that the first 500 Kyat can be reimbursed immediately at the collecting point in district and village. For 500 Kyat to 4,200 Kyat, the people could be reimbursed for new banknote at the local bank branch. But for any individual whose reimbursement was above 4,200 Kyat, the government required a special scrutiny and application. (Turnell, 2009, p. 238).

The second demonetization was carried out in 1985. Banknote of 100 Kyat, 50 Kyat, and 20 Kyat were announced to not be legal tender. Only 5000 Kyat note of one person per household could be reimbursed from November 11th to December 31st. However, the period of reimbursement was later shortened and downgraded, eventually only 25 percent of the people could have demonetized notes reimbursed. The new banknote of 25 Kyat, 35 Kyat, and 75 Kyat were introduced right after the second demonetization (Turnell, 2009, p. 253).

The last demonetization in 1987 was the worst. On September 5th, the newly introduced banknotes, 25 Kyat, 35 Kyat, and 75 Kyat which were introduced after the last demonetization or less than two years earlier were declared to not be legal tender. But this time, unlike all previous

demonetization, no reimbursement or compensation was provided. After this ridiculous monetary policy, the government introduced a new series of banknotes again; 45 Kyat and 90 Kyat. It was widely believed that Ne Win followed the suggestion of a fortuneteller about the mythical virtues of the number '9'. Both 45 and 90 banknote are divisible by 9 and also the sum of their integers is equal to 9 (Turnell, 2009, pp. 253-254). The savings of many people were wiped out overnight. Students started to organize some protests. The government then announced the closure of the universities for two months (Fink, 2001, p. 50).

The conflict between the government and the ethnic groups was, surely, one of the main reasons of the smuggling trade. The insurrection armed groups needed funds to strengthen themselves against the government. Since the military took power in 1962, the regime had created strict trade regulations to control the trade transactions. At the same time, these constraints have reinforced the illegal trade, especially in the frontier areas out of the central government control. The ethnic groups have created their own networks of trade with neighboring countries and connected with the local demand. This became the important mechanism which stimulated the Black Market. All kinds of goods have entered the country by smuggling route through the frontier areas.

As discussed earlier, black market gradually emerged as a channel to fulfill the requirements of the Burmese people who used to enjoy a fruitful economy before the Ne Win regime. It was a mistake of the military government to put their efforts only towards the socialist system and neglected the basic needs of their people. Interestingly, the authorities also notice the existence of the Black Market and they even had the measures to deal with it. But in reality, it seems that they chose to keep their eyes

shut and let these illegal trade activities spread throughout the country. Black Market itself became an important mechanism of Burmese economy. It also acted as a pressure relief valve allowing the machines to release pressure of the system before any serious damage occurs.

Aung Kin described in the annual review, the Southeast Asian Affairs 1980 (Kin, 1980, pp. 103-105), that the biggest volume of trade was from Thailand-Burma border. He further stated that there is a variety of goods such as Ajinomoto powder (monosodium glutamate), automotive spare parts, radio cassettes, rubber sandals, textiles, etc. Most of the goods ended up in the open stalls of St. John's bazaar in Yangon. Several places including one in south Okkalapa and in Theingyi (Seekins, 2011, p. 102), were known as the open black market where people can buy almost everything from Coca-Cola to stereo tape recorders. The scale of trade in the black market became vast and impossible to calculate, but the unofficial World Bank had roughly estimated in early 1988 that the annual value was about 3,000 million US dollars (Smith, 1999, p. 25).

2.6 Thailand-Myanmar Relations

The relationship between Thailand and Myanmar fluctuated. Although the majority of Thais regarded the Burmese as an un-forgiven enemy (Chachavalpongpun, 2005, p. 7), the Burmese have never shared the same sense. This feeling of the Thais is understandable since the glory Ayutthaya kingdom of Thailand was successfully occupied twice by the Burmese. Hence the Thai kings were always aware of the Burmese invasion, so they sided with other ethnic groups which populated along the frontier such as the Mons, the Karens, the Kayahs, and the Shans.

The last Mon kingdom, Hanthawaddy, was sacked by the Burmese in 1757. Thousands of Mons fled to Siam, the Siamese Kings allowed them to settle around the areas of today's Petchburi, Ratchburi, and Kanchanaburi. Some groups were allowed to settle nearby Bangkok in Pathumthani and Samutprakarn. During the reign of King Rama III of Bangkok, the King appointed the Mons as the headmen of communities called "Muang Raman Ched Hua Muang" which means "the 7 cities of the Mons". The headmen were assigned to take care of the patrol along the border, to look out for the Burmese spy, and report to Bangkok if there is any movement on the Burmese side (Trichot, 2008, p. 126).

The Karens and Kayahs are the hill tribe ethnics who usually live in the highland. Their residences are along the today's Thailand-Myanmar border; Prachuapkirikhan, Ratchaburi, Petchaburi, Tak, Maehongsorn, etc. Thai authorities had policy to maintain a good relationship with the Karen and Kayah communities in order to spy on the Burmese (Ibid).

The Shans, known as Tai Yai (big Tai), was believed to be under the same ethno-family with the Thais. At the World War II, allied with Japan, Thailand claimed back its former territories which had been taken over by the colonial powers. It was very interesting that Thai state also claimed some parts of today's Shan state and Kayah state which had never been under the suzerain-vassal relationship like other claimed territories. The Thai state named it "the Saharat Thai Doem" which means the united former Thai territories.



Figure 3 Areas Annexed by Thailand, 1941

Source: Ronald Bruce St John, *The Land Boundaries of Indochina: Cambodia, Laos and Vietnam*, International Boundaries Research Unit, Durham, 1998, p.20

Nevertheless, right after World War II, Thailand had to return all the claimed territories back to the pre-war status. In return, Thailand received a substantial package of American aid (Chandler & Steinberg, 1987, p. 388).

The annexation of the territory which had never been a tributary state of former Siam kingdom had implied the ambition and believes in the Tai race narratives of the Thai elites. Thai military had maintained its operations along the border from time to time. During the 1950s, sided with the united states of America, Thailand had launched a secret operations to support Kuomintang (KMT) that based in the northern part of Shan state to fight against the Communist Party of China (CPC) (Trichote, 2008, p. 127).

Burma gained its independency from the British in early 1948. The two countries, for the first time in history, established the diplomatic relations. Several state visits occurred between in 1950s and the Burmese government also invited the King and the Queen of Thailand for a royal visit in March, 1960.

Anyhow, the relationship deteriorated after General Ne Win seized power from the civilian government of U Nu in 1962. Under the Revolution Council, Burma changed its foreign policy to rely on the socialist self-sufficient ideology and isolated itself from international arena (Steinberg, 2010, pp. 67-68). Tension between two countries arose when the Thai government accepted the asylum request of U Nu in 1969. U Nu established a government in exile in Bangkok, took arms, and allied with some of the insurgent groups to fight against the regime. Ne Win visited Thailand in May 1973 to convince the Thai government to stop U Nu from using Thailand as his base. Thus, U Nu was forced to move out to the United States of America. Since then the Thai-Burma relations seem to be improved but the suspicion between the two countries still exists.

Thailand had implemented the so-called “Buffer Policy”, supporting the minority ethnic groups against the Burmese government since the end of World War II. On the one hand, for Thailand, it helps ensure that the “permanent enemy” Burmese could not able to raid Thai territory easily. On the other hand, these minority groups were helpful to Thai authorities to suppress the Communist Party of Thailand which was also struggling along the border. The Karen rebels head, Bo Mya, admitted that his armed group had served as a “foreign legion” for the Thai armed forces to guard the border and prevent links between Burmese and Thai communists (Smith, 1999, p. 297). Andre and Louis Boucaud (1992, p. 30), the twin

brothers journalist, witnessed that the Thai Border Patrol Police were sharing the huts and barracks with the Shan United Army rebels. My informant, a retired major of Thai Army, told me that he was secretly assigned on a several missions to train the Shan insurgency groups along the border to fight against the Burmese Army.

In 1988, General Chatichai Choonhavan, the first elected prime minister of Thailand, proposed a new policy towards Thailand neighboring countries. Chatichai had an intention to turn a battlefield into a market place, thus, the new episode of Thailand-Myanmar relationship had begun. After the brutal suppression of the nationwide protest known as “8888” incident, the SLORC took power in September 1988. Amid the international norm of anti-SLORC, the first foreign delegate to visit Yangon was the Thai army commander-in-chief, General Chavalit Yongchaiyudh. General Chavalit’s visit marked the new era of Thai-Myanmar relationship. The consequences of the visit were the signing of bilateral trade agreements and 20 concessions grants to Thai business firms on forestry, fishery, and mines(Oo & Min, 2007, p. 30). Inevitably, the illegal trade along Thailand-Myanmar border was affected by these changes.

2.7 Conclusion

In this chapter, I have reviewed the necessary background of the study. From my point of view, the contexts and circumstances of politics and economic history of Myanmar give us a better understanding on the presence of Thailand-Myanmar illegal border trade.

Prior to World War II, Burma was already a part of global economy. Rice was the main product that generated huge income for the country.

Industrialization was introduced by the British and imported consumer goods were extensive throughout the country. Although, Indians and Chinese dominated domestic trade but the Burmese still enjoyed the fruitfulness of capitalist economy.

During World War II, with the restriction of Japan, consumer goods were becoming scarce and the price went up to about 30 times that of the pre-war period.

After gaining independence, the civilian government tried to concentrate on economy and politics development. A foreign consultant firm was hired to draft a proper economic development plan. Unfortunately, the civil war between government and ethnic minority armed groups broke out and affected the county in every aspect.

Not only ethnic armed groups that the government encountered but they also faced the communist threat and internal political instability. Finally, the Burmese army led by General Ne Win staged a coup in 1962. The military regime failed miserably at administrations. The socialism ideology known as “the Burmese Way to Socialism” was applied. The government seized foreign owned businesses, ousted thousands of Indians and Chinese who dominated domestic trade networks. Thus, the domestic supply chain structures were cut and the transportation cost increased due to the lack of well-maintained infrastructures.

The regime manipulated markets themselves. Nationalization policies known as “the Burmanization” had been employed. The consequence of the nationalization process was that no foreign investment was allowed leading to the shortage of foreign exchange, spare parts for machines and raw materials for the production lines in many industries. The structure of imported products was totally changed since the government controlled

both import and export. The imported consumer goods percentage had decreased from 67.1 percent of the total import value before the coup to 5.2 percent in early 1980s. As a result, the ordinary Burmese were experiencing difficulties in their daily life.

Since the government could not fulfill basic needs of their people, the self-oriented channels of “Black Market” had occurred. The ethnic minority armed groups played an important role as a mechanism that serve the black market. All kind of goods were smuggled from Myanmar neighboring countries through the ethnic controlled areas.

Thailand had implemented the so-called “buffer policy” to support ethnic minority group along the border since the end of World War II. This policy benefited Thailand mainly in terms of the national security. However, it also benefited Thai economy because it allowed Thai entrepreneurs along the border to trade with their Burmese counterparts. Furthermore, the ethnic armed groups benefited from tax collection and their incomes were used mainly for insurgency movement against the Burmese government.

The year 1988 marked a watershed as Ne Win stepped down after he had ruled the country for almost three decades. His failed administrative made the people upset and led to nationwide demonstrations known as the “8888” incident. A new military group, Ne Win’s intimate, the SLORC took control after the brutal suppression of the nationwide demonstrations. It was also in 1988 that the new prime minister of Thailand, Chatichai Choonhavan who had introduced the new foreign policy towards Thailand’s neighbors, initiated the economic-led policy, the so-called “from battle fields to market places”. A group of Thais delegation led by army-chief General Chavalit Yongchaiyudh visited Myanmar. As a result,

the bilateral agreements were signed and concessions were granted to Thai business firms. The Thai “buffer policy” was re-considered for the first time since its first implementation in early 1950s.



Chapter 3

Thailand-Myanmar Border Trade

In this chapter, the formation of the Thailand-Myanmar trade will be described. In the first part of this chapter, I will elaborate the formation of the formal trade. The complexity and restriction of its procedures which I believe is one of the reasons that bring about the illegal cross-border trade will then be described. Finally, I will also describe the existing trade activities at the Thailand major border towns along Thailand-Myanmar border later in this chapter.

As mentioned in the previous chapter, the failure of Burmese government in political economy after the military took power led to the emergence of black market. Black market became a major provider of much needed consumer goods for people. The smuggled goods passed through the ethnic minority controlled areas into the major cities of Myanmar. Prior to 1996, entire border trade was considered illegal. The only legal trade channel at that time was through the ocean freight. However, Myanmar army had launched heavy attack and finally Myanmar army was able to control some of the border areas after 1988. In 1996, it was the first time that Myanmar and Thailand had agreed on mutual benefits, since then the official cross-border trade has been established. In 1999, the Friendship Bridge connecting Mae Sot and Myawaddy was built for the first time. The bridge symbolized the capability of Burma government over the frontier areas and a significant role of Burma government in the cross-border trade between Thailand and Myanmar.

Up to 2012, Thailand and Myanmar had established five permanent customs checkpoints in the border of three provinces, namely Mae Sai–Tachileik, Mae Sot–Myawaddy, Ranong–Kawthaung and one temporarily permitted for trade customs checkpoint Singkhon-Myeik



Figure 4 Thailand-Myanmar permanent customs posts locations
Source: Thai Customs

3.1 Regular International Trade Procedure

As I mentioned elsewhere (Wantanasombut, 2012, pp. 125-127) that there are procedures that are widely accepted as a standard of international trade. When two firms, the exporter (seller) and the importer (buyer), has agreed on the trade conditions such as product specification, prices quotes, lead time, delivery method, payment term, and destination port, the buyer would issue a document called the order sheet or purchase order to the seller.

While the exporter is preparing to export the goods under agreed terms and conditions, the importer shall prepare the purchase payment.

The most popular payment methods for international trade are Letter of Credit (L/C) and Telegraph Transfer (T/T). An LC is often used in international trade to ensure that payment will certainly be received, due to the nature of international trade factors; distance, difference in laws in each country, and difficulty in personal contact. The bank will act on behalf of the buyer (holder of letter of credit) by ensuring that the supplier will not be paid until the bank receives a confirmation that the goods have been shipped. In some countries including Myanmar, the government allows the L/C method as the only method for importing goods. L/C process can be explained below;

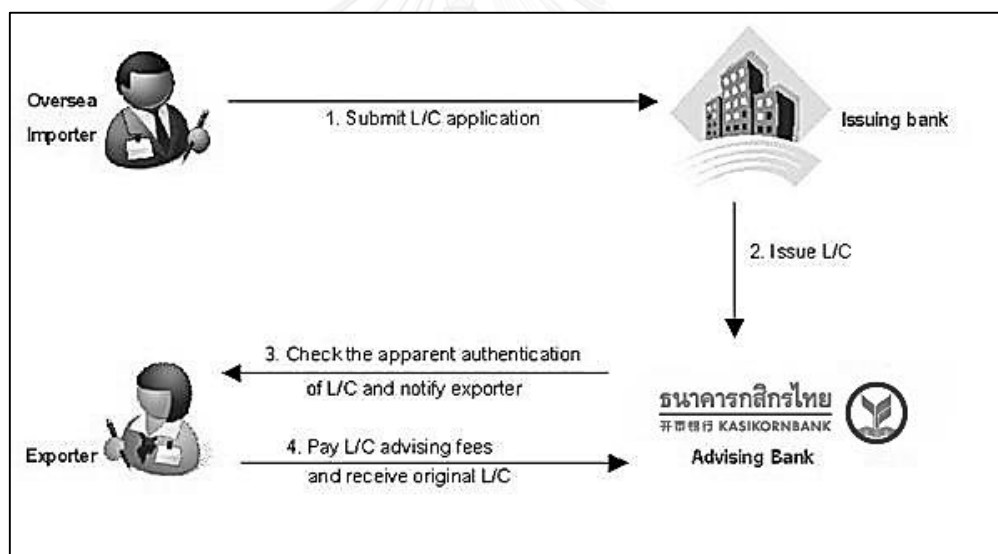


Figure 5 Letter of Credit Issuing Procedure
Source: Kasikorn Bank, Thailand

1) Importer requests for a letter of credit (L/C) by submitting L/C application to their bank as agreed and specified in the sales contract. This process is usually done under the provisions of The Uniform Customs and Practice of Documentary Letter of Credit dari International Chamber of Commerce Paris No500 or commonly referred to as UCP-DC-500. The

bank requested by the importer to open an L/C will contact the issuing bank. The issuing bank will be responsible for sending L/C to the exporter. Importer requesting the opening of L/C is sometimes called the applicant. Usually, the issuing bank requires the same amount of funds that equal to the amount of purchase order.

2) The opening bank will issue an L/C through an advising bank of the country where the exporter is from. Such L/C opening can be done by letter, wire, telex, facsimile or other legal electronic media.

3) The advising bank notifies with a cover letter that there is an L/C opened for the interest of the exporter. The cover letter is referred to as an L/C advice, while the exporter receiving the L/C is sometimes called the beneficiary.

4) After the exporter delivered goods, they will submit all the shipping documents such as the invoice, the certificate of origin, bill of lading, packing list, and etc., to the advising bank. The advising bank will then collect the payment on behalf of the exporter from the issuing bank.

For Myanmar, before 2012, the government allowed only two state-owned banks; the Myanmar Foreign Trade Bank (MFTB) and the Myanmar Investment and Commercial Bank (MICB) to issue and receive L/C (*Myanmar : Legal, Tax and Investment Guide 2011-2012*, 2011, p. 63).

Another popular payment method is the telegraph transfer (T/T). T/T is a kind of remittance from one party to another. It will only be used when both importer and exporter have known and trust each other. The procedure is less complicated than that of L/C and also the fees and expenses are cheaper. But, it would be difficult for the government to trace if the

importer aims to avoid import taxes by declaring a lower value of goods in the documents or not.

After receiving payment confirmation, the exporter prepares goods to be ready for export and files booking to the shipping company. The exporter then arranges export formalities, for example; export notice and certificate of origin. After loading the goods on to the ship, the shipping company will issue a receipt of goods received, copy of forwarding contract and copy of goods ownership in the form of bill of lading. Then, after receiving the shipping documents from the opening bank, the importer as consignee, will secure import clearance in Customs and Excise for the destination port. The importer will later contact the shipping agent in the destination port to receive the goods/cargo. For every import and export shipment, it must be handled by the state-owned shipping company, the Myanmar Five Star Line, as well as the shipment insurance that had to be purchased from the Myanmar Insurance Corporation ("Myanmar Business Guide: Legal Overview," 1998).

3.2 Myanmar's Trade Regulations

Since the official establishment of cross-border trade between Thailand and Myanmar in 1996, the trade grows continuously. The International Monetary Fund (IMF) statistics showed that Thailand is a major trade partner of Myanmar.

The main items Myanmar imported from Thailand were diesel, benzene, cooking oil, automotive parts, fabrics and thread, steels, non-alcohol and alcohol drinks, etc. In return, Thailand imported natural gas, seafood, logs, woods products, and cattle.

	2004	2005	2006	2007	2008	2009	2010	2011	2012
China, P.R.: Mainland	1032.40	1028.40	1327.95	1861.12	2177.10	2507.03	3828.80	5307.46	6242.48
Thailand	665.37	777.30	837.90	1053.96	1449.12	1693.59	2280.16	3095.57	3419.23
Singapore	717.06	656.11	619.60	855.83	1414.97	978.75	1271.89	1333.60	1474.61
Japan	115.83	100.97	114.08	193.98	207.25	222.07	290.47	557.68	1384.45
Malaysia	164.28	270.27	181.53	231.55	346.33	226.03	402.14	615.60	774.10
Korea, Republic of	178.16	132.01	133.44	321.18	268.20	446.77	526.69	733.55	1463.98
India	115.18	122.45	145.99	191.42	259.56	230.76	300.58	513.11	586.71
Indonesia	66.31	85.79	151.48	288.63	275.84	192.24	312.59	395.42	441.75
Vietnam	15.40	13.20	18.15	23.98	35.86	37.29	54.47	90.71	129.59
Taiwan Province of China	74.77	87.47	74.63	77.15	103.08	89.97	118.02	146.00	160.07

Table 8 Myanmar Import Partner in million USD

Source : Direction of Trade Statistics, IMF

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Thailand	1230.34	1622.98	2135.72	2104.88	3059.59	2549.02	2590.27	3172.60	3362.60
China, P.R.: Mainland	188.05	249.49	229.70	336.87	585.93	586.87	873.63	1524.94	1181.20
India	363.68	450.87	653.09	729.81	829.65	1086.60	1019.09	1143.36	1227.18
Japan	163.47	184.85	225.61	269.20	288.63	309.49	353.40	538.69	612.25
Korea, Republic of	27.36	51.14	87.67	73.35	105.69	71.23	145.36	271.49	319.24
Malaysia	97.15	121.51	113.53	126.64	162.48	128.68	207.34	212.82	167.56
Singapore	64.51	98.53	63.18	55.61	80.03	106.63	74.79	78.01	71.74
Vietnam	17.55	41.64	58.73	68.55	68.73	59.09	93.48	77.09	99.52
Taiwan Province of China	33.74	46.98	44.53	55.32	62.53	49.82	57.75	67.55	69.35
Bangladesh	24.82	29.35	24.45	26.97	75.67	62.27	90.62	141.51	67.85

Table 9 Myanmar Import Partner in million USD

Source : Direction of Trade Statistics,

3.2.1 Foreign Investment Law

When the SLORC took power, Myanmar was under an extreme shortage of foreign exchange. Since the foreign aids from global communities were suddenly cut off after the “8888” massacre. Myanmar was almost bankrupt at the time that the foreign exchange reserves was less than 15 million US dollars (Chachavalpongpun, 2005, p. 67).

Thus, the SLORC introduced the new Foreign Investment Law in November 1988. It stated that the government wanted to promote the export, to exploit the natural resources by using heavy and high-tech machineries that required a huge capital investment, to open the employment opportunities, to develop works which would save energy consumption, and to develop the regions (the SLORC Law No. 10/88).

By this new Foreign Investment Law, the government allowed foreigner to invest fully or partially at the minimum of 35 percent of the total shares. The government offered three-year exemption of income-tax, customs duty and other internal taxes on machinery, equipment, instruments, machinery components, spare parts and materials used in the business, which are imported as required for construction.

The government guaranteed that they would not apply a nationalize policy with the newly established firms and the government would not have the right to take back the foreign currency of the investor after the contract expired.

3.2.2 Import-Export

The government also removed some restrictions on private sector participation in both foreign and domestic trade. The restrictions on the procurement and domestic trade of rice and other crops were lifted as the

market-oriented economy policy was implemented(Thein, 2004, p. 123).In accordance with the market-oriented economy, the government encouraged the foreign investor to create joint venture company with locals and private sectors. The numbers of registered importers and exporters were significantly increased. At the initial period of registration in 1988/1989 fiscal year, there were only 130 firms and by the end of 1999/2000 fiscal year the total number of registered importers and exporters were 38,782 firms (Ibid, p. 154). To import any goods, the importer must hold the import license before starting any process. The import license fee ranging from 250 Kyats to 50,000 Kyats depend on the import value. The validity period of import license is normally 3 months (*Myanmar : Legal, Tax and Investment Guide 2011-2012*, 2011, p. 63).

In order to control the foreign exchange, the government introduced the so-called “export-first and import-later” policy which was used by most traders. The importer had to declare that they had sufficient fund plus all taxes reserved. This amount of foreign exchange must have been earned from an export before the importer applied for the import license (Kubo, 2012, p. 3).

The importer also had an alternative choice with another method called “import-first and export-later” allowing foreign company to sell goods to a company in Myanmar on a condition. For every US\$ 100 CIF value of goods sent into Myanmar, up to US\$ 110 FOB value of Myanmar products would be approved for export. Under this system, the opening of a L/C is not required. But this method was considered risky. Most traders did not feel comfortable with exporting goods to Myanmar before receiving money. So, only a handful of companies used this procedure. Most of these traders who used this procedure tend to be a Burmese

importer with relatives living in other countries. The problem with this system is that some countries do not permit goods from their countries to be exported without receiving a L/C even though Myanmar permitted the import without opening a L/C (AFG Venture Group "Myanmar Business Guide: Legal Overview," 1998).

In March 1998, the Ministry of Commerce proclaimed the Minister's Office Order No.4/98 to restrict the imported goods. The imported products were categorized into two groups: List A- essentials, mainly capital goods and industrial raw materials, and List B- non-essentials, mostly consumption goods. Then, the Ministry provisioned the issuance of import licenses for at least 80 percent of the total from List A, and less than 20 percent from List B (Kubo, 2012, p. 3).

3.2.3 Taxation

According to the notification of the Ministry of Finance, the income tax of a company in Myanmar is a flat-rate tax, levied at the rate of 30 percent of the total income.

The commercial tax law became effective from 1990/1991 fiscal year. This tax was imposed on goods and services produced or rendered within Myanmar and also imported goods. The commercial tax payable on imported goods will be collected by the Customs Department in the same manner as collecting customs duty. The law divided goods and services into seven schedules with different tax rates. For example, under the schedule 1, 72 essential and basic commodities such as paddy, wheat grain, oil palm, medical equipment, etc., are not subjected to commercial tax. Under schedule 2, 58 items, such as agriculture tools and accessories, household and laundry soap, etc., will be charged with 5 percent commercial tax. 134

items subjected to a commercial tax rate of 10 percent under schedule 3 include tires and tube of motorcycles and cars, industrial sewing machines, road construction machines, etc. Schedule 4 and schedule 5 are subjected to 20 and 25 percent respectively. Schedule 6 outlines commercial tax rate of 30 to 200 percent on specific items such as jade, pearl, cigarettes, liquor, etc (*Myanmar : Legal, Tax and Investment Guide 2011-2012*, 2011, pp. 81-82).

With a few exceptions, all imported goods are liable to customs duties and would have to be declared accordingly to the Customs Department. Customs duties levied on the import of machinery, spare parts and inputs, generally ranged from 5 to 30 percent. No license fee is charged on exports. An export duty is levied on the export of a few commodities. For example, 10 Kyats per ton is charged for rice and 5 Kyats for rice bran and rice dust ("Myanmar Business Guide: Legal Overview," 1998). Nonetheless, the foreign exchange rate of Myanmar never reflected its real value because the official exchange rate was fixed to 6 Kyat per 1 US dollar until 2012. The foreign exchange regulation did not allow any Burmese citizens to hold foreign currency. Only a registered import and export firms were allowed to open Foreign Currency Deposit (FDC). The trade firms normally used FDC account to receive a foreign payment earned from export or to open a L/C to pay for their import goods. In spite of the low exchange fixed rate, when the Burmese customs calculated import duties and tariffs on the base of evaluated exchange rate. For example, the base of calculating import duty used by the Burmese customs was 100 Kyat per US dollar in June 1996, and raised to 450 Kyat per US dollar in June 2004 (Kubo, 2012, p. 4).

3.2.4 Banned Items

It should be noted that in 1998, Myanmar has banned ten items from cross-border trade, and added five more items in 1999. The ban of 15 items lasted for almost 12 years before it was lifted in July 2011. The banned items were (Institute of Asian Studies, 2010, p. 12):

- 1) MSG powder
- 2) Soft drinks
- 3) Biscuits
- 4) Chewing gum
- 5) Cakes
- 6) Wafers
- 7) Chocolate
- 8) Canned foods (meats, vegetables, fruits, nuts)
- 9) Noodles
- 10) Liquor
- 11) Beer
- 12) Cigarette
- 13) Fresh fruits
- 14) Plastic products
- 15) Other products according the laws

For export, Myanmar government prohibited 32 items in total from cross-border trade as follows:

Agriculture Products

- 1) Rice, Broken-milled rice, Rice bran
- 2) Sugar, Brown sugar, Raw sugar
- 3) Ground nuts, Ground nut oil
- 4) Sesame, Sesame oil

- 5) Niger seed, Niger seed oil
- 6) Mustard seed, Mustard seed oil
- 7) Sunflower seed, Sunflower seed oil
- 8) Dregs of oil crops
- 9) Cotton, Cotton products

Minerals

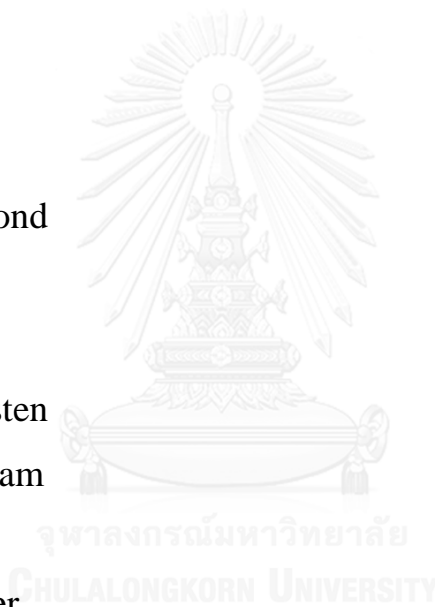
- 10) Petroleum
- 11) Gems
- 12) Gold
- 13) Jade
- 14) Pearl
- 15) Diamond
- 16) Lead
- 17) Tin
- 18) Tungsten
- 19) Wolfram
- 20) Silver
- 21) Copper
- 22) Galvanize
- 23) Coal
- 24) Other metals

Animals and products

- 25) Ivory
- 26) Cattle, Horse, Elephant, Rare wild animals
- 27) Leather

Fishery

- 28) Shrimp shell meal



General Products

29) Ammunitions

30) Antique

Forestry

31) Rubber

32) Teak

Although, there was no explanation from the government for the prohibition on these import and export items, it is understandable that the consumption rate of banned import items was high. The government was running the import on their own, so they could fully control the market price and benefit from taxes. For the prohibited export items, mostly natural resources, are in the controlled areas of minority ethnic groups, for example jade in Kachin state, and teak in Kayin state.

3.3 Trade at Thai Border Towns

Thailand shares approximately 2,400 kilometers border line with Myanmar. Ten provinces of Thailand that share the border with Myanmar are Chiang Rai, Chiang Mai, Mae Hong Son, Tak, Kanchanaburi, Ratchaburi, Petchaburi, Prachuabkirikhan, Chumpon, and Ranong. Among these provinces, three provinces: Chiang Rai, Tak, and Ranong, are the area that most of the border trade take place. For this thesis, I have conducted field studies to observe the border trade in these three provinces but the main focus was on Mae Sot of Tak province.

According to informants in Thai Customs Department, the Thai exporters get the export tax exemption privilege from the government, and the right to claim back seven percent Value Added Tax (VAT) for all export items. Thus, in order to gain these privileges, Thai exporters always

declare the export items to the customs department before delivering to their Burmese customer. From the Thai authorities' point of view, it is legal to export banned items of Burmese government into Myanmar as long as it does not violate any of Thai laws. With this reason, Thai traders usually settle in the area where the permanent customs checkpoints are located in Ranong, Mae Sot, and Mae Sai.

According to my observation, the formations of Thai-Myanmar trade at border towns can be simply described as follows:

- 1) The Thai local traders at border towns buy goods from manufacturers in Bangkok or elsewhere to sell to the Burmese buyers. The Burmese buyers are mostly based in Burmese border towns opposite to Thai border towns but some of the Burmese buyers are based in the goods' final destinations such as Yangon, Mandalay, or Mawlamyine. The goods will be delivered to the agreed places, mostly at the border towns where the Thai traders are located.
- 2) The Thai traders at the border towns were appointed by the manufacturers in Bangkok or elsewhere as their agent. In most cases, these Thai traders have a long-term relationship with the manufacturers. For trade partners that already have a long history of trade, credit terms were usually given to the Thai traders. According to the informants, the manufacturers do not want to take risks or difficulties on the payment collecting. Dealing with the Thai traders is considered easier than dealing directly with the Burmese buyers. The informants in Mae Sot revealed that they allow a 90-day credit terms for some of the trusted Burmese customers since they have been trade for decades.

- 3) The manufacturers in Bangkok or elsewhere who trade directly with the Burmese traders, declare as export items and delivered to the agreed places. But a help from the local people at border towns on the delivery process is needed.

Despite the fact that the Burmese government only allows the L/C method for international trade, the Thai traders prefer cash. The Burmese informants reveal that they have no other choice. 80% of the payment was paid by cash transfer into the sellers' bank account through the underground channel.

3.3.1 Ranong

Ranong is situated on the west coast of the upper southern Thailand, next to Kawthaung, Tanintharyi Region of Myanmar. There are at least three main points which the border trade takes place: Amphur Maung Ranong (Ranong city), Kra Buri, and La-Un.

In the past, Ranong traders had imported many of commodity products from Kawthaung because the transportation from Bangkok to Ranong was yet to develop. The quality of Burmese products was better and also the price was cheaper. The 1960s was the period that the Burmese military took power while the Thai government promoted 'import substitution policy'. The situation in Myanmar and the shortage of basic needed products turned the trade to an opposite direction. Since then, Kawthaung became one of the major channels that Thai products flow in (Tanamai, 2004, p. 29).

The main export items from Ranong to Kawthaung are vegetable oil, condensed milk, MSG powder, lubricant, energy drinks, diesel, benzene, construction materials, etc. The main import items from Kawthaung are

seafood, dried chili, black beans, sesame, etc. (Sucharithanarugse & Jitpratoom, 1994, p. 35). As mentioned earlier in this chapter about the prohibited import and export items, although it is considered illegal by the Burmese authorities, we still see banned items in Thai and Burmese trade.

Geographically, most of Thailand-Myanmar border are natural borders. The two countries are divided by rivers or mountain ranges. At Ranong, the 95-kilometer-long Kraburi River is used as a border between Thailand and Myanmar. Kraburi River varies in width between 230 meters and six kilometers at its tidal estuary.



Figure 6 Kraburi River
Source: Akkanut Wantanasombut



Figure 7 Small amounts of agriculture products from Myanmar through Kraburi River illegally
Source: Akkanut Wantanasombut

Burmese buyers normally purchase goods from Ranong counterparts or from suppliers in Bangkok. The goods in the order for Bangkok supplier will be shipped to the agent in Ranong. The agent will provide the shipping documents and declare export items to the Thai Customs. After Customs declaration process, the goods will be delivered to Kawthaung. The informants confirmed during the interview that 80 percent of the goods were considered illegal by the Burmese authorities.

3.3.2 Mae Sai

Mae Sai is a border town in Chiang Rai province which has 130 kilometers border with Myanmar in total. Opposite to Mae Sai is Tachileik, a border town in Keng Tung located in Shan state of Myanmar. Tachileik is one of the very few areas that Burmese government take a full control, thus, the government had a policy to promote trade in this area. Mae Sai and Tachileik are separated by Sai River.



Figure 8 Sai River, a natural border at Mae Sai, Chiang Rai province
Source: Akkanut Wantanasombut

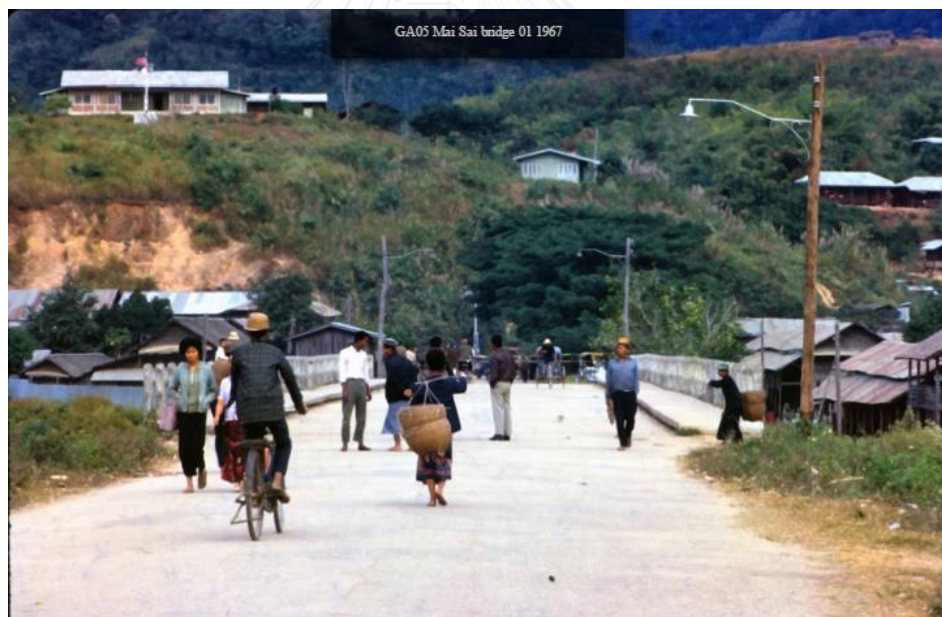


Figure 9 The First Friendship Bridge, Mae Sai, 1967
Source: Philip Bradbeer www.philbrads.com



Figure 10 Mae Sai Customs Checkpoint
Source: Akkanut Wantanasombut

The first bridge linked Mae Sai to Tachileik was built at the same time with a 160 kilometers road from Mae Sai to Keng Tung in 1942 when the Thai army annexed Keng Tung as a part of Saharat Thai Derm as mentioned earlier. The bridge, made of steel frame, was ruined by bombs at the end of World War II. However, it was rebuilt in 1967 and was named ‘the Friendship Bridge’. After the cross-border trade was promoted, the two countries agreed to build the second friendship bridge which opened in 2006. Both bridges are used for transportation of goods and people.

According to the statistic from the Thai Customs at Mae Sai, most of the items Thai traders declared as export items to Myanmar in 2008 were banned items of the Burmese government such as diesel, benzene, liquor, instant coffee, tires, galvanized iron sheet, cooking oil, lubricant, and cement (BOI, 2010).

3.3.3 Mae Sot

Mae Sot is the most crowded border trade of Thailand. Opposite to Mae Sot is Myawaddy of Kayin state. The location of this Mae Sot border town is approximately half way between Bangkok (509 kilometers) and Yangon (441 kilometers) (Pongsawat, 2007, p. 365). Like other Thai-Myanmar border towns, Mae Sot and Myawaddy are also separated by a natural border, the Moei River.

Myawaddy was controlled by the KNU until a faction of the Karen armed group, the Democratic Karen Buddhist Army (DKBA) which dissociated from the major Karen group-KNU, helped the Burmese army attack and successfully take control over the KNU's headquarter in Mannerplaw in December, 1994 (Smith, 1999, p. 446). For the first time, the Burmese government was able to control the frontier area in Kayin state and had confidence to establish cross-border trade with Thailand officially in 1996. The trade was extremely expanding after the friendship bridge across Moei River was built in 1999.

The DKBA allied with the Burmese government was able to take control of the former KNU's territories, including the smuggling-concentrated areas. In return, the Burmese government with one eye closed let the DKBA collected the passage taxes from the illegal trade in this area. Thus, Mae Sot-Myawaddy trade became a special area where legal and illegal cross-border trade coexist blatantly.

According to trade statistic from the Customs Department, the main export items to Myanmar in 2008 were the Burmese government banned items, such as cooking oil, diesel, benzene, motorcycles, galvanized iron sheets, MSG powder, medicine, and batteries.

At Mae Sot, the Thai Customs allows entrepreneurs to build the so-called ‘temporarily authorized warehouse’. There were 22 temporarily authorized warehouses in 2008. The Customs Officers revealed that the annual fee for a warehouse is 30,000 baht. Although it was called ‘temporarily authorized’, it is not significantly different from other types of the warehouses allowed by Thai customs. The warehouses were usually located not far from temporary private transportation piers, operated with the permission from Tak Provincial Administration. According to the Customs officers, there were totally 17 private piers allowed in 2008.

Even though, Thai authorities acknowledged that the only official cross-border trade accepted by the Burmese government is to pass through the friendship bridge and declare to the Burmese Customs at another end of the bridge, Thai authorities still allow the temporary warehouses and piers which are the channels for the smuggled goods to cross over Moei River. The head of Mae Sot Customs officer explained that the Burmese government acknowledged this fact but never shown any official objection. He assumed that it was perhaps a concession granted to the DKBA (Wallasiri, 2008).



Figure 11 Mae Sot Customs Checkpoint
Source: Akkanut Wantanasombut

3.4 Cross-border Trade Statistics and Discrepancy of Records

Since the official cross-border trade started in 1996, Myanmar has systematically collected the cross-border trade statistics. Unlike Myanmar, even though Thai governments have recognized cross-border trade with its neighboring countries for a long time, trade statistics was still poorly kept. The Thai authorities, for example, the Thai Customs under the Ministry of Finance and the Department of Foreign Trade under the Ministry of Commerce, have the different statistics. The Bank of Thailand (BOT) has published the records of the border trade by a different standard. For northern Thailand, BOT published the records based on trade partner; for southern Thailand, the records are kept based on the items.

The department of Border Trade of Myanmar systematically kept the border trade statistics in each official checkpoint: Kawthaung, Tachileik, Myawaddy, and Myitk as follows:

Kawthaung Border Trade Statistic Value – US\$ (Million)				
No.	Year	Export	Import	Extent of Commerce
1	2001-2002	30.674	37.361	68.035
2	2002-2003	12.817	17.869	30.686
3	2003-2004	12.145	23.231	35.376
4	2004-2005	18.781	18.176	36.957
5	2005-2006	14.433	28.070	42.503
6	2006-2007	35.658	42.467	78.125
7	2007-2008	23.576	59.627	83.203
8	2008-2009	14.086	44.118	58.204
9	2009-2010	21.681	32.431	54.112
10	2010-2011	24.010	66.817	90.827
11	2011-2012	29.758	92.151	121.909

Table 10 Cross-border Trade Statistic on Kawthaung
Source: Department of Border Trade, Myanmar

Tachileik Border Trade Statistic				
Value – US\$ (Million)				
No.	Year	Export	Import	Extent of Commerce
1	2001-2002	3.747	0.277	4.024
2	2002-2003	3.495	0.317	3.812
3	2003-2004	4.097	1.699	5.796
4	2004-2005	6.827	1.709	8.536
5	2005-2006	9.308	4.155	13.463
6	2006-2007	16.013	4.993	21.006
7	2007-2008	9.780	20.446	30.226
8	2008-2009	25.234	24.252	49.486
9	2009-2010	20.361	24.021	44.382
10	2010-2011	16.501	38.419	54.920
11	2011-2012	10.426	35.452	45.878

Table 11 Cross-border Trade Statistic on Tachileik
Source: Department of Border Trade, Myanmar

Myawaddy Border Trade Statistic Value – US\$ (Million)				
No.	Year	Export	Import	Extent of Commerce
1	2001-2002	15.512	11.810	27.322
2	2002-2003	8.383	6.252	14.635
3	2003-2004	15.688	17.079	32.767
4	2004-2005	22.168	15.060	37.228
5	2005-2006	51.860	53.035	104.895
6	2006-2007	61.020	95.070	156.090
7	2007-2008	52.055	75.090	127.145
8	2008-2009	39.431	118.846	158.277
9	2009-2010	33.205	75.376	108.581
10	2010-2011	10.471	32.537	43.008
11	2011-2012	10.537	13.988	24.525

Table 12 Cross-border Trade Statistic on Myawaddy
Source: Department of Border Trade, Myanmar

Myitk Border Trade Statistic				
Value – US\$ (Million)				
No.	Year	Export	Import	Extent of Commerce
1	2001-2002	25.479	0.076	25.555
2	2002-2003	19.041	0.206	19.247
3	2003-2004	26.309	0.233	26.542
4	2004-2005	33.958	0.202	34.160
5	2005-2006	38.162	0.073	38.235
6	2006-2007	44.906	0.100	45.006
7	2007-2008	63.546	0.615	64.161
8	2008-2009	59.109	2.272	61.381
9	2009-2010	81.782	3.600	85.382
10	2010-2011	105.648	9.587	115.235
11	2011-2012	124.441	10.551	134.992

Table 13 Cross-border Trade Statistic on Myitk
Source: Department of Border Trade, Myanmar

For Thailand, Mae Sot and Mae Sai Customs statistic are combined together as Northern Thailand. Ranong and Singkhon trade statistics are given by the Customs officers as follows:

**Northern Thailand Border Trade Statistic
Value – US\$ (Million)**

No.	Year	Export	Import	Extent of Commerce
1	2001-2002	91.80	64.7	156.5
2	2002-2003	90.5	39.5	130.0
3	2003-2004	181.1	57.1	238.2
4	2004-2005	355.3	84.8	440.1
5	2005-2006	419.7	77.6	497.3
6	2006-2007	389.6	102.2	491.8
7	2007-2008	476.0	107.4	583.4
8	2008-2009	757.5	114.3	871.8
9	2009-2010	914.5	122.2	1,036.7
10	2010-2011	1082.5	139.5	1222.0
11	2011-2012	1112.1	149.0	1261.1

Table 14 Cross-border Trade Statistic in Northern Thailand (Mae Sai and Mae Sot)
Source: Thai Customs, data published on the Bank of Thailand website

(<http://www2.bot.or.th/statistics/ReportPage.aspx?reportID=497&language=eng>)

Ranong Border Trade Statistic
Value – US\$ (Million)

No.	Year	Export	Import	Extent of Commerce
1	2001-2002	76.20	10.06	86.26
2	2002-2003	84.15	8.70	92.85
3	2003-2004	104.02	32.67	136.69
4	2004-2005	139.82	64.00	203.82
5	2005-2006	208.12	49.18	257.30
6	2006-2007	241.61	59.37	300.98
7	2007-2008	304.45	88.80	393.25
8	2008-2009	284.50	97.13	361.36
9	2009-2010	393.68	86.97	480.65
10	2010-2011	771.70	112.60	884.30
11	2011-2012	624.78	88.65	713.43

Table 15 Cross-border Trade Statistic on Ranong
Source: Thai Customs

**Singkhon Border Trade Statistic
Value – US\$ (Million)**

No.	Year	Export	Import	Extent of Commerce
1	2004-2005	1.84	8.90	10.74
2	2005-2006	3.22	8.07	11.29
3	2006-2007	0.82	7.20	8.02
4	2007-2008	0.01	4.23	4.24
5	2008-2009	0.04	0.00	0.04
6	2009-2010	0.06	0.01	0.07
7	2010-2011	0.64	0.30	0.94
8	2011-2012	1.05	1.01	2.06

Table 16 Cross-border Trade Statistic on Singkhon, *Prachuabkhirikhan*
Source: Thai Customs

For trade partners, in the ideal trade case, the export values recorded by the origin country should be, more or less, equal to the import values recorded by the destination country.

Koji Kubo (Kubo, 2012; Kubo & Lwin, 2010), a Japanese researcher who studies Thailand-Myanmar border trade, suggested that the discrepancy of the declared export values by Thailand and the declared import values recorded by Myanmar is numerous. He analyzed that though the gap of the export-import recorded values of a trade partners usually occur. Especially, when the importer wants to under-declare the values of

imported items to avoid the import taxes, but it should not be a large gap as the case of Thailand and Myanmar. This gap, more or less, reflects the actual existence of the smuggling.

Basing the statistics from both Thai and Myanmar authorities on the assumption of Kubo, the statistics is as follows;

Year	Value – US\$ (Million)		
	Myanmar import from Thailand	Thailand export to Myanmar	Difference
2001-2002	49.52	168.00	-118.48
2002-2003	24.64	174.65	-150.01
2003-2004	42.24	285.12	-242.88
2004-2005	35.15	496.96	-461.81
2005-2006	85.33	631.04	-545.71
2006-2007	142.63	632.03	-489.40
2007-2008	155.78	780.46	-624.68
2008-2009	189.49	1,042.04	-852.55
2009-2010	135.43	1,308.24	-1,172.81
2010-2011	147.36	1,854.84	-1,707.48
2011-2012	152.14	1,737.93	-1,585.79

Table 17 The Comparative Cross-border Trade Statistic from Thai and Myanmar authorities
Source: Thai Customs and Department of Border trade, Myanmar.

The discrepancy amount may refer to the minimum volume of smuggling which we can see an increasing tendency of the illegal cross-border trade.

3.5 Conclusion

In this chapter, I started with describing a regular international trade procedure so that we can later compare to the existing trade formations between Thailand and Myanmar.

After the SLORC took power in 1988, the regime, under pressure from the west after its brutal suppression of the nationwide protests, extremely needed the foreign investments. The SLORC amended the foreign investment law and loosen their strict rules to guarantee that the new coming foreign investment will not be stopped as happened during the BSPP.

Import and Export were allowed by private sectors again after the government had monopolized it for decades. In order to control the trade transactions and foreign exchange, the government had implemented many new regulations such as the “export first import later” policy, import license application required for every shipment. Trade payment was limited only with two government banks whereas shipments and insurances were also needed to be arranged by the state-owned enterprises. A new income tax law was also enforced.

The government had banned the most basic needs products and reserved the right to import only by the permitted enterprises. The natural resources, mostly from the controlled area of minority ethnic groups, were also banned for export.

During the mid-1990s, after violent military attacks to the ethnic armed groups that used to dominate the frontier areas, the Burmese government successfully established three official channels for the cross-border trade with Thailand, namely Mai Sai-Tachileik, Mae Sot-Myawaddy, and Ranong-Kawthaung. After a while, a temporary cross-

border trade link Singkhon in Prachuabkhirikhan of Thailand to Myitk was allowed.

The economy of the Thai border towns, where the cross-border trade was conducted, is flourishing. Trade volume is significantly increasing. Although, the Burmese government had banned some import items, we could notice from the records that the main imported items by the Burmese traders from Thailand were those banned items. According to Thai law, the banned items which considered illegal to import to Myanmar were not considered illegal to export. The Thai traders usually declare their export items to Thai Customs to claim back the 7% VAT before exporting to their Burmese customers. After that, the goods will be smuggled to Myanmar.

The discrepancy of the statistics recorded by the Department of Border Trade of Myanmar and the Customs of Thailand along with the abundant import of banned items to Myanmar indicates the presence of the massive illegal border trade along Thai-Myanmar border.

Chapter 4

Causes of the Illegal Border Trade

In this chapter, the causes of the smuggling at Thai-Myanmar border will be analyzed and elaborated. As discussed in the previous chapters, one of the main reasons of the smuggling, apparently, was the failure of the government socialist economic policies after Ne Win seized power from U Nu in 1962. Political instability and civil war with ethnic armed groups that controlled the frontier areas allowed smuggling mushroomed along the Thai-Myanmar border. Nevertheless, some other factors and consequences of the main reasons I have mentioned will also be considered. Despite the fact that this thesis studies the illegal Thai-Myanmar border trade during 1988-2012, the causes were obviously rooted long before that. Thus, it is inevitable to discuss circumstances prior to the thesis's study period.

4.1 The Failure of the Socialist Economic Policy

After taking power from U Nu in March 1962, Ne Win abolished all ongoing economic development plan and quickly announced his new economic ideology “the Burmese way to socialism”, an admixture of socialism, Buddhist doctrines, and humanism by the end of April (Steinberg, 2010, p. 64). The socialism ideology, in fact, was used as a framework for economic development since Aung San's days (Silverstein, 1980, p. 143). Later it was pursued by U Nu who once said capitalist is greed and it is not a Buddhist virtue (Steinberg, 2010, p. 51). It is understandable that the socialist ideology originated among the nationalists

like Aung San, U Nu, and Ne Win since they fought against colonial power that exploited the country for over a century together.

Nevertheless, U Nu' had changed his policy as Myrdal remarked that (as cited in Thein, 2004, p. 44) the radical socialism policy of U Nu's government tended to weaken during the latter part of the 1950s. In 1957, U Nu announced a policy broadly supporting new private enterprises, guaranteed them ten years against nationalization, and generally recognized the need of profit motive for industrial development.

It was possible that U Nu, after several years of trial and error, had realized that the strict socialism practices did not perfectly suit the country that struggle to recover from colonialism and World War.

Two excuses were given for the coup in 1962. Ne Win who had spent most of his entire life in the military, accused that 1) U Nu's administrative policy disunited the country and 2) U Nu strayed away from the socialist path laid by Aung San (Ibid, p. 44).

As mentioned in the previous chapter, right after taking power, the new wave of nationalization known as "Burmanization" was implemented again by Ne Win's government. Under the socialism economic ideology, foreign-owned enterprises were intervened and converted to state-owned enterprises. Wholesale and large retail shops were transformed to the so-called "People's Shops" which sold rice and many other controlled commodities at official fixed prices. The government had destroyed the local shops and its' logistic networks which relied on Indians and Chinese prior to the Burmanization.

The ruin of local networks resulted in an inefficient goods' allocation, leading to shortage of the commodities and the local produced goods in many areas of the country (Arumugam, 1975, p. 46). In 1970s, the People's

Shops were gradually replaced by consumer co-operatives. One-third of the managers were appointed by the government and the other two-thirds were elected members. Nonetheless, the co-operatives were proved to be ineffective as the former People's Shops, the level of the public confidences were low as reflected by the people which complained that "even water will become scarce if co-operatives handle them"(Ibid).

A part of reason for the shortage goods supply was the inadequacy of transport facilities. Many of the state transportations were not well-maintained, for example, the trucks had no spare parts to replace. Myanmar has 28,200 kilometers of roads, but only 3,440 kilometers of roads are paved. Many bridges cannot take heavy traffic(Selth, 2002, p. 5).

The whole system of trade corporations and co-operatives seemed to be interrupted by its own bureaucratization. The local or primary co-operatives had no authority to decide or refuse on which item they could purchase from the corporations. Many officials had no management and business skills; corruptions extensively prevailed throughout the lower and middle levels of bureaucracy(Ibid).

In 1971, Ne Win still had a strong belief in socialism as he initiated a political formation which he could maintain his power of administration under the single-party system, so-called "the Burma Socialist Program Party" (BSPP). The first party congress of the BSPP was held between June 28th and July 11th, 1971, with over 1,200 delegates. One of the agendas of this congress was the new economic policy, the long-term and short-term economic plans of the Burmese Socialist Program Party. The proposed plan was a formulation of the twenty-year plan, comprised five four-year plans. It was aimed that at the end of this plan (in 1994) Myanmar would become a socialist state. A new constitution was enacted in 1974, the name

of the country was changed from the Union of Burma to “The Socialist Republic of the Union of Burma”. It was proved later that all the socialism economic plans failed. In 1987, Myanmar was listed as the least developed country by the UN.

Under the military regime, the government kept salaries low, perhaps because of a lack of fiscal budget since the government gave the first priority to the military expenditure. During 1978-1988, the government spent the largest proportion of its central government expenditure to the armed forces, of all non-communist Asian countries(Ibid, p. 132).

The salaries of low-level civil servants were extremely low. A new bachelor degree graduate could earn 320 Kyat per month⁵(Tint, 1996, p. 221) while a cup of tea cost around four Kyat(Ibid, p. 212). They could not survive only by this amount of income and always engaged themselves in some sort of business. For example, teachers offered private tuition courses after school which student had to pay for and attend in order to pass exams in school. Other civil servants were also reported to be involved in smuggling business because they didn't have enough money to survive (Fink, 2001, p. 136).

Township officers openly demanded bribes for routine assistance. To fix their house, the house owner needed a permission from the city development council officers, and 1500 to 2000 Kyat bribe needed to be paid (Ibid, pp. 137-138).

Ordinary people had suffered a lot more than those civil servants or soldiers working for the government. They earned lower income but they paid higher than world market prices to buy the same common

⁵Though the Myanmar government had fixed the exchange rate to six Kyat per US dollar, the black market exchange rate was about 800 Kyat per US dollar

commodities. Martin Smith(1999, p. 99) witnessed stories of hardship of the ordinary people. A farmer selling a buffalo to get money for a medicine he desperately needed which cannot be found anywhere except in the black market.

4.2 Ethnic Rebellions

Conflicts between the majority Burmans and minority ethnic groups were originated since the period that Myanmar struggled for independence from the British in 1947. The Karen was the first ethnic group that refused to be governed by the newly established union. Many groups started to rebel against the central government. After that, the Karenni took arms in 1957, followed by the Mon in 1958, the Kachin in 1961 and the Shan in 1964. The ethnic armed groups controlled most of the areas that were the main routes for smuggling goods transportation to the black market.

Ethnic armed groups involved in smuggling directly and indirectly as they usually exploited natural resources in their control areas and illegally sold to the traders along the border. They established the checkpoints and collected passage fee from the smugglers as a tax. They had been employed to safeguard the smugglers from the border throughout the smuggle routes.

These illegal trade activities generated incomes for ethnic armed groups. The KNU was reported to use their surplus funds from their 'customs gates' for distribution to the local KNU forces to find their own weapons(Ibid, p. 283).

The first Karen customs gate was opened in 1964 at Palu, opposite to Mahawan district around 20 kilometers south of Mae Sot. The following year, the KNU opened the second customs gate at Kawmoorah, opposite to Wang Kha, north of Mae Sot, and the third gate at Mawdaung pass,

opposite to Dan Singkhon, Prachuabkhirikhan. The KNU also cooperated with the Mons, the New Mon State Party (NMSP), to establish a trading post at Three Pagodas pass(Ibid).

The flat rate five percent tax was levied on the value of goods crossing the gate(Boucaud & Boucaud, 1992, p. 66; Smith, 1999, p. 283). Each customs post had to submit 40% of the collected taxes to the KNU headquarter while the remainder would be used for maintenance of their army unit. In 1978, the KNU was reported to collect total amount of three million US dollars(Boucaud & Boucaud, 1992, p. 49), and had increased to 50 million pounds sterling (at official exchange rate) in 1983(Smith, 1999, p. 283).

Northeast of Myanmar is flourishing with natural resources. Shan state has abundant teak forest and rubies when Kachin state was known as the land of jade for centuries. Unfortunately, peace was rarely descended on these areas; the chaotic wars were never ending. Despite the Kachin rebels, there was a border dispute between Myanmar and China in 1960. The remaining Kuomintang (KMT) Yunnan battalion retreated from southern China into Myanmar territories to fight against the Chinese military(Yawnghwe, 2005, p. 27). The Communist Party of Burma (CPB) also launched their military operations against Myanmar government in both Shan and Kachin states. The situations had forced the rebellion groups to seek for incomes to use for their military expenditures. Additionally, KMT was the first group that organized the opium-heroin production and trade network to finance their war against China(Ibid).

The Kachin reportedly exported their jade through Thai border for trans-shipment to Hong Kong (Smith (1999, p. 361) and usually bought the necessities goods at the border back in their return. Unlike the KNU that

hold a strong anti-drugs policy, the militant groups in Shan and Kachin states mostly relied on income from the opium trade, either by taxing farmers, providing armed escorts for opium caravans, providing sanctuary to heroin laboratories, or by setting up tollgates at important trade routes to Thailand(Kramer, 2005, p. 41). Before 2002, selling opium was legal in Kachin State. One could find it sold freely in the market as potatoes or tomatoes(Lemere & West, 2011, p. 64).

In 1985, Burmese government initiated a trade negotiation with the Chinese government while Ne Win was visiting Beijing with an aim to improve its relationships. In 1987, the Burmese Minister of Trade visited Kunming and Beijing. In the next year, the governor of Yunnan province had made his visit to Yangon and agreed to regularize trade between the two countries. Official trade between Myanmar and China began in 1988. 1500 tons of maize was exported by Myanmar Export-Import Corporation to China in exchange with the Chinese milk-powder, soap, and toothpaste. Many of new hotels, banks, and warehouse were also built on the Chinese side along the border(Smith, 1999, p. 360). Despite the fact that the new trade channel was open as a result of the newly established official trade, the Kachin armed group still gained benefits from illegal smuggling.

The official trade between Myanmar and China caused the influx of cheap Chinese products which inevitably affected the illegal trade activities in the Karen controlled areas along Thai-Myanmar border. The revenues from border trade collected by KNU were decreased by over 50%(Ibid, p. 361).

4.3 Inadequacy of a Legal Trade Channel

As mentioned in the previous chapters, Thailand and Myanmar have established official cross-border trade in 1996. Despite the fact that Thailand shares an approximately 2,400 kilometers border with Myanmar, the two countries only have five permanent customs border checkpoints in three provinces: Mae Sai-Tachileik, Mae Sot-Myawaddy, Ranong-Kaw Thaug and one temporarily permitted customs checkpoint Singkhon-Myeik.

According to Thai authorities, official checkpoints at the border can be categorized into four types as follows:

- 1) Natural Crossing Point. The crossing points of this type usually are natural trails between Thailand and neighboring countries with mostly no official recognition of border pass of the two countries. Local villagers living on the frontier may enter and exit one country through the natural crossing point. Crossing the river is more prevalent along Thai-Myanmar border.
- 2) Temporary Trade Checkpoints. This type of checkpoint allowed people of the two countries to pass through, to trade or to exchange consumption goods at the limited amount of 500,000 baht per person per day. The Provincial Governor, with the approval of the Ministry of Interior, has an authority to specify the opening and closing hours, types of goods allowed to trade, and the entry-exit control measures. The value of purchasing less than 20,000 baht pass will get the tax exemption from Thai customs.
- 3) Temporary Border Checkpoint. This type of crossing point is under the authority of the Ministry of Interior with the approval of the sub-committee on the opening of temporary border crossing points under

the National Security Council according to article 11 and 23 of the Immigration Act.

4) Permanent Border Checkpoint. The operation of this official and bilateral border opening is to facilitate trade and travel between countries and to promote international relation/cooperation.

In this thesis, I consider all cross-border checkpoints as trade channels since the cross-border trade can be done legally at these cross-border checkpoints.

For Thai-Myanmar border, Thailand has 5 permanent border checkpoints, 1 temporary border checkpoint, and 14 temporary trade checkpoint



Neighboring Countries	Population (million)	Border Length (kilometers)	Permanent Border Checkpoint	Temporary Border Checkpoint	Temporary Trade Checkpoint	Total	f	Kilometers per Border per Checkpoint
Myanmar	51.5	2,400	5	1	14	20		120
Cambodia	15.2	800	6	1	10	17		47
Laos	5.6	1,800	19	-	29	49		95
Malaysia	28.3	650	9	-	-	9		72
Total	5,650	5,650	39	2	53	94		60

Table 18 Thailand Border Checkpoints with neighboring countries

Source: Division of Foreign Affairs, Office of Permanent Secretary, Ministry of Interior, Thailand

Myanmar's population from 2014 census by UNFPA which can be retrieved at <http://countryoffice.unfpa.org/myanmar/drive/SummaryoftheProvisionalResults.pdf>Cambodia's population from the CIA fact book which can be retrieved at <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>Laos' population from 2005 census which can be retrieved at <http://unstats.un.org/unsd/demographic/products/dyb/dyb2.htm#2001>

Malaysia's population from National Census 2000, Department of Statistics Malaysia.

Table 18 Thailand border Checkpoints with Neighboring Countries

If we compare the ratio of channels that Thai and Myanmar authorities allowing people of the two countries to trade per the length of the border line, the result is considered lowest among that with other neighboring countries. The average border length per channel of Thailand and its neighboring country is 60 while the same ratio of Myanmar is 120 kilometers per one checkpoint. It is two times of the average ratio.

Although the demands of the population of Myanmar and the market size are much greater than other neighboring countries of Thailand, Thailand has the fewest trade channels with Myanmar.

4.4 Myanmar's Strict Trade Regulations

As discussed in the previous chapter, since the SLORC took power in 1988, Myanmar government was enthusiastic to draw the foreign investment and to boost up its economy. The official cross-border trade with neighboring countries was developed. Even with the implementation of a number of new laws and measurement, the complexity of these laws had obstructed the growth of Myanmar international trade.

The “export-first and import-later” policy of the government had given the entrepreneur a difficulty when it comes to the real practice. Logically, it means that the government expected a higher or at least an equal amount of export compared to import. When considering the fact that Myanmar has nothing to attract the foreign buyers except its natural resources, which the government had monopolized the export to very few enterprises that have a close relationship with the regime or to a state-owned enterprises, it should be realized that this foreign exchange control model will never work. Also with the fact that Myanmar has been facing a

severe shortage of basic need products for decades with over 50 million populations, the demand for importing goods is considered very high. Thus, there was always a high demand of the export-earning foreign currency. The company that wanted to import but has a shortfall of foreign currency, had to buy the export-earned foreign currency from an export company in Kyat with the agreed premium according to the negotiation (Kubo, 2014, p. 115). The export-earned foreign currency was usually traded among the exporter and importer expensively since the demand to import was high. It inevitably made the products more expensive than what it should be.

According to the Burmese Customs Regulations, the customs will not proceed the export clearance if the entrepreneur cannot prove that they will get an advance payment or L/C from their oversea buyers through the state-owned banks; the Myanmar Investment and Commercial Bank (MICB) and Myanmar Foreign Trade Bank (MFTB). Import-Export entrepreneurs were allowed to open a foreign currency account at MICB or MFTB. Ten percent export tax will be levied on export revenue. Only the export-earned in the foreign currency account after deduction of ten percent export tax, will be allowed by the government to pay for import items. The importers were required to prove a sufficient amount of export-earned foreign currency in the account in order to apply for an import license.

The Kyat-Dollar fixed rate exchange policy also created problems which made foreign firms hesitant to invest. The official exchange rate was 6.2 Kyat per 1 US Dollar while the black market rate was 110-120 Kyat per 1 US Dollar. When the value of money was made under-valued and the return of investment in Kyat could not be converted into a true value, the investors could not see a profitable investment. The beverage company,

Pepsi-co, reportedly earned their income in Kyat and had to use its Kyat profit to buy agricultural commodities like mung beans to export (Thein, 2004, p. 130).

The Burmese import-export banned policy on some items was also proved to be a failure. From the Thai Customs statistics, many banned items were declared as export from Thailand to Myanmar all the time. Undoubtedly, all these banned items were smuggled into Myanmar.

4.5 The Expansion of the Burmese Army

When the Burmese army (Tatmadaw) was founded in 1945, the total number of its troops was about 18,000. The Number of soldiers in the Burmese military had steadily grown to almost 200,000 officers by 1988. During the SLORC and later SPDC, the number of officers in the military had rapidly increased, which by the end of 1999, the numbers of the military armed forces personnel jumped to 370,000 in the army, 16,000 in the navy, and 15,000 in the air force (Selth, 2002, p. 79). Experts said the military recruits a massive number of soldiers to fight against the ethnic rebellions and to assure that the newly open cross-border trade with neighboring countries would not be interrupted by the ethnic armed groups (Ibid, p. 36).

Though the government spent the biggest portion of its fiscal budget on the military, there were many reports on lack of rations, medical supplies, and other basic necessities (Ibid, p. 174). According to Maung Lwin Soe, a former soldier who escaped from the army, the official salary given to the soldiers in the army during his period of army service, 2002-2011, was as follows (Chamu, 2011):

New soldier – 4,000 Kyat

Sergeant (1 chevron) – 47,000Kyat
 Sergeant (2 chevrons) – 50,000Kyat
 Sergeant (3 chevrons) – 53,000Kyat
 2nd Lieutenant (Du Bo) – 100,000Kyat
 Lieutenant (Bo) – 120,000Kyat
 Major (Bo Mu) – 130,000Kyat
 Deputy Commander – 230,000Kyat
 Battalion commander – over 200,000Kyat

It was considered high compared to other civil servants, however, in reality the soldiers received much lower than this figures. The military base camp unit usually took a cut of the soldiers' salaries. The given reasons to those soldiers were for donations to the Dharma team, office stationery and other social occasions(Chamu, 2011). The rations given to the soldiers were not enough and of poor quality. In 1997, the regime reportedly ordered the 12 regional commanders to meet their basic needs locally rather than rely on the central supply system(Selth, 2002, p. 136). It was known as the Myanmar Army's 'self-reliance' or 'live off the land' policy(KHRG, 2009).

The Burmese soldiers obliged to grow most of their own food which they sometimes found difficult. The crops were usually insufficient to meet the basic needs of the troops(Selth, 2002, p. 136). Therefore, they often forced the villagers to provide them with rations. According to Kyaw Win, a soldier who served the army in Shan and Karen states, the living conditions for ordinary soldiers were considered very poor. They were told by their commanders collect food and vegetables from the villagers. The soldiers had no money to buy anything. If the villagers refused to give them rations, they would go and steal them at night(Fink, 2001, p. 146).The

senior officers often used the soldiers for their own interests. There were many cases that soldiers were forced to work on senior officers' plantations and other labor intensive businesses such as logging, and brick-making(Ibid).

Since their salaries were inadequate for living, most of the soldiers have to find extra jobs. The military base camp units located in the smuggling areas usually set up the checkpoints to collect taxes from the smugglers. The soldiers themselves were reportedly, sometimes, involved in the smuggling as a smuggler(Pawakapan, 2015, p. 113) or steal the military supplies to sell outside the base(Fink, 2001, p. 146).

4.6 Ceasefire Agreements with Ethnic Armed Group

After SLORC came into power in 1988, the SLORC proposed a ceasefire negotiation with ethnic armed groups. Some ethnic groups agreed on the ceasefire along with some concessions and business opportunities given by the SLORC(Oo & Min, 2007, p. 58). For example, The Democratic Karen Buddhist Army (DKBA), which separated from the KNU after some internal conflicts, had agreed on the ceasefire and got concessions to control some of the former KNU controlled areas. Although, there was no official document to affirm business benefits given to the DKBA, the revenue collection that used to go to the KNU was now allocated by the DKBA with no intervention by the Burmese government.

The concessions given to ethnic armed group that signed on a ceasefire agreement, somehow, disunited the ethnic rebellions. Small factions sprang out in order to earn concessions over the ceasefire with the government. In 2009, the Karen Human Right Group report had mentioned that, there were more than 20 tollgates along the Asian Highway from

Myawaddy to Yangon. These tollgates belonged to various armed groups, such as the DKBA, the Karen Peace Force (KPF), Myanmar Frontier Force (Na Sa Ka), Myanmar Police, Myanmar Military. Any person passing through the checkpoints would be forced to pay the “tea money” or give some donation(KHRG, 2009).

The Karenni National People’s Liberation Front (KNPLF) were reported to get the concessions from the SPDC to control two main trading gates opposite to Mae Hong Son. In addition, the KNPLF has long been involved in black market tradeoff cattle, chili, and beans in the north of Thailand(Keenan, 2012, pp. 161-162).

The ceasefire agreements has relieved tensions along the frontier areas and created a space of benefits with negotiations among ordinary people, the ethnic groups, and the military which never happened before in the past.

4.7 Burmese Migrant Workers in Thailand

Thailand has been attracting workers from neighboring countries since at least the early 1990s. It initiated a policy to register workers from Myanmar in ten provinces along the border in 1992. The Thai cabinet resolution, once again in 1999, launched a migrant workers registration but limited only within the labor-intensive industries such as fishery, construction, and mining. Two years later in 2001, the migrant workers in every provinces of Thailand(Petchot, 2011, p. 15).

The economic failure of the Burmese government coupled with the civil war between the regime and ethnic minorities, perhaps, has made the Burmese fled from their motherland to seek for a better economic opportunity in Thailand. The Burmese migrant workers were believed by

Thai authorities to dominate about 80 percent of the total migrant workers in Thailand. The estimates of migrant workers in Thailand by the International Organization of Migration (IOM) were, at least, three million in Thailand (Huguet & Chamrathirong, 2011, p. 3).

With the lack of banking system in Myanmar, migrant workers in Thailand have no other choices for sending money back home but through the underground networks manipulated by the same group of people who facilitate payments for the illegal cross-border trade.

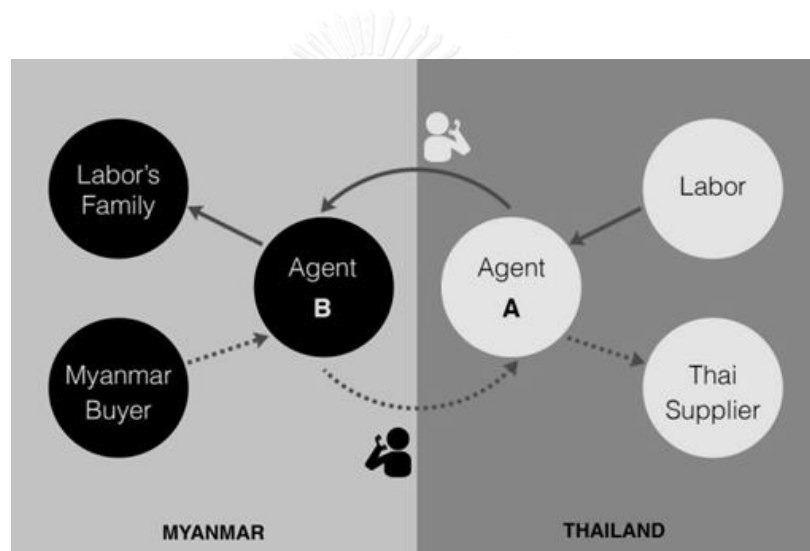


Figure 12 The Circle of Illegal Border Trade Payment related to Migrant Workers
Source: Akkanut Wantanasombut

According to the informants, the underground networks have agents on both sides of Thailand and Myanmar. When the migrant labors would like to send money back to their family, they will pass the amount of money with a 3-5% commission to an agent on Thailand side (Agent A). After collecting money, agent A will call an agent on Myanmar side (Agent B), asking agent B to give the amount of money to the labor's family.

In the same manner, when Myanmar buyers who purchase goods from Thailand would like to make payment to a Thai supplier, they will pass

their money to agent B. Agent B will call agent A, asking to deposit money to the Thai supplier's account.

The real money rarely crosses the border. Agent A on the Thailand side collects money in Thailand from the migrant workers in Thai baht and use that money to pay on behalf of Burmese buyers when asked by agent B. Agent B on Myanmar side collects money in Myanmar from Burmese buyers and use that money to pay to migrant workers' family in Kyat according to agent A's advice.

According to the Burmese buyers, they are not required to pay any commission. They believe that, perhaps, the money from both sides is usually imbalanced; the demand to send money back home is always greater.

The Burmese buyers admitted that, the massive number of Burmese migrant workers in Thailand has made the illegal cross-border trade between Thailand and Myanmar become easier. Through the underground network, it allows the Burmese buyers to use their Kyat to pay the Thai supplier indirectly.

The Burmese workers in Thailand normally get used to Thai products when they live in Thailand. After they returned to Myanmar, these migrant workers would feel more familiar with imported products from Thailand than others. The brand awareness and loyalty raise up the popularity of Thai products compared to elsewhere. Some Chinese manufacturers had noticed this and often intend to produce a packaging for the Burmese consumers to mistaken it for Thai products.



Figure 13 A fake Thai brand toothpaste made in China, photo taken from Loiye town in Kachin state near Myanmar-China border, it looks similar to a Thai brand 'Klai-Shid' but wrongly spelled
Source: Gabriela Steinemann

4.8 Conclusion

This chapter tends to cumulate all causes behind the illegal cross-border trade. There are several reasons that motivated the smuggling and some of the reasons are related.

The failure of the military government on socialism economy led by General Ne Win during 1962 to 1988 had stagnated Myanmar's economy. Black market mushroomed as channels to fulfill basic needs of people. Commodity products were smuggled across the border, through the controlled areas of ethnic armed groups.

The ethnic armed groups earned their incomes by collecting taxes from smugglers. They also often involved in the smuggling themselves. Some offered services to facilitate for transportation or to safeguard the narcotics traders.

After came to power in 1988, the SLORC intended to solve the chronic stagnation of Myanmar economy by promulgating new laws and

regulations. However, this expected economic boost up measurements, somehow, became a reason that caused the smuggling. Since the capability to import were limited by the government's "export first import later" policy and some basic needed items were banned, the demands of the Burmese could only be fulfilled by the smuggling across the borders.

In order to establish an official cross-border trade with neighboring countries, Burmese government had no other choices but to take control of the frontier areas. The Burmese army heavily attacked ethnic minority armed groups to have a complete control over some border areas. To secure a newly established trade channels with the neighboring countries, the Burmese army had recruited a number of soldiers to ensure that they powerful and capable of suppressing the ethnic groups. Nevertheless, the army expanded under the inadequacy of budget and resources. The ration supplied from the central command were insufficient, salaries of soldiers were usually cut and never enough to provide for the family. These conditions pushed soldiers and army personnel to supplement incomes which often involved in smuggling.

Although Thailand and Myanmar successfully established their official cross-border trade relationship in 1996, the development of the border trade is considered slow compared to that with other neighboring countries. The number of cross-border checkpoints per border length is the least of all.

The government had offered a ceasefire agreement to some ethnic armed groups which they were usually allowed to control and freely collect the passage taxes over the smuggling areas.

A numerous number of Burmese migrant workers in Thailand indirectly promote the illegal cross-border trade, at least, in two ways.

Firstly, it has a tight connection with the underground remittance that the Thai and Burmese traders usually use for the trade payment. Secondly, millions of the Burmese migrant workers are familiar with Thai products since they live in Thailand for years. After they return to Myanmar, they brought back the popularity of Thai products. The familiarity of Thai products has generated the so-called “brand loyalty” among the Burmese. It creates a great demand of Thai products among the Burmese.

The illegal cross-border trade along Thailand-Myanmar border had emerged long before the official establishment of the trade relationship between the two countries. Although a formal channel was introduced, the smuggling still exists with all causes behind as described previously in this chapter.



Chapter 5

The Ant Army

This chapter briefly explains the process of Thailand-Myanmar smuggling including the smuggling routes, particularly at Mae Sot-Myawaddy, where the smuggling from Thailand to Myanmar mainly takes place.

5.1 Purchasing, Handover, and Border Crossing

The smuggling process normally begin after the purchase by the Burmese buyers, which usually come from the opposite Burmese border towns or the big city such as Yangon, Mawlamyine, and Hpa-An. They would travel across the border to the Thai border towns to make their purchase. After agreeing on the term and conditions such as price, quantity, payment term, delivery lead-time, and delivery method, the seller will provide the goods and the customs declaration documents.

As discussed earlier in chapter 3, Thai sellers usually declare export items to the Thai customs since they have no burden on the export tax and able to claim back seven percent of the Value Added Tax (VAT). After export customs clearance procedures, the goods will be delivered to the agreed handover place which is normally at the temporary authorized warehouse.

At Mae Sot, the goods are delivered across the border in two different ways. Legal product according to Myanmar regulations would be shipped over the Friendship Bridge but illegal product by would be shipped over the Moei River. The smuggling process begins here.

The Burmese buyers normally arrange the transportation across the border with the cross-border service providers prior to the purchasing. Generally, the transportation service providers own temporary private transportation piers, which are mostly located in the same compound with a temporary approved warehouse.

Most of the Burmese traders have a good long business relationship with the cross-border service providers. One Burmese trader told me that “trusted partner” is key to success since he has to rely on these people to handle his purchased goods.

At the Moei River bank on Thai side, the piers usually have gigantic concrete sliders to facilitate goods loading process from warehouse to a boat in the river. Opposite to a Thai side pier, there is always a pier on the Myanmar side. From the observation, unlike Thai side, the Myanmar side piers does not have a gigantic slider. It can be easily understood that most of the goods across the river from Thailand to Myanmar in almost one-way traffic. It is unnecessary to use a slider on the Myanmar side.

The labors working at piers on both sides are all Burmese from various ethnic groups. My informants explained that the majority of labors are Burman and Karen. These labors get a very good pay compared to the pay of other occupations in Myanmar. The informants further revealed that the labors normally receive 400 to 500 baht a day and they are mostly relatives or a trusted person of the pier’s owner. The reason they recruit only people whom they trust is because the piers’ owners will lose their reputation if there is a stealing case.

On the Myanmar side, there was a guardhouse with armed officers wearing a military-like uniform, which I was told later that these people are the DKBA soldiers. They were ordered to station at the guardhouse to

control and safeguard the piers. The goods will be unloaded from a boat and loaded on a truck at the river bank. Unlike on the Thai side that warehouses and piers usually located in a same compound, there are only piers with no warehouse on the Myanmar side.

According to the Burmese pier owners, their customers are both the Burmese traders from Myawaddy and elsewhere. The Myawaddy traders will hire them for a transportation services and to take care of the goods from Thai side to their pier. The customers will arrange a truck to load the goods themselves. In the case for traders from other places like Yangon, Mawlamyine, and Hpa-an, they usually ask the pier owner whether to deliver the goods to their warehouse where they came from or arrange the truck themselves like the traders from Myawaddy.

In the past, instead of using truck, the smugglers transport their goods by using the porters. It normally took two to four days (Nyunt, 1988, p. 98; Sucharithanarugse & Jitpratoom, 1994, p. 29) to walk through the jungle and hill paths to Mawlamyine where the goods were compiled before delivering to Yangon by train. After the fall of the KNU's headquarters in Mannerplaw in 1995, the SLORC government was able to control some parts of border area. Since then the smugglers gradually changed their method of transportation from the porters that can carry 30 to 40 kilograms to a maximum per person to a truck from Myawaddy to Hpa-An or Mawlamyine through Kawkareik Township.



Figure 14 A Thai trader's electrical appliance showroom in Mae Sot
Source: Akkanut Wantanasombut



Figure 15 Burmese traders come to purchase goods by a Burmese registered van in Mae Sot
Source: Akkanut Wantanasombut



Figure 16 Burmese traders making a purchase at a Thai seller showroom in Mae Sot
Source: Akkanut Wantanasombut



Figure 17 A Thai seller arranging the shipment for the order in Mae Sot
Source: Akkanut Wantanasombut



Figure 18 Export Declarations at Customs Office in Mae Sot
Source: Akkanut Wantanasombut



Figure 19 A pick-up truck deliver goods to the temporary authorized warehouse next to the pier at Moei River
Source: Akkanut Wantanasombut



Figure 20 Workers use a giant concrete slider to load goods to a boat before crossing Moei River
Source: Akkanut Wantanasombut



Figure 21 Workers use a wooden slider to load goods to a boat before crossing Moei River
Source: Akkanut Wantanasombut

5.2 On the Smuggling Routes

In northern Thailand, the goods are smuggled from Mae Sai across the border to Tachileik. After that, the goods will mostly be transported by

trucks to Taunggyi, the capital of Shan state. Taunggyi also has a big demand of smuggled goods. Beside meeting the demands at Taunggyi, the goods usually go northward by trucks or train in case of small amount, to Mandalay or even go farther north to Bhamo and Mai Ja Yang of Kachin State.



Figure 22 Thai products being sold in a local shop, Bhamo, Kachin state, Myanmar
Source: Gabriela Steinemann

In southern Thailand, the goods are smuggled to Kawthaung by boat. From Kawthaung, there are two methods; taking six hours to Myeik by boat or 24 hours by truck for the distance of 300 kilometers, and then by ship across the sea direct to Yangon. From Myeik, it takes four hours by boat to Dawei or 10 hours by truck for another 200 kilometers. Dawei, the

most developed city in southern Myanmar, is the last destination of Myanmar's southern railway line. Goods can be transported from Dawei to Yangon by truck or train through Mawlamyine.

The smuggled goods from Ranong to Kawthaung mostly end up in Dawei or Myeik. Sometimes, Mae Sot border are closed by the Burmese government due to border conflicts and fight between Myanmar army and minority ethnic groups, or the political issues between the two countries. In this case, Ranong-Kawthaung and Mae Sai-Tachileik routes are considered as alternative routes. Thus, the Thailand-Myanmar smuggling has never been completely interrupted.

The main route of Thailand-Myanmar smuggling is through Mae Sot-Myawaddy-Kawkareik-Hpa An. As explained previously, the goods are mostly transported illegally by boat across the river. After unloaded at the Moei River on Myanmar side, the goods will be immediately loaded on the trucks before being delivered to the destinations.

From the interview with informants, most of the smuggled goods go through the Asian Highway (recently changed to ASEAN Highway), through Myawaddy-Thin Gan Nyi Naung-Kawkareik. Then the goods, mostly in a big-scale smuggling, will be delivered to Yangon through Hpa-Anin, Karen state. There is also a small-scale smuggling through train at Mawlamyine in Mon state.

There are approximately 20 established checkpoints along the Asian Highway from Myawaddy to Rangoon(KHRG, 2009). The reason for having checkpoints were explained by the authorities for security issue, but apparently it is a source of informal incomes to authorities and ethnic armed groups. According to KHRG report, there are eight 'large' checkpoints by the cooperation of soldiers from Myanmar army, state

officials, and police with the DKBA and the Karen Peace Force⁶ (KPF) soldiers. Other 12 checkpoints are small, operated by local army units.

The eight 'large' cooperated checkpoints are located at;(KHRG, 2009)

- 1) Special Industrial Zone
- 2) Thin Gan Nyi Naung village
- 3) Kawkareik Town
- 4) Gkyon Tatah ('Teak Bridge')
- 5) Thanlwin (the Salween River)
- 6) Thaton Town
- 7) Mupalin (Mokpalin) village
- 8) Sitaung River

The passage fees of these eight checkpoints were fixed between 100,000 and 300,000 Kyat for a heavy truck and between 10,000 and 30,000 Kyat for a small truck (a pick-up truck). For cars, even without passengers, the fee is generally 3,000 Kyat.

For example, the first checkpoint from Myawaddy was located at the Special Industrial Zone. This checkpoint is operated by Na Sa Ka, Myanmar army soldiers, State officials, DKBA and KPF soldiers. The fee for a pick-up truck is 30,000 Kyat and 300,000 Kyat for a heavy truck.

The second checkpoint at Thin Gan Nyi Naung village, located near Special Industrial Zone checkpoint, is also operated by Myanmar army soldiers, state officials, and police alongside with the DKBA and KPF soldiers. The passage fees at this checkpoint are less than the fee of the

⁶The Karen Peace Force, led by Saw Thamu Hel, was formed in February 1997, after it split from the KNU of No. 6 Brigade and surrendered to the Myanmar Army.

other 7 large checkpoints. At Thin Gan Nyi Nuang checkpoint, the fee for a pick-up truck is only 3,000 Kyat and 15,000 Kyat for a heavy truck.

The public bus, sometimes, is asked to pay too. The driver will ask their passengers for money before reaching the checkpoint. The drivers usually collect between 500 and 1,000 Kyat from the passengers. In his account, Pascal Khoo Thwe(2002, pp. 112-113) describes that the armed police at the checkpoint would ask all the passengers to present identity card and examine their baggage. The police would generally confiscate some packets of Chinese seasoning powder, salted fish, and other goods. The reason given is that transporting a big quantity of goods can cause inflation and damage the national economy. The passengers would not dare claim ownership because they are afraid of being arrested. Everyone knows that the police would never submit the confiscated goods and sell them on the black market.

The Asian highway across the Dawna Mountain Range to Kawkaeik was built by the Japanese during World War II. It is under a bad condition due to lack of maintenance. Especially during the rainy season, transportation services are usually obstructed by landslides. The narrow road, only about three to four meters wide, is difficult for two-way traffic. Thus, the traffic has been restricted to only one way in one day and the traffic direction is changed every day. The road then extends through the plains to Hpa-An, Thaton, and Yangon.

On top of the fixed passage fees of the eight large checkpoints, the smaller checkpoints operated by the local Myanmar army units, collect 200-500 Kyat per vehicle. There are also additional ad hoc demands sometimes. When vehicles are stopped, passengers are told to get off the car and walk through the checkpoint. At this point, passengers are asked to

show identity card. Those who fail to identify themselves will be asked to pay 1,000 Kyat and typically 500 Kyat as ‘tea money’ or ‘donations’ from those with identification(KHRG, 2009).

Not only smuggling by roads that people are asked to pay passage fees, armed groups also collect money from boat travelers. The KNU were reported taxing 2000 Kyat only for a boat carrying smuggled goods, while The Border Guard Force, Myanmar army soldier, and the DKBA ask travelers to pay 6,000 Kyat. The DKBA have also reportedly charged 10,000 Kyat per boat from the boat owner or 70,000 Kyat a year if the boat owner choose to pay yearly(Gay, 2012). At Kawkareik, small traders in the village were forced to pay with rice, trade goods, and raw materials beside money. Some of the truck drivers decided to change their profession because they cannot bear to pay(HURFOM, 2010, pp. 3-4).

At the Mupalin checkpoint, in some occasions, soldiers stationed at the checkpoint strictly examine vehicles and the goods they carry. They search and confiscate cooking oil and monosodium glutamate (MSG) as it is banned. They probably collect them and sell on the black market. However, they mostly release when negotiate with bribe.

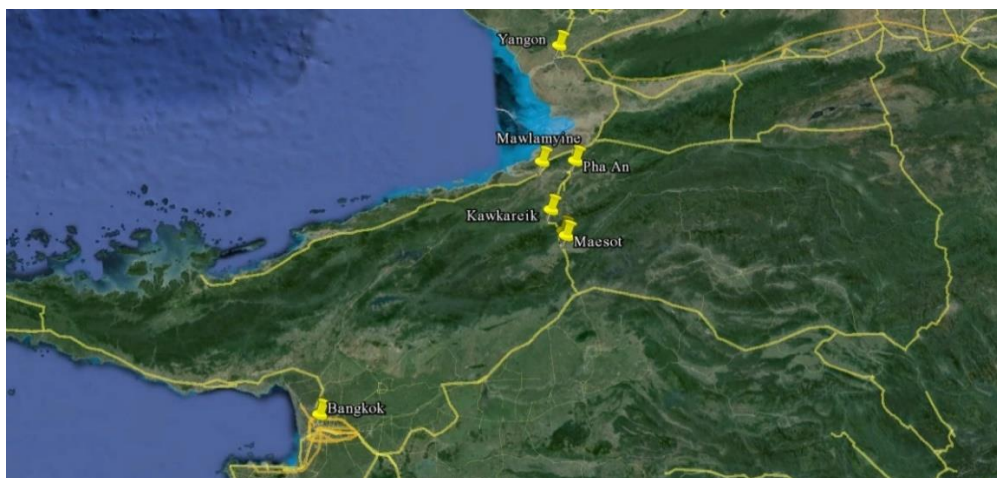


Figure 23 The Major Smuggling Route from Mae Sot to Mawlamyine and Hpa-An
Source: Google Earth



Figure 24 Special Industrial Zone Checkpoint
Source: Sarthit Medhasith Suksumret



Figure 25 Asian Highway from Myawaddy to Kawkareik across the Dawna Range
Source: Sarthit Medhasith Suksumret



Figure 26 Checkpoint at Kawkareik town
Source: Sarthit Medhasith Suksumret

5.3 Myanmar's Political Changes, ASEAN Economic Community, and the Future of the Ant Army

Recently, there have been many changes in Myanmar. In 1997, Myanmar became a member of the Association of Southeast Asian Nations (ASEAN). The Chair of ASEAN is rotated among the ASEAN countries on an annual basis, and Myanmar was serving as ASEAN Chair in 2014. In order to gain acceptance from the global community, Myanmar has been showing efforts to reform itself by releasing some of its political prisoners, including Aung San Suu Kyi from house arrest in 2010. Furthermore, the government allowed her to participate in the election in April 2012, and November 2015 in which her party, National League for Democracy (NLD), has won a landslide election victory.

The government has managed to float the currency after 35 years of fixed exchange rate from 6.4 Kyat per USD to 820 Kyat per USD in 2012. In light of these rapid changes, the global community has felt that it needs to keep an eye on Myanmar. Hillary Clinton was the first U.S. Secretary of State to visit the country in more than 50 years. President Obama was also the first U.S. President to visit Myanmar and he visited twice in 2012 and 2014. UN Secretary General Ban Ki-Moon also said before his visit in April 2012 that “the country is re-opening to the world”. The European Union (EU) has suspended its sanctions on Myanmar for one year, including the travel ban and asset freeze on some Myanmar officials and the President.

Moreover, in 2015, ASEAN will declare itself as ASEAN Community with three pillars of cooperation: ASEAN Economic Community (AEC), ASEAN Political-Security Community (APSC), and ASEAN Socio-Cultural Community (ASCC). The ASEAN Economic Community is the next step of economic integration, transforming ASEAN into a single market and production base.

All these changes will positively affect the Myanmar economy. Trade activities are likely to become easier, and foreign direct investment will increase. Questions of interest to us regard the future of the border trade between Thailand and Myanmar and, specifically, the future of the Ant Army. To answer these questions, we have to understand Myanmar consumer behavior. Apart from Thailand, Myanmar shares borders with China, Laos, India, and Bangladesh. Only the trade volume with China is significant; trade with other neighboring countries is small. During the period of Western sanctions, trade with Thailand and China increased. During this period, commodity products from Thailand have become the

most popular for Myanmar consumers. People of Myanmar are more impressed by “Made in Thailand” than by “Made in China” products. The Myanmar consumer feels that Thai products are of better quality with the higher price than Chinese products. This brand loyalty behavior put Thai products in an advantage position in Myanmar. Thus, it is to be expected that the demand for Thai products will remain, even if Myanmar is opening itself more widely to the world. The Ant Army is needed to fulfill the related supply chain.

The coming of the ASEAN Economic Community in 2015 may bring more business opportunities to Myanmar, since Myanmar has many resources and the labor cost is considered to be the cheapest in this region. With almost 60 million people, Myanmar itself is a big market. These factors may put Myanmar in a better position in terms of competitiveness. Logistics is one of the most important parts of the supply chain, and Myanmar needs to develop its infrastructure, such as road networks. In some remote areas that still cannot be reached by road, or in cases where the road is cut by flooding or landslides, the Ant Army has the ability to use local porter networks to carry goods through difficult hill parts in order to reach their destination. In spite of changes in politics and economy, the Ant Army is still needed as an important mechanism to connect and complete the supply chain system. Indeed, in a personal interview, it was claimed that after Cyclone Nargis, while the government was reluctant to accept help from the global community, the Ant Army was the first group to carry basic necessities and relief from the border to the areas of disaster.

5.4 Conclusion

The smuggling process starts right after the purchasing agreement where the buyer will also make a decision on the method of delivery. After that, the seller will arrange the goods according to the order, declare their goods as export items at Customs house to gain the VAT concession given by Thai government, and then transport goods to the agreed point of delivery. At the point of delivery, usually at the temporary approved warehouse, the goods will be loaded on a boat to cross the Moei River. The goods will be transferred from a boat to a truck and deliver to their destinations accordingly.

There are checkpoints, large and small, by the cooperation of Myanmar army soldier and ethnic armed groups, along the route inside Myanmar from border towns. The smugglers will have to pay at every checkpoint along the route. It is considered an unpredictable cost that they have to pay for every shipment. The big-scale smuggler probably pays about 2,500,000 to 3,000,000 Kyat per shipment. They also have to take risk from the seizure of goods by authorities.

From the entrepreneur's point of view, unpredictable cost is bad for their business. For them, smuggling business, sometimes, costs them a lot more than do it in a legal way. Thus, they have no other choice but to overestimate their selling price covering these unpredictable costs and ordinary people is the one who suffer.

In light of the rapid political and economic changes in Myanmar, the government has been trying to obtain good responses from the global community, for example with the loosening of sanctions. These changes are likely to create a comfortable atmosphere for trade and investment. If the government can maintain its momentum, the Myanmar economy will

be better, more stable and grow steadily. In the same vein, the cross border trade volume with neighboring countries will also increase. Although the ASEAN Economic Community will positively affect the official trade system and smuggling activities may be reduced, the Ant Army will still play a significant role as logistics provider due to its networks, know-how, available facilities and manpower.



Chapter 6

Conclusion, Discussion, and Recommendations

6.1 Conclusion

The study of Thailand-Myanmar illegal trade, the so-called “Ant Army”, on the one hand, at the surface, gives us a clearer picture of the ongoing illegal cross-border trade. It answers the question of how this existed smuggling plays a significant role as an economics driving force of the two countries. Moreover, it shows us a paradoxical point of view of the stakeholders, from the government level to ordinary people, regarding this illegal trade.

On the other hand, it deepens our understanding of political economy of Myanmar. It shows us how the political failure affects people in their everyday economic life.

Chapter 2 describes a brief background of the study. It is impossible to study the Ant Army without the understanding of Myanmar Economic and Political history. Myanmar was a prosperous country that enjoyed the fruitfulness of capitalism until the political conflicts incurred the economy failure. The black market then gradually emerged as a mechanism allowing people to meet their basic needs which the government failed to provide.

In Chapter 3, the formal procedures of international trade were compared with the real practices of Thailand-Myanmar border trade. The discrepancy of the trade record between the two countries presented a vivid picture of the massive smuggling amount that has been increasing every year.

This thesis tries to prove that the Ant Army has been an important jigsaw piece in the Myanmar economy for decades. As noted in chapter 4,

the military government failed to fulfill the fundamental needs of its people. The long-lasting civil wars between the government and ethnic groups have forced the government to pay more attention to politics than the economy. Some ethnic groups have been involved in the manufacturing and smuggling of narcotics and other products to finance their own rebel activities. The smuggling across the Thai-Myanmar border is blatant along the border. The Myanmar government has tried to control trade transactions through strict rules and regulations, but these have generated more problems, and the rules themselves have become the causes of smuggling.

In chapter 5, the smuggling process was portrayed as the smuggling routes were elaborated. The process starts when buyers in Myanmar cross the border to Thailand to purchase goods. After the seller declares the goods to the customs officer as export goods, the seller will deliver the goods to a place requested by the buyer. The Ant Army is in charge of taking the goods across the border and travelling to destinations inside Myanmar.

The Ant Army has to pay bribes and illegal taxes to officers and other minority groups that manage numerous checkpoints along the way inside Myanmar. The uncertain amount of bribes makes it difficult to calculate the exact cost of the goods. They usually overestimate their selling price to make sure it will cover all uncertain cost. Thus, ordinary people have to buy things at exaggerated prices.

In addition to the findings, the study of the Ant Army leads me to consider them in different angles such as:

- 1) The Ant Army as an efficient distributor, transporter, or logistic provider which the Myanmar government has failed to provide. It

shows that private sectors can play roles of the leader on development.

- 2) The Ant Army as a well organized labor system which functions efficiently.
- 3) The Ant Army as a significant element that links sellers, buyers, black market, and the consumers. It acts as edges of the network.
- 4) The Ant Army as a tool to eliminates trade barriers. It changes a geo-political landscape; border is no longer a boundary. The Ant Army serves as a mechanism to facilitate transportation of goods across the border.
- 5) The Ant Army as an economic stimulus. It offers employment ability, incomes, life-security for a large number of people who develop specialty of their operation.
- 6) The Ant Army as an indicator. It indicates the inadequacy, inefficiency, lack of coordination, and lack of facility provided by the government.

6.2 Discussion of Theoretical Framework

6.2.1 The Capitalist World-Economy

Wallerstein's capitalist world-economy theory fits well with the Thailand-Myanmar trade relationship. He divides countries in the world, according to its positions in the economic relationship with other countries in the world, into three groups: the core countries, the semi-periphery countries, and the periphery countries.

Wallerstein argues that core countries usually focus on higher skill and capital-intensive productions, while semi-periphery and peripheral countries always lack a strong central government or being controlled by

other states. In addition, the main focus of semi-periphery and periphery countries are low-skill and labor-intensive productions. They usually extract their resources, sell or export to core countries. In return, they import value added products from core countries. Most of the periphery countries, according to Wallerstein, have the same feature of the absence of the strong state(Wallerstein, 1979, p. 39)

From Thailand-Myanmar trade statistic, the main export item to Thailand is natural gas. Natural gas accounts for more than half of Myanmar's exports, which has been delivered through pipeline from Martaban Bay to Thailand since around 2000(Kudo & Kumagai, 2013). The numerous numbers of Burmese migrant workers in Thailand, which I argue, is a cause of existed Thailand-Myanmar illegal trade in chapter 4. Myanmar imports various kind of products from Thailand, as I have seen, from a basic commodity product such as cooking oil to a luxurious brand-name product. All these facts have reinforced Wallerstein's theory of world-economy. For decades, Thailand has intensively exploited natural resources and labor forces from Myanmar before sending back value added products to sell in Myanmar.

Considering only Thailand-Myanmar trade relationship, it could be concluded that Thailand is a core country while Myanmar is a periphery country. But if we consider in the world economy context, Myanmar may be considered as a periphery country. While Thailand seems like, a semi-periphery, situated in between the core and the periphery country since Thailand re-exports some of Myanmar products as a raw material or an unfinished product. For example, Thailand has imported gems from Myanmar, to do some processing such as polishing and cutting in Thailand

before selling it to the third country for another process to be produced as a finished product.

Political stability, indeed, affect not only at the microeconomic level of people in the country but the macroeconomic level and position of a country in world economic system.

6.2.2 Smuggling Theory

Modern smuggling theory which has been developed by Jagdish Bhagwati and Bent Hansen(1971) considering smuggling as a welfare-reducing activity. Bhagwati and Hensen have used the economics frameworks to explain the relationship between tariff and the cost of smuggling. It was concluded that the smuggling would be incurred if the tariff exceeds the cost of smuggling. In some special circumstances, the tariff may equal to the smuggling cost which makes it possible to have both smuggling and legal trade coexisted.

Shiekh(1974) added that smugglers also take a “risk costs” in terms of confiscatable goods and fines. Smuggler’s risk costs increase if the number of smugglers is rising.

Considering Thailand-Myanmar smuggling, these theories fit very well. However, risk costs in the context of Thailand-Myanmar smuggling are difficult to define due to the unpredictable situations. One could develop a model that possible to convert all smuggling and risk costs precisely. It would help traders to make their decision whether the goods should go through a legal channel or smuggling.

Bhagwati and Srinivasan(1974) compares benefits gained by state from taxes by legal trade with benefits from the confiscated goods and fines from smuggling. It was suggested that the revenue which can be collected

from legal trade is greater than what the state could get from the presence of smuggling.

This may be true for a country that has good governance. Unfortunately, in case of Myanmar, most of the confiscated smuggled goods end up in the black market so it would only benefit the corrupted officials and armed groups who control the smuggling routes, not the state.

These theories have on concern state's benefits. One may argue that the state benefits are the people's benefits. It is a universal truth for elsewhere, not Myanmar.

Pitt (1981) argues that smuggling and legal trade may coexist only in a situation where legal trade makes more profit than smuggling. However, trader could also make profit by exchanging their foreign currency income at a higher exchange rate in the black market in the case where the government's fixed foreign exchange rate does not reflect the world's genuine market rate.

Pitt's argument elaborates one of the reasons behind the coexistence of legal trade and smuggling of Myanmar very well. Before the government floated the foreign exchange rate in 2012, the black market exchange rate was about 150 times higher than the official rate. Under the government's export first import later policy, some exporters make more profit from selling their foreign currency incomes to the importers than from profit made in their actual business.

6.2.3 Rational Choice Theory

The rational choice theory was developed on the assumption that all actors are purposive. They perform their actions base on their welfare, preferences are self-interest. Although, the rational choice theory is

controversial because of the broad context, it is still a useful framework to elaborate the dynamism of social interaction.

According to the findings, the Ant Army is a mechanism serving black market network, which is the outcome of economic failure of Myanmar government. Smuggling is illegal; the authorities would arrest smugglers or confiscate their smuggled goods. Nevertheless, those smugglers are willing take risks probably because they have already compared benefits they could get with the punishment.

People purchase a smuggled product from black market because they need to fulfill their basic needs. Some are willing to pay more for Thai products rather than buying cheaper Chinese products because they believe in quality that would benefit them more.

The ethnic groups have been fighting against the government for decades. They have the control over the frontier areas where smuggling take places as they tax and collect passage fee from smugglers. Some ethnic groups directly involved in smuggling with the funds they have earned to finance their armed struggle. Some ethnic groups abandon their former political ideology and agreed on the ceasefire to get economic concessions from government. They were then allowed to establish checkpoints with cooperation of authorities to collect passage fee. Some portions of the ceasefire-agreed ethnic groups who feel they were not given the maximum benefits have separated from the groups and demand the negotiation for concessions with the government by themselves. We could see how the economic has influenced political ideology as the political economy is shaped by the change of economic landscape.

Since 1947, the KNU was the first ethnic armed group that proclaimed they stand for their the people fight against Myanmar government. During

1950s-1960s, ethnic armed groups mushroomed all over country. Until now, almost all have signed the ceasefire agreement in exchange with economic concessions. It is a big question why those ethnic armed groups surrendered their political ideology. The armed group leaders enjoy the fruitful benefits given by the government while their people still suffer. Besides the passage fee, villagers are taxed by government authorities and ethnic groups in the form of agriculture crops and forced labors without pay. Most of the villagers in ethnic areas I have interviewed, said that they were betrayed by ethnic armed groups. The villagers have denounced the ethnic armed group for fighting for themselves, not for their people.

The shifted ideology of ethnic groups can be explained by rational choice approach; when the actors consider their benefits of self-interested to make a decision. At the beginning, ethnic leaders believed being under the central government would not benefit their people, so they decided to fight for their rights to self-government. After they realized they were fighting in the endless war, they chose to stop and negotiate with the government.

Unlike the ethnic armed groups that have choices to choose, ordinary people have no choices. For them, it is a lose-lose situation. Whether the ethnic armed groups have agreed on a ceasefire scheme with government or not, the villagers were still exploited by both sides.

6.3 Recommendations

According to my study, Myanmar is an important market which informally contributes to Thai economy for decades. Compared to other neighboring countries, Myanmar has the biggest number of population which can be considered as the biggest potential market. Moreover, a

massive number of Burmese migrant workers in Thailand directly benefit the trade which its payment has been done through the underground remittance network. It also indirectly promotes Thai products as the familiarity of Thai products put Thai products in a better than those Chinese one. Although, Myanmar government seems to boost up their economy by lifting some measurements to attract foreign direct investment, a lack of infrastructure readiness makes it difficult to happen. With the upcoming ASEAN Economic Community, Thai government could invite investors interested in investing in Myanmar market to invest in Thailand.

Thailand under the Board of Investment of Thailand (BOI) has offered concessions to investors, both Thai and foreigner, by providing tax exemptions. The BOI usually gives these concessions to a company located in Export Processing Zone (EPZ) of the industrial estates. There are three industrial estates under construction along Thai-Myanmar border, namely Phoo Namron in Kanchanaburi province, Chiang Khong in Chiangrai province, and Mae Sot in Tak province. Investing in Thailand will benefit investors more because of better infrastructure conditions, trade and business regulations, and abundant labor who can easily cross the border on daily basis. Investors can sell their products to both Thai and Myanmar market.

Thailand should increase the number of permanent border checkpoints with Myanmar. As described in Chapter 4, though Thailand shares the longest border with Myanmar compared to other neighboring countries, the ratio of border checkpoints to border length is the least. Taking Mae Sot, Mae Sai, and Ranong as examples, it can be assured that having more permanent checkpoints will not only benefit the growth of

trade transaction but also the economy and livelihood of the border town in general.



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APPENDIX



จุฬาลงกรณ์มหาวิทยาลัย
CHULALONGKORN UNIVERSITY

VITA

Akkanut grew up in Bangkok. After receiving his B.E. in Mechanical Engineering from Srinakarinwirot University in 2002, he was active in various industries, such as construction, electronic, automotive, restaurant, and import-export. His career led him to travel throughout the Asian region and brought about a growing interest in the societies and cultures of his neighboring countries.

He went back to school at Chulalongkorn University in 2011, Akkanut's general research interest lies in the historical and contemporary Myanmar.

