



OCCASIONAL PAPER  
Observatory Series

04

# Informal Trade and Underground Economy in Myanmar

Costs and Benefits

Winston Set Aung





**IRASEC - Institut de Recherche sur l'Asie du Sud-Est Contemporaine**

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**ISBN 978-616-7571-01-0**

**INFORMAL TRADE  
AND UNDERGROUND  
ECONOMY IN MYANMAR  
COSTS AND BENEFITS**

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**Cover:** *A legal checkpoint in Muse, Myanmar, where products are exported to or imported from China*

ISBN 978-616-7571-01-0

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A collection under the supervision of Anne-Lise Sauterey and Benoît de Tréglodé

**Informal Trade and Underground  
Economy in Myanmar  
Costs and Benefits**

By Winston Set Aung

Carnet de l'Irasec / Occasional Paper  
Série Observatoire / Observatory Series  
**No 04**



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# Foreword

At present, collecting and analyzing data from inside Myanmar remains notoriously difficult. There is, therefore, a non-Myanmar approach towards the majority of studies on Myanmar. This is especially the case when dealing with informal or illegal trade within the country's territory. IRASEC and the Observatory on Illicit Trafficking wanted to fill this gap by giving the floor to Professor Winston Set Aung, the founder and the director of the Asia Development Research Institute, and director of the Asia Language and Business Academy in Myanmar. He is also an MBA lecturer at the Institute of Economics in Yangon and is involved in several international and regional research programs in partnership with various research institutes including the Institute of Asian Studies, Chulalongkorn University, Thailand; Tokyo University, Japan; and the Institute for Security and Development Policy of Sweden, Stockholm Environmental Institute.

The focus of Professor Winston Set Aung's study is to provide a Myanmar-centric perspective on informal or illegal trade. The author offers an analysis regarding the process of informal exchanges through a pragmatic and non-contextualized critique. The causes of informal and illegal exchanges are identified and described without commenting on their origins. This intentional, measured, and calculated conservative perspective enables us to think on how to best use these flows in the current political situation in Myanmar. It seems therefore useful and relevant to make this data available to our readers.

Benoît de Tréglodé & Anne-Lise Sauterey

# Executive summary

Myanmar, the second biggest country in terms of area in mainland South East Asia, borders five neighboring countries: China, Thailand, India, Bangladesh, and Lao PDR. Myanmar's longest borders are with China (approximately 1,357 miles) and Thailand (approximately 1,314 miles), and it shares coastal waters with Malaysia and Singapore. Being a member of at least nine Asia and Pacific inter-governmental organizations that include the ASEAN Regional Forum (ARF), the Greater Mekong Subregion (GMS), the UN Economic and Social Commission for Asia and the Pacific (UNESCAP), the Asian Development Bank (ADB), Upper Mekong Commercial Navigation, the Asia Pacific Fishery Commission, Asia-Pacific Telecommunity (APT), and the Association of South East Asian Nations (ASEAN), Myanmar is actively involved in various economic cooperation programs.

However, the pace of Myanmar's economic development still lags behind that of other members in these organizations. In addition, informal activities and informal movement of goods and people have been quite significant due to many factors. Although various policy measures have been developed to mitigate these informal activities, there has not been any study regarding the sources of these informal activities, their costs and benefits, impacts and consequences of the existence and non-existence of these activities, or how these activities could be mitigated without having significant negative economic and social impacts on the local people and the economy as a whole.

Without knowing causes and effects, costs and benefits, and factors behind informal activities, it is not simple to come up with restrictive policies to control them. In some cases, restrictive policies have caused severe adverse social and economic impacts on the community. Hence, it is very important that proper research is conducted in order to identify

multidimensional issues that could effectively be addressed by multi-dimensional policies through close cooperation among the stakeholders.

This paper attempts to identify factors behind causes and effects of informal flows in goods and persons across the borders between Myanmar and its neighboring countries, especially China and Thailand, and to address related issues and possible policy implications. This paper is a result of various surveys and studies in many places in Myanmar, Lao PDR, Thailand, and China from 2005 to 2009 under several research projects.

# Introduction

Due to various external and internal factors, informal trade and human flows are significant at cross-border areas of Myanmar, especially at the borders with China and Thailand. Although several studies have focused on border areas from the side opposite Myanmar, there are very few studies made on the Myanmar side mainly due to the difficulty of research. Besides, lack of proper information and data lead to a situation where misunderstandings, mismatches, and controversies often occur between what happens inside Myanmar and what it is perceived or concluded outside. This paper is based on empirical research findings of surveys conducted on various stakeholders at two cross-border areas bordering on China and Thailand and also at other areas in Myanmar. This paper focuses mainly on case studies, interview surveys, focus group discussions, and questionnaire surveys of various stakeholders such as local authorities, traders, brokers, facilitators, returned migrants, migrants' families, and other informal players at the two cross-border areas, as well as an area that is on the way to two active cross-border areas, with a view to study informal/illegal movement of goods and persons and associated costs and benefits.

In the trade sector, Myanmar achieved a positive trade balance of US\$777 million in 2002–03, which increased to US\$3.06 billion in 2007–08 due to growth of natural gas exports to Thailand. The average share of external trade in Myanmar's GDP during the five years from 2003–04 to 2007–08 was 22.6 percent. External trade has been a major foreign currency earner since foreign direct investment was marginalized after 1997, when the Asian financial crisis broke out and the first economic sanction (then mainly on investment) was imposed by the United States.

As a result of factors such as the external economic sanctions, the internal licensing system, inadequate trade promotion, and absence of value-added industries, Myanmar's total trade value is very low

compared to those of other countries in the Greater Mekong Subregion, like Thailand and Vietnam. The value of Myanmar's total exports in 2009 was only 3.8 percent that of Thailand and 10.1 percent that of Vietnam, but was 135.6 percent that of Cambodia and 546.0 percent that of Lao PDR (UN Comtrade). The main destinations of Myanmar's exports are Thailand (accounting for 47.3 percent of Myanmar's total export value), India (20.1 percent), China (11.0 percent), and Japan (5.8 percent). Myanmar imports products primarily from China (accounting for 35.7 percent of total imports), Thailand (24.4 percent), Singapore (14.1 percent), Korea (6.4 percent), and Malaysia (3.3 percent).

Since Myanmar is well-endowed with natural resources, resource exports account for over 70 percent of the total value of exports, and the majority of resources, mainly timber and gemstones, are informally traded. The exception is natural gas, accounting for nearly 50 percent of the total value of exports, which is exported legally through cross-border pipelines. Since economic sanctions were imposed by the West, Myanmar's cross-border trade with its neighboring countries has become more significant and informal practices have proliferated at the border areas. Among the cross-border areas, informal trade is most significant in Muse (bordering on Ruili, China) and Myawaddy (bordering on Maesot, Thailand).

These informal practices facilitate formal as well as informal movement of goods, leading to the situation where the value of undocumented goods, which mostly flow through cross-border areas, reached over US\$1 billion in 2006, highlighting the significance of informal trade in Myanmar. These informal channels for the movement of goods are also found to be safe havens for informal migration, making trade flows and human flows associated with each other to some extent.

In terms of human mobility, the informal flows of migrants from Myanmar to Thailand are found to be much higher than those to China. There are many cross-border points along the porous borders. Among those points, Bamar (the majority population in Myanmar), Mon and Karen (ethnic groups living in the southern part of the country), and people from Taninthari Division normally take the informal channel through Myawaddy (bordering Maesot, Thailand) and Kawthaung (bordering Ranong, Thailand) whereas most Shan (an ethnic group living in the eastern part of the country) choose different cross-border

points, for instance, at Tachileik (bordering Mae Sai, Thailand) and Muse (bordering Ruili, China). Due to many external and internal factors discouraging formal/legal practices, informal practices can be found in all these cross-border areas. Thailand is the largest recipient of Myanmar migrants, with approximately 2 million migrants. Malaysia, the second largest recipient, has received between 0.5 and 1 million Myanmar migrants. The remaining migrants are dispersed in other destinations such as Singapore, Australia, the United Kingdom, the Middle East, Korea, and Japan. Malaysia and Thailand are the main destinations for most unskilled and semi-skilled workers from Myanmar, whereas Singapore, Australia, and the UK are key destinations for Myanmar students. The Middle East, Korea, and Japan attract Myanmar workers with a higher skill level.

Due to regional integration and the wide economic disparity between Myanmar and other countries (including neighboring Thailand), migration from Myanmar to other countries is likely to increase. Hence, it is necessary to ensure that migration takes place in a safe and secure manner to maximize its positive effects for both the home and recipient countries and to minimize the possible negative impacts.

Approximately 2 million Myanmar people, most of whom are illegal laborers, live in neighboring Thailand alone, highlighting the significance of informal human flows from Myanmar. It is estimated that around 10 percent of Myanmar's 55 million people have been out of Myanmar, highlighting the significant degree of mobility. Due to requirements associated with formal channels of mobility, use of informal practices through border routes<sup>1</sup> and normal routes<sup>2</sup> has soared and migrants who have gone through informal channels are vulnerable to various abuses, creating social problems both in the country of origin and the destination countries.

The majority of migrants going to Thailand and China take informal border routes through social networks and/or brokers. Those taking informal channels of trade are often smuggled in trucks carrying goods. Depending on the amount of payment made to the brokers, means of

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<sup>1</sup> Migration by car or by foot through borders. Such migration may either be legal or quasi-legal or illegal.

<sup>2</sup> Legal migration by flight through an international airport.

transportation for migrants going to Thailand vary greatly. They may have to travel on foot, taking about seven days to reach a safe place where there is no checkpoint, or be transported by truck or private vehicle.

Analysis of migration in Myanmar reveals that a major impetus of migration from Myanmar is to maximize income as indicated in neoclassical economics. However, this economic-based migration decision is not made by individuals, but, in most cases, by families as a whole as described in the “new economics of migration theory”. In some areas, risk diversification is a main purpose of the family’s decision as explained by the “new economics of migration theory”. However, in other areas, income maximization is a main objective in accord with neoclassical economics. In contrast with the “dual labor market theory”, both *pull* and *push* factors play important roles in migration. In contrast to the “world-systems theory”, migration flows from Myanmar are related, to some extent, to differentials in wages and employment.

Although both *pull* and *push* factors are important, the former play a more significant role. Some significant push factors include low investment and employment opportunities and low socio-economic status within the country of origin (that tend to encourage forced economic migration). The main pull factors that encourage simple economic migration through various informal channels include migration of friends and relatives, better socio-economic status of neighboring migrants’ families/households, etc. However, the heightened socio-economic status of migrant’s families (who live in the sending communities) that has been inspiring young people in sending communities to migrate may also be interpreted as a push factor. Significant flows of cross-border migration in some areas then trigger internal migration to replace the lost workforce. Due to high costs associated with formal channels of migration, the majority of people from the study areas (where there are people who have established social networks in Thailand and China) choose to take informal channels to get into the destination countries. As a result, migration tends to have both positive and negative effects on the country of origin, the destination countries, and migrants’ households.

Although informal activities, ways, and channels are rampant, there has not been much proper study or literature on them and as a result,

appropriate policy measures cannot be developed mainly due to lack of proper analysis of cause and effect and of costs and benefits. Hence, this paper aims not only to study the informal and illegal activities related to trade and human flows in Myanmar's active cross-border areas but also to analyze their causes and effects, costs and benefits, and policy implications.

## 1 - Objective

The objective of the paper is to identify informal activities in trade and human flows between Myanmar and China, and Myanmar and Thailand, and the factors behind these activities with a view to discovering ways to develop appropriate policy measures, not to crush informal activities but rather to facilitate and convert them into formal ones that could contribute in a positive way to economic and social development.

The paper attempts to answer several questions. What are informal practices in the movement of goods and persons? What legal framework and policy measures exist related to cross-border trade and cross-border migration (including trafficking in persons)? What are the main causes and effects of informal practices and activities? What are the consequences (costs and benefits) of these practices and activities? What policy measures should be appropriate to convert these practices into formal, legal, and ethical practices that can contribute in a positive way towards economic and social development?

## 2 - Methodology

The main methodologies applied for this research include

- case studies;
- interview surveys;
- focus group discussions; and
- questionnaire surveys.

The research focused more on case studies and qualitative analyses, although some quantitative analyses were conducted to back up qualitative findings.

Impacts were analyzed through case-control analysis. While stratified sampling method was applied in selecting study sites, random sampling method was applied in selecting general samples and/or case and control samples in each selected study site. When control samples were necessary, they were acquired from the same area as where case samples were selected or from an area where socio-economic conditions were similar to those where case samples were selected.

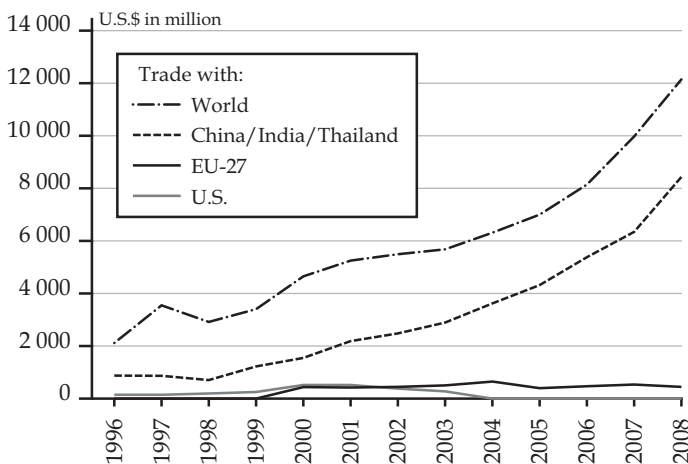
Since the study focused on informal cross-border movement of goods and persons between Myanmar and its neighboring GMS countries, two study sites (Muse and Kawthaung) where informal activities facilitating the informal and illegal movement of goods and persons are active, and one study site (Zinkyeik in Mon state) that is a major source of informal and illegal movement of persons to Thailand, were selected.

Muse is located in the northeastern part of Myanmar bordering Ruili, China; Kawthaung is located in the southern part of Myanmar bordering Ranong, Thailand; Zinkyeik town is situated in the southern part of Myanmar, which is a major source of informal Myanmar migrants going to Thailand, and is located on the way to two cross-border areas (Myawaddy and Kawthaung). The first two sites were selected with a view to study the informal movement of goods and persons and also to identify informal practices facilitating such informal movement. The third site was selected mainly to find out the impacts of informal movement of persons on their left-behind families.

# Myanmar's cross-border trade

Although legal cross-border trade is not very significant, accounting for only 7 percent of the total value of trade in Myanmar, the value of undocumented trade is sizable. It is estimated that the value of border trade accounted for around 25 percent of Myanmar's total value of trade in 2006.<sup>3</sup> Myanmar neighbors China, India, Thailand, Bangladesh, and Lao PDR. In terms of legal border trade value, Myanmar's trade with China and Thailand accounts for 47 and 51 percent, respectively, of its total border trade.

**Figure 1. Myanmar's total trade value by region and/or country**



Source: UN Comtrade.

<sup>3</sup> Aung, Winston, *The Role of Informal Cross-Border Trade in Myanmar*, Institute for Security and Development Policy, 2009.

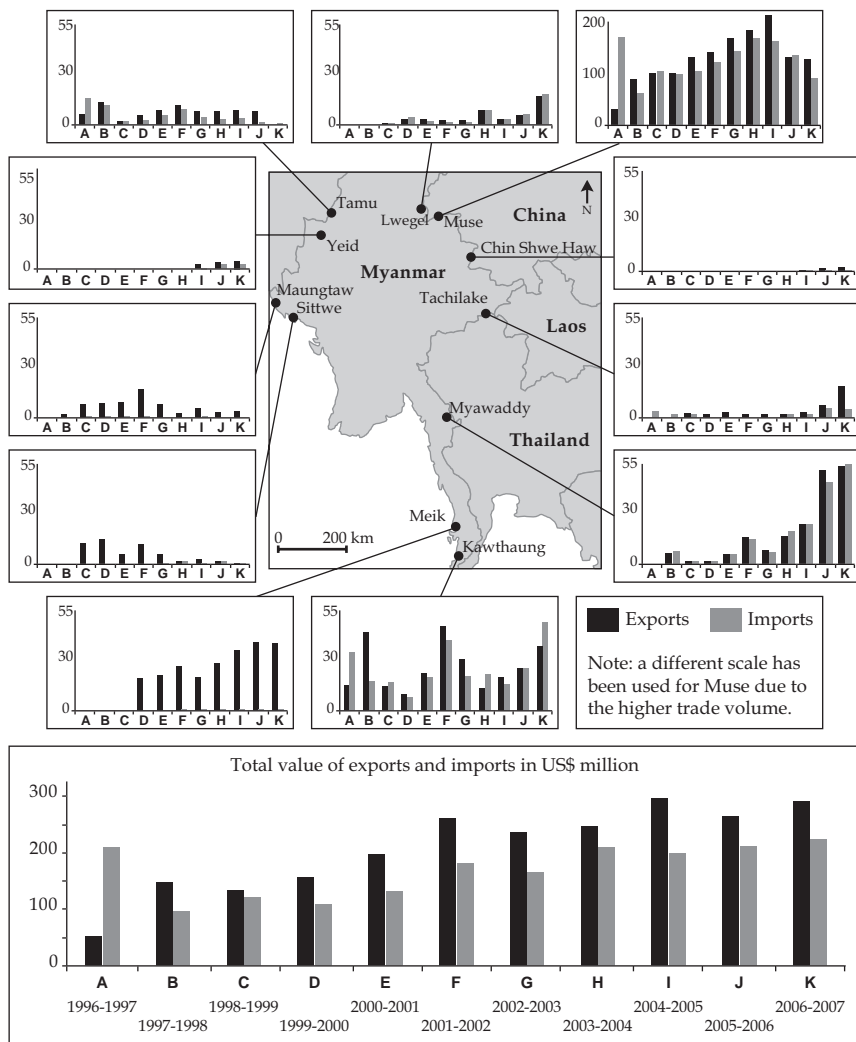
Out of Myanmar's total trade with the world, the value of trade with China, India, and Thailand is very significant, accounting for 70 percent in 2008, whereas Myanmar's trade with the EU-27 accounted for only 4 percent and with the U.S. merely 0.1 percent, due to economic sanctions imposed on Myanmar mainly by the U.S. and the EU (see Figure 1).

Hence China, India, and Thailand are Myanmar's most significant partner countries for cross-border trade. Out of these three countries, trade with China and Thailand is conducted primarily by land through various border checkpoints whereas trade with India takes place mostly by sea freight.

Of Myanmar's border crossing points with China and Thailand, Myawaddy (a border town in Myanmar next to Maesot, Thailand) and Muse (next to Jiegou and Ruili of China) are the most active ones. Around these border points, legal (documented) as well as informal (undocumented) trade are significant. Around these areas, trade can be categorized into four types as follow.

- a) Legal and documented trade (i.e. the export or import of products that are not subject to trade restrictions, undertaken with appropriate export and import licenses from Myanmar's Department of Border Trade). Such trade is documented in both Myanmar and the partner country.
- b) Legal but undocumented trade (i.e. export and import of products that are not subject to trade restrictions, but undertaken without legal export and import licenses issued by Myanmar's Department of Border Trade). Licensing procedures for trade in some items, although importation or exportation of which are not restricted by trade authorities, are quite lengthy leading to a situation where some traders just smuggle such items out of or into the country. Some traders import many assorted items, but it is time-consuming and complicated to acquire licenses each time they import. As a result, they simply smuggle these products into the country through porous borders. In this case, the trade of these items, although legal, is not documented on the Myanmar side. However, these items may be documented on the side of the partner country.

**Figure 2. Myanmar's border exports and imports in U.S.\$ million (1996-2007)**



c) Illegal (but licit) and undocumented trade (i.e. export and import of products, the importation or exportation of which are restricted by trade authorities). Although importation and exportation of some products is restricted, they can be found for sale on the shelves of most shops and supermarkets throughout Myanmar. Examples of such products include Red Bull and other energy drinks from Thailand, monosodium glutamate flavor enhancer (seasoning powder) from Thailand, cars, etc. (the importation of which is restricted by the authorities of Myanmar) and rice, onions, etc. (the exportation of which is restricted from time to time). Although importation and exportation of these products is considered illegal by trade authorities, the products are not considered illicit by most local people based on their social perceptions. As a result, quite a few traders are involved in such trade. Although import and export of such products is not documented on the Myanmar side, it may be documented on the side of partner country.

d) Illegal (and illicit) and undocumented trade (i.e. export and import of illicit products, the importation or exportation of which are restricted both by Myanmar and its partner country). These products may include illicit drugs. Import and export of these products is not documented by any country.

Trade under category “a” flows through legal checkpoints whereas trade under categories “b” and “c” mostly goes through informal checkpoints (i.e. that are not recognized by Myanmar authorities) that are next to checkpoints that are legal and recognized by authorities of the partner country (see Figures 3 and 4). Trade under category “d” flows through porous borders where there is no checkpoint on either side.



Figure 3. A legal checkpoint in Maesot, Thailand, where products are exported to an illegal checkpoint in Myawaddy, Myanmar



Figure 4. A legal checkpoint in Muse, Myanmar, where products are exported to or imported from China

Although there are quite a few laws and regulations related to trade, the Myanmar Export/Import Rules and Regulations for Private Business Enterprises, issued by the Ministry of Commerce in 1998 and amended in 2008, is the major one. Other laws related to trade include the Land/Sea Customs Act, the Excise Act, and various ministerial directives.

On the regional front, Myanmar signed a bilateral border trade agreement with Thailand on March 17, 1996 concerning development of trade between the two countries through the border trade posts of Mae Sai, Maesot, and Ranong on the Thai side, and Tachileik, Myawaddy, Kawthaung, and Myeik on the Myanmar side. The Myanmar-Thai bilateral trade and border trade agreement was followed by MoUs between Myanmar and Thailand on banking arrangements and on dollar settlement accounts. Similarly, Myanmar has had border trade agreements with India since January 21, 1994, with Bangladesh since May 28, 1994, with China since August 13, 1994, and with Lao PDR since December 6, 2000.

Compared with Myanmar's active cross-border trade with China and Thailand (mostly by land) and India (mostly by sea), Myanmar's trade with Bangladesh and Laos is very insignificant. Myanmar and Lao PDR entered agreements related to trade, tourism, and tax duplication only by the end of 2009 during the visit of Laos's deputy premier and foreign minister to Myanmar. However, legal trade between the two countries is still not significant. Informal trade of illegal but licit products between the two countries is also insignificant and the flows of illicit goods are beyond the scope of this paper.

## 1 - Impact of sanctions on cross-border trade

Cross-border trade (i.e. trade with neighboring countries by both conventional<sup>4</sup> and border trade methods) had become more and more significant since sanctions were first imposed by the West. The first U.S.

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<sup>4</sup> It is also called "normal trade". This refers to border trade transactions in a hard currency (i.e. US\$, euro, or Singapore dollars) as prescribed by the Myanmar trade authorities. Another type of trade is "border trade", with transactions conducted in the Myanmar currency (kyats) or in a neighboring country's currency (i.e. yuan, baht, etc.).

sanction in 1997<sup>5</sup> largely prohibited new investment by U.S. persons and companies on or after May 21, 1997. However, companies with investments prior to that date and companies or persons with an investment agreement in place prior to that date (including UNOCAL and its investment with the French corporation Total in natural gas exploration and pipeline offshore and across Myanmar into Thailand) were exempted.

The U.S. imposed further sanctions on July 28, 2003.<sup>6</sup> The sanctions regime was further stiffened on October 19, 2007<sup>7</sup> and also on April 30, 2008.<sup>8</sup> Furthermore, the Tom Lantos Burmese Jade Act issued on July 29, 2008 banned the import of jadeite and rubies mined in Myanmar and Myanmar-made jewelry containing jadeite or rubies.<sup>9</sup>

Regarding the European Union, the first sanctions against Myanmar were formally adopted in Council Position 96/365/CFSP, which implemented a visa ban and suspended diplomatic visits to Myanmar. The 1996 CFSP also “reaffirmed” an arms embargo, suspension of non-humanitarian aid, and the withdrawal of military attachés. The CFSP is renewed and revised every six months. Major updates were made in 2000 (imposing an assets freeze) and 2004 (instituting a limited investment ban).

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<sup>5</sup> Under Executive Order 13047 of May 20, 1997, which was issued under Section 570 of the Foreign Appropriations Act, 1997.

<sup>6</sup> Under the Freedom and Democracy Act of 2003, the president was required to ban the importation into the U.S. of certain products from Myanmar. The sanction also enabled the president to impose a freeze on funds or assets in the U.S. of Myanmar government officials, and required the U.S. government to vote against the extension of any financial assistance to Myanmar by international financial institutions. It also authorized the president to deny visas and entry into the U.S. to former and present leaders of the Myanmar government or the Union Solidarity Development Association (USDA).

<sup>7</sup> It was stiffened under Executive Order 13448 issued on October 19, 2007. This granted the Treasury Department expanded authority to designate for sanctions individuals responsible for human rights abuses as well as public corruption, and those who provide material and financial backing to such individuals or to the Myanmar government.

<sup>8</sup> Executive Order 13464, issued on April 30, 2008, froze assets in the U.S. and prohibited U.S. firms from doing business with three Myanmar companies, i.e. Myanmar Pearl Enterprise, Myanmar Gem Enterprise, and Myanmar Timber Enterprise, that are state-owned economic enterprises of Myanmar.

<sup>9</sup> The State Department was also required to submit to Congress reports on countries and those that supply arms and intelligence aid to the Myanmar government, as well as countries and foreign banks that hold assets of senior Myanmar officials.

The current EU sanctions regime includes six major components: (1) an arms embargo; (2) the expulsion of military attachés; (3) a visa ban on senior State Peace and Development Council (SPDC) officials and associates; (4) a ban on non-humanitarian aid; (5) an assets freeze on the funds of senior SPDC officials and associates; and (6) a limited investment ban. The European Union also suspended Myanmar's Generalized System of Preferences (GSP) benefits in 1997 over the use of forced labor. Despite several seemingly-restrictive components, the effect of the EU sanctions regime prior to the November 2007 Common Position was minimal. With respect to trade measures, the ban in the new Common Position on imports of textiles, timber, gems, and precious metals had a real impact on Myanmar.

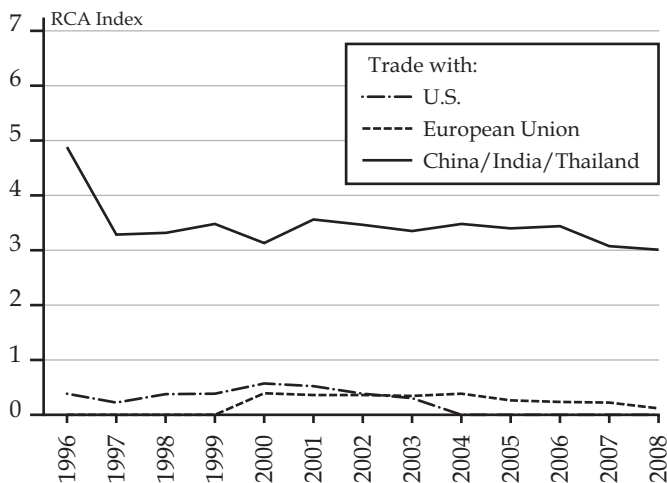
The above-mentioned sanctions regime imposed by the U.S. and the EU has pushed Myanmar to rely more on its neighboring countries, through which some products are re-exported to other destinations.

With a view to find out Myanmar's competitiveness in trade, the conventional revealed comparative advantage index was adjusted to arrive at the dynamic comparative advantage of Myanmar's trade with various countries and/or groups of countries.<sup>10</sup> This dynamic index suggested that Myanmar has much higher, although slightly declining, comparative advantage in trade with China, India, and Thailand than it has in trade with the U.S. and the EU. Myanmar's comparative advantage in trade with the U.S. had declined significantly since the 2003 U.S. trade sanctions were imposed.

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<sup>10</sup> The index measures a country's trade with a country (or a group of countries) relative to its total trade and to the corresponding trade of the world. A comparative advantage is "revealed" if the index is greater than 1, whereas the country is said to have a comparative disadvantage in terms of trade with a country (or a group of countries) if the index is less than unity.

$$\frac{\text{Myanmar Trade with Country}_i}{\text{Myanmar Trade with World}} \div \frac{\text{Country}_i \text{ Trade with World}}{\text{World Trade}}$$

**Figure 5. Myanmar's comparative advantage in trade**

Source: Calculation based on UN Comtrade data.

Although sanctions have long-term negative effects on Myanmar's comparative advantage in cross-border trade with its neighboring countries, it cannot be denied that they have strengthened the role of cross-border trade which is the only effective outlet for Myanmar's international trade under various sanctions regimes. Since the sanctions were imposed by the West, cross-border trade—both formal and informal—has become more active. Development of cross-border trade is also attributed to infrastructural development (i.e. especially the road and transport connections with border areas, gas pipelines connecting to Thailand, etc.). Such development of cross-border trade (i.e. both under border trade and conventional trade methods<sup>11</sup> going through borders) has positive impacts on income and living status of those around the borders who are involved one way or another in border trade activities.

<sup>11</sup> Cross-border trade can be either “conventional trade” or “border trade”. Conventional trade transactions are in a hard currency (i.e. US\$, euro, or Singapore dollars) as prescribed by the Myanmar trade authorities; border trade transactions are in Myanmar's currency (kyat) or in a currency of a neighboring country (i.e. yuan, baht, etc.).

## 2 - Local perceptions of cross-border trade

Surveys of traders and households in two different border areas (i.e. one bordering Thailand and another China) revealed the issues related to cross-border trade and local households' perceptions of cross-border trade's impacts on their income and livelihoods.<sup>12</sup>

During the surveys on households, questions were asked to responsible persons of various households who were categorized based on age level, income level, and current occupation. Age level was categorized into "young aged" (up to the age of 20), "middle aged" (between the ages of 21 and 50), and "older aged" (above the age of 50). Level of income was also categorized into "no income", "low income" (receiving less than 100,000 kyat [K] per month), "middle income" (receiving between K100,001 and K300,000 per month) and "high income" (receiving above K300,000 per month). Current occupation was also categorized into four classes (i.e. employee, student, merchant, and other).

A majority of respondents (68.7 percent) were in the category of middle aged. Most (67.6 percent) were in the low income level and they were employees of private businesses. Through the questionnaires and interview surveys, respondents were asked their perceptions of the following factors.

Perceptions related to border trade's effect on:

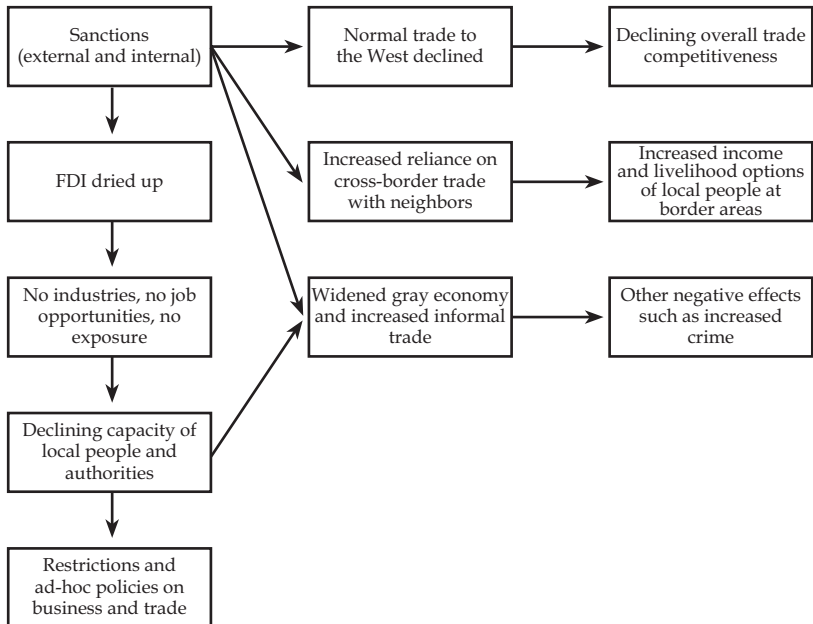
- their level of income;
- their business lives;
- their living standard;
- road infrastructure;
- standard of transportation;
- crime level around the area;
- forest environment around the area.

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<sup>12</sup> Surveys were conducted in 2007 under the project "Cross Border Economic Relations in Greater Mekong Subregion (GMS): Impacts and Implications" coordinated by the Mekong Studies Center, Institute of Asian Studies, Chulalongkorn University, Bangkok, Thailand. This project was funded by the Sasakawa Peace Foundation of Japan. Interview and questionnaire surveys with 27 business or traders and 182 households at two border areas (i.e. Myawaddy and Muse) were conducted.

A majority of respondents (87.9 percent) strongly agreed that border trade development had improved their business activities and income level. Hence, most respondents (95.1 percent) perceived that such development had improved their standard of living. Furthermore, a majority of them agreed that the transportation system had been improved due to trade development with the neighboring country, and road infrastructure, although still in poor condition at the moment, was much improved compared to the past. However, most respondents (72 percent) perceived that level of crime had risen and a majority (80.8 percent) shared the view that infrastructural development at border areas (as part of border trade development) could lead to a deforestation problem.

**Figure 6. Causes and effects**



The surveys revealed that the role of cross-border trade at various border areas was perceived by local households as positive due to increased business and job opportunities, increased level of income, and increased livelihood status. However, declining capacity of trade authorities concerning export/import management (as a consequence of sanctions) and creation of ad-hoc policies and restrictions on investment and trade has led to increased informal activities in business and trade.

Sanctions on investment, trade, financial transactions, development aid, etc., result in declining FDI,<sup>13</sup> productivity, trade, HRD,<sup>14</sup> capacity-building, etc. Furthermore, lack of FDI in the industrial and manufacturing sector has led to lack of technology and little production of value-added products, which in turn has had various negative effects on trade value. Lack of business and job opportunities, lack of exposure, and lack of capacity-building for authorities has further led to development of ad-hoc and restrictive policies, creating various issues being faced by many local businessmen and traders.

During the survey, different types, sizes, and origins of border trading businesses were selected through random sampling method. Businesses were categorized into two types (i.e. businesses operating as registered companies and those operating without having registered as a company) whereas sizes of business were categorized into three (i.e. small, medium, and large, based on their turnover). Origins of the businesses were categorized into four (i.e. companies from Yangon, from Mandalay, from around the nearby areas, and from other areas).

**Table 1. Type of business**

	Frequency	Percent	Cumulative Percent
Trade under own company	20	74,1	74,1
Trade without having own company	7	25,9	100
Total	27	100	

<sup>13</sup> Foreign Direct Investment.

<sup>14</sup> Human Resources Development.

**Table 2. Size of business around the area**

	Frequency	Percent	Cumulative Percent
Large	5	18,5	18,5
Medium	18	66,7	85,2
Small	4	14,8	100
Total	27	100	

**Table 3. Origin of the company or trading business**

	Frequency	Percent	Cumulative Percent
From Yangon	13	48,1	48,1
Local	12	44,4	92,6
From Mandalay	1	3,7	96,3
From other cities	1	3,7	100
Total	27	100	

Most border trade businesses in the survey areas were medium-sized businesses, operated mostly by various business groups. Most businessmen/traders were either from around the borders or from Yangon. Most businesses (63 percent of the sample) were involved primarily in importation, and major imports included electronic products, construction materials, and agriculture-related products. Around 37 percent of business groups in the sample were involved primarily in exportation, and popular exports were found to be fishery and agricultural products. Around 15 percent of respondents said that the import business was better than last year, whereas only 4 percent thought the export business was better.

During the survey, respondents were asked to provide examples of problems and issues they encountered and to rate the level of severity. Major business issues identified included:

- problems and delays in licensing processes;
- problems and delays in bank transactions;
- problems and delays in inspection processes;
- issues related to high tax;
- problems created by frequent changes in policies;
- issues related to high costs (both legal and hidden costs);
- difficulty in having good business relationships with traders in Thailand;
- problems related to price cuts;
- inability to get connected with strong business networks in Thailand;
- problems related to transportation.

According to the findings of the surveys, it was evident that larger firms were more exposed to issues related to tax, transport, and frequent policy changes whereas smaller firms were more exposed to issues related to licensing. These issues and problems in legal cross-border trade have created a large gray economy encouraging informal cross-border trade that is undocumented on the Myanmar side.

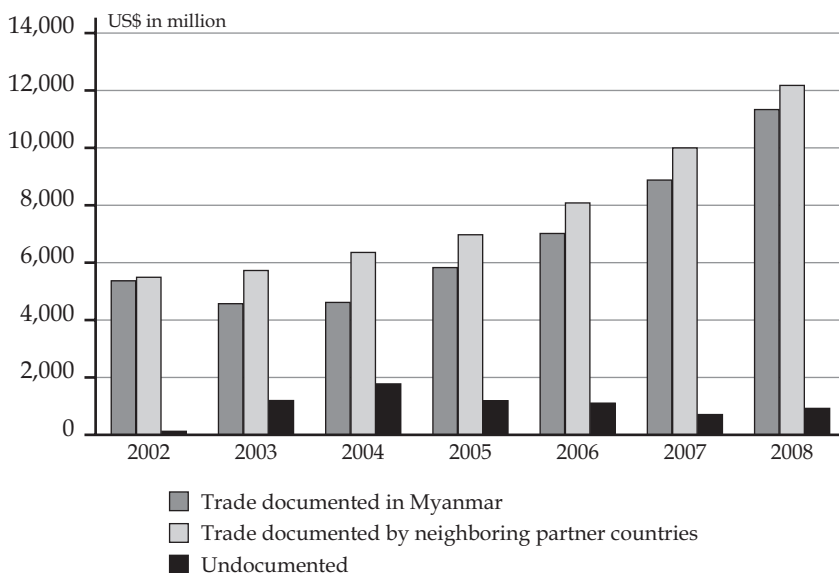
### **3 - The context of informal/illegal cross-border trade**

Due to various requirements (such as a licensing system, lengthy financial transaction procedures, an export first policy, prohibition of certain products, floor price settings, etc.), informal undocumented cross-border trade with neighboring countries (especially Thailand and China) has increased tremendously.

Various checkpoints, where cross-border trade flows through Myanmar's porous borders with Thailand and China, are not recognized by Myanmar's authorities and thus are illegal and undocumented on the Myanmar side. The majority of these, however, may be recognized by

relevant authorities in the bordering countries and thus are legal and documented on the neighboring partner country's side. Hence, the value of trade (i.e. undocumented on the Myanmar side) can be estimated by subtracting the value documented by the Myanmar side from that documented by the neighboring partner countries. Appropriate adjustment is made to reduce the gap between Free On Board (FOB) and Cost and Freight (C & F) values.

**Figure 7. Undocumented trade involving Myanmar**



Source: Central Statistical Organization of Myanmar, and UN Comtrade.

According to these estimates, the value of undocumented trade on the Myanmar side (i.e. informal/illegal on the Myanmar side) reached over US\$1 billion in 2006 and over US\$870 million in 2008. Although the gap between documented and undocumented trade on the Myanmar side is mainly attributable to restrictions and requirements imposed on the Myanmar side, it is also directly or indirectly related to sanctions.

The consequence of both factors is limited capacity and exposure of traders and trade authorities in Myanmar and the country's reliance on cross-border trade with its neighboring countries.

Regression analyses also highlighted that although the gap between documented and undocumented exports from Myanmar was not significantly affected by the sanctions, the gap between documented and undocumented imports to Myanmar was significantly negatively affected, especially by the 2003 U.S. trade sanction as the gap grew wider after the sanction was imposed. In other words, the sanctions (especially the U.S. trade sanction imposed in 2003) significantly strengthened informal/illegal cross-border trade (especially imports) that is undocumented on the Myanmar side.<sup>15</sup>

Undocumented cross-border exports are normally Myanmar's natural resources including timber logs, precious minerals such as jades, rubies, and sapphires, fisheries resources, etc. Illegal logging can be found in Myanmar-China and Myanmar-Thailand border areas, whereas precious minerals are normally smuggled into China and Thailand, and marine products are caught by illegal fishing vessels in Myanmar's waters and smuggled into Thailand and China.

Myanmar is rich in various natural resources, leading to a situation where resource exports account for 72 percent of Myanmar's exports. Out of Myanmar's resource exports, 92 percent go to China, Thailand, and India (especially China and Thailand). Myanmar is famous for certain resources such as natural gas, timber, fisheries resources, copper, pearls, and precious minerals. Except for natural gas, which flows directly to Thailand by pipeline, the majority of these products are smuggled into China and Thailand.

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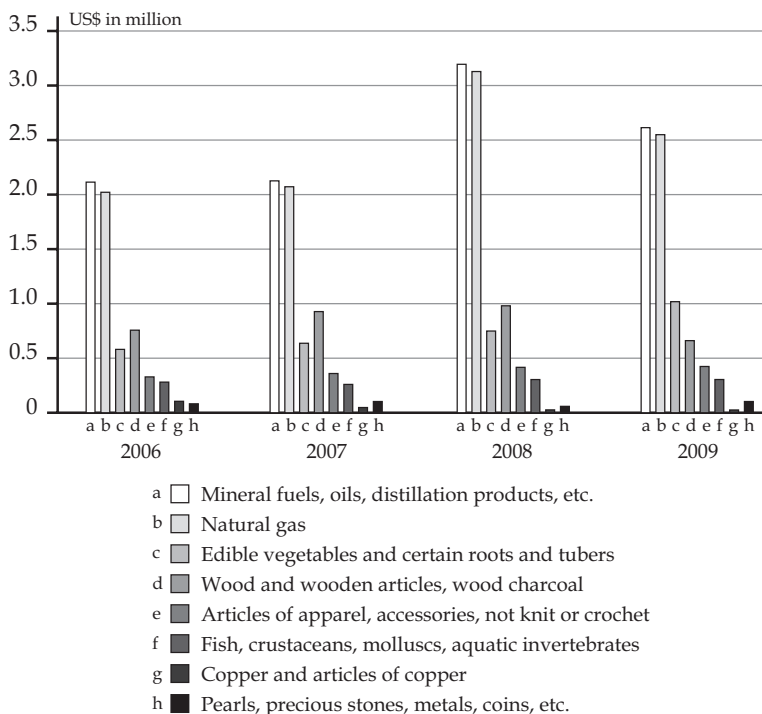
<sup>15</sup>  $\text{Log} (X_{\text{FOB}, x} / I_{\text{CNF}, y})_t = \alpha - \beta_1 D1_t - \beta_2 D2_t + \varepsilon_t$  ( $R^2 = 0.18$ ) where logarithm of FOB export value of Myanmar divided by CNF import value of partner countries is set as the dependent variable, while dummy variable 1 representing the U.S. investment sanction in 1997 and dummy variable 2 representing the U.S. trade sanction in 2003 were set as independent variables;  $\text{Log} (I_{\text{CNF}, x} / X_{\text{FOB}, y})_t = \alpha - \beta_1 D1_t - \beta_2 D2_t^{***} + \varepsilon_t$  ( $R^2 = 0.80$ ) where logarithm of CNF import value of Myanmar divided by FOB export value of partner countries is set as the dependent variable, while dummy variable 1 representing the U.S. investment sanction in 1997 and dummy variable 2 representing the U.S. trade sanction in 2003 were set as independent variables.

**Table 4. Top Exported Natural Resources  
and Respective Export Shares of Total Export Value (2009)**

Myanmar's top 5 exported natural resources	Exports US\$ in million			Exports Share 2009	Share of World Exports 2009
	2007	2008	2009		
Natural gas	2,068.275	3,121.592	2,540.904	42.95%	1.2%
Timber/wood	924.988	973.637	656.509	11.10%	0.7%
Fisheries resources	254.768	298.969	298.523	5.05%	0.4%
Copper	45.429	18.441	26.466	0.45%	0.07%
Pearls and precious minerals	94.937	52.796	98.638	1.67%	0.03%

Source: International Trade Center (ITC).

**Figure 8. Top export commodities and top natural resource exports**



Source: International Trade Center (ITC).

Between 2006 and 2008, the average growth of natural gas exports was around 30 percent; this figure is expected to grow even more after Myanmar begins exporting natural gas to China and India. The average growth of timber/wood exports during the same period was around 7 percent. However, after accounting for possible illegal logging and smuggling into China and Thailand, the actual value of timber/wood exports from Myanmar was probably much higher. In addition, export data on precious minerals such as rubies, sapphires, and jades do not necessarily reflect actual trade volume and value, as smuggling of these resources is common, especially to the same destination countries that participate in legal trade (i.e. China and Thailand).

Among GMS countries, Myanmar is the top exporter of natural gas and, after China and Thailand, the third biggest exporter of timber/wood products. Currently, the main destination of Myanmar's natural gas exports is Thailand, with China and India set to begin importing natural gas from Myanmar in the near future. In 2008, the main destinations of Myanmar's timber/wood products were India (accounting for 49 percent of the total value of timber/wood exports from Myanmar), China (28 percent), Thailand (10 percent), and Malaysia (3 percent). These figures do not include the huge amount of undocumented exportation of illegal logs from Myanmar through Myanmar's porous borders. In addition to major export items (i.e. natural resources), some products (including rice, onions, chilies, etc.) that are prohibited from time to time or that require approval of a relevant ministry are smuggled into Thailand and China.

Out of major imports (that include mineral fuels and oil, boilers and machinery, electrical/electronic items, iron and steel, plastic and plastic products, etc.), electrical and electronic items and many other products that require stringent procedures for licensing are smuggled into Myanmar.

**Table 5. Top Import Commodities  
and Top Source Countries for Imports (2006)**

Myanmar's Top 5 Import Commodities	Import Share	Myanmar's Top 5 Source Countries	Import Share
Mineral fuels and oil	18%	China	33%
Boilers and machinery	13%	Thailand	22%
Electrical/electronic items	7%	Singapore	21%
Iron and steel	5%	Malaysia	5%
Plastic and plastic products	4%	Indonesia	4%

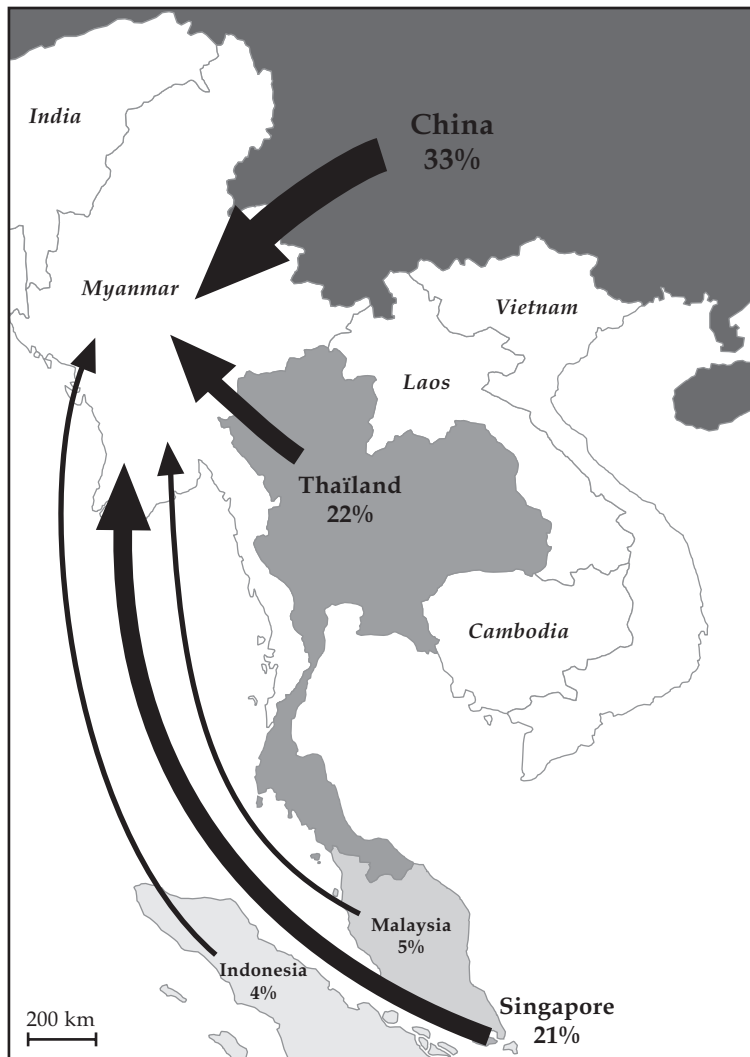
Source: UN Comtrade.

**Table 6. Top Import Commodities  
and Top Source Countries for Imports (2009)**

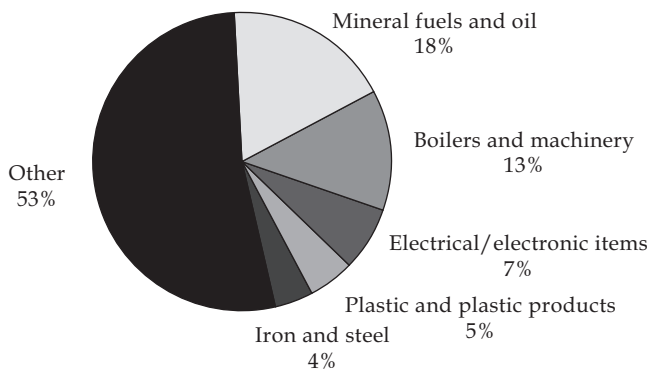
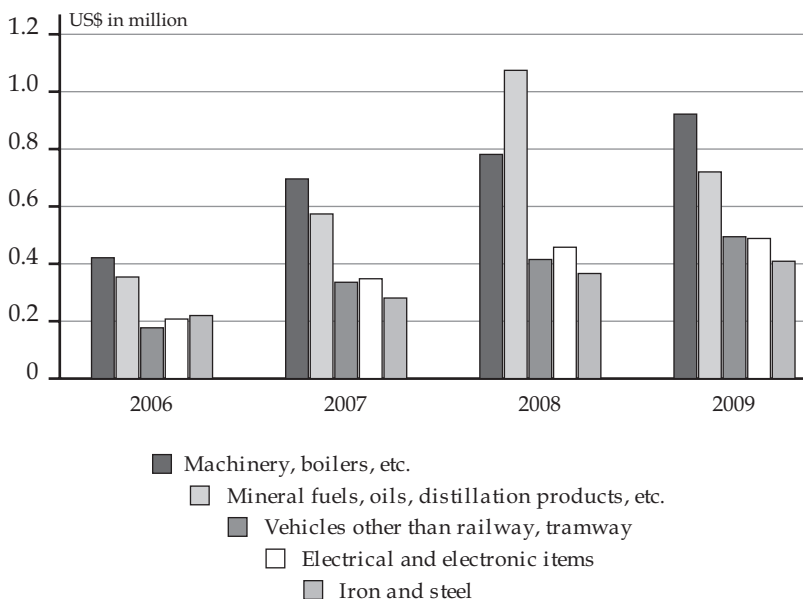
Myanmar's Top 5 Import Commodities	Import Share	Myanmar's Top 5 Source Countries	Import Share
Boilers and machinery	15%	China	36%
Mineral fuels and oil	11%	Thailand	24%
Vehicles	8%	Singapore	14%
Electrical/electronic items	8%	Korea	6%
Iron and steel	7%	Malaysia	3%

Source: UN Comtrade.

Figure 9a. Top sources countries for imports (2006)



Source : UN Comtrade

**Figure 9b. Myanmar's top 5 import commodities****Figure 10. Trends in top import commodities**

For importation, there are normally three options from which traders (or their export/import agents) need to choose:

- to import legally by applying for an import license personally or through brokers/agents (who may be registered import/export companies that import or export other traders' products for a fee);
- to import quasi-legally (i.e. importing products without a license together with others under license) and pay a fine;
- to import products (that are entirely prohibited) through an underground smuggling channel.

Some traders, who regularly import various assorted electronic products (i.e. cameras, mobile phones, and MP3, MP4, and DVDs players, etc.), normally smuggle these products into Myanmar since it is very troublesome and time-consuming to apply for licenses to import many assorted items at the same time. Traders importing some products that are prohibited for import (such as energy drinks, flavor enhancers, etc., from Thailand) and items for which it is difficult to get import licenses (such as cars, motorbikes, etc.) are smuggled entirely through various underground channels.

Such trade, either legal or illegal, is normally facilitated by broker trade companies that are registered as exporters/importers. They import and export products in their names, not for themselves but for other people who are not registered exporters/importers, or for companies that do not want to go through the lengthy licensing process. Most such brokers belong to minority ethnic groups, especially in the case of Kawthaung (bordering Ranong, Thailand), whereas in the case of Muse (bordering Ruili, China) and Myawaddy (bordering Maesot, Thailand) the majority of them have migrated from city areas such as Yangon and Mandalay. Most of them live in Myanmar although some have their own warehouses in neighboring countries and are connected to informal agents/traders in major cities of these countries. These broker trade companies normally charge for delivery according to size or weight of cargo. Cargos of imports are collected by informal agents/traders stationed in major cities of neighboring countries, transported to borders, and then transferred to broker trade companies. This means that two forms of costs are incurred by the traders—packaging and transport cost for informal agents/traders on the side of the neighboring

country, and license-processing and delivery cost for the broker trade company on the Myanmar side.

There are two types of informal players in border areas. One is the broker trade companies taking responsibility for documented legal and quasi-legal trade, and another is smugglers, often called carriers, responsible for undocumented trade. The route used by the former is called the “upper channel” and the route used by the latter is called the “lower channel”. Products restricted in the upper channel simply go through the lower channel. Products that are expensive to get through the upper channel also go through the lower channel. Hence these two channels are not distinctly separate, but instead are intertwined. The lower channel is sometimes risky and the chance of losing some products is high. Carriers undertake informal trade using unofficial routes in order to bypass checkpoints in Myanmar.

## 4 - Illegal versus illicit products

Illegal products are those that are smuggled (i.e. imported without a proper import license or exported without a proper export license) into or out of Myanmar. These products may be ordinary products, but are considered illegal by the state due to the illegal nature of their entry or exit. Such products include Thai-made energy drinks (Red Bull, Lippo, and Shark brands), Thai-made monosodium glutamate flavor enhancer (Ladle, Pot, Red Leaf, Palace, Sunflower, and Sardar brands), etc., that have been banned for import, sale, and consumption by the Myanmar Ministry of Home Affairs Order No. 1/2001 issued on March 10, 2001 on grounds that they contain chemicals injurious to the health of human beings and long-term users can develop diseases that may lead to loss of life in some cases.

Although import, sale, and consumption of these products are banned and considered illegal, many people do not consider the products as illicit. As a result, these products are smuggled into Myanmar by various means and can be found openly on the shelves of most shops, from small kiosks to bigger supermarkets, in Myanmar.

Similarly, legal importation of some products (such as cars, motorbikes, etc.) is very rare because it is not easy (for a normal private company) to import them legally. Although there are many cases where vehicles are imported legally with special permits by a few state-owned enterprises, most vehicles are smuggled through borders. The importation of cars and motorbikes can be conducted through legal channels by sea or by border. Simultaneously, many vehicles are also imported through cross-border illegal but licit channels. Although such importation is completely illegal by law, it is a widespread normal practice considered to be locally acceptable.

Cross-border formal and informal trade is popular for importation and exportation of products that are prohibited or restricted from time to time. In addition, border trade is also popular for importation of counterfeit products, especially from China. There are many types of counterfeit products including mobile handsets, watches, calculators, TVs, DVD players, memory sticks, cameras, batteries, leather bags, luggage, sun glasses, cosmetics, footwear, medicinal drugs, etc. These counterfeit products bear the names of famous brands such as Nokia, Citizen, Casio, Sony, Samsung, Kingston, Rayban, etc.; but their prices and quality are in many cases much lower. These counterfeit products can appear to be so nearly identical to the genuine products that only experts on particular products can distinguish the genuine from the counterfeit (see Figure 11). Differences in price between selected genuine and Chinese counterfeit mobile handsets, watches, and calculators are presented below.

It is found that the price differences between genuine and counterfeit Nokia phones are smaller than those for Rado watches and Casio calculators. This is mainly because the market for Nokia phones (with specific models) is much more competitive. At every phone shop, it is easy to find the price for any specific model of Nokia phone. However, in the case of Rado, for instance, there are not many shops selling genuine Rado watches and most people do not know much about specific models of Rado. Regarding the Casio, the majority of people similarly know little about specific models of calculators. In addition, the prices of Nokia phones tend to decline quite rapidly as new models enter the market; this is not the case with Rado or Casio whose prices do not decline as quickly as those of Nokia.

**Figure 11. Counterfeit and genuine products**



Nokia E71

L: Counterfeit - R: Genuine



Nokia 6120

L: Counterfeit - R: Genuine



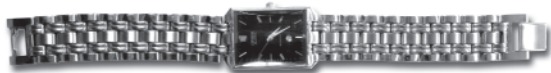
Nokia 6300

L: Counterfeit - R: Genuine



Rado watch

L: Counterfeit - R: Genuine



Counterfeit Citizen watches



Counterfeit  
Casio  
calculator

Kingston memory chip

L: Counterfeit - R: Genuine



Counterfeit  
Sony MP4  
player



**Table 7. Price difference between genuine and counterfeit products**

Product	Price of genuine product (US\$)	Price of counterfeit product (US\$)	Counterfeit's percent discount from genuine price
Nokia 6300 (mobile handset)	140	75	46%
Nokia 6120 (mobile handset)	180	95	47%
Nokia 5800 (mobile handset)	280	120	57%
Nokia N95-8GB (mobile handset)	450	130	71%
Nokia 5610 (mobile handset)	240	110	54%
Nokia 6500 (mobile handset)	280	110	61%
Nokia E71 (mobile handset)	260	110	58%
Citizen watch	40	20	50%
Citizen watch	30	18	40%
Rado watch	600	60	90%
Casio calculator	18	3	83%
Kingston memory chip	15	7	53%

Source: Price observation in Yuzana Plaza, Yangon, in January 2010.

The demand for counterfeit products from China is very high in Myanmar due to their prices. Demand for counterfeit versions of cheaper items such as Citizen and Q&Q watches, Casio calculators, etc. is much greater than that for counterfeit versions of expensive items such as mobile phones. This is so because consumers who can afford to buy post-paid SIM cards for mobile phones can also afford to buy genuine handsets, whereas buyers of cheaper items normally choose counterfeit versions from China because of the lower price. (In early 2010, the price of post-paid mobile phones was US\$1,600-2,000, but by the end of the year price had dropped to around US\$1,000 due to the government's introduction of various pre-paid mobile phones that can be purchased at a price of around US\$500.) Retailers normally say openly whether the product is counterfeit in the case of mobile handsets and memory sticks, but other counterfeit products are sold as if they were genuine. In the case of watches, counterfeit products are categorized

into different classes (i.e. A, B, C, and D) depending on their quality. Class A counterfeit products are sold as genuine whereas class D products are sold openly as counterfeits.

In the medicinal drug market, drugs are deemed illegal if they are not registered with the Ministry of Health. Unregistered drugs smuggled across borders are considered illegal. Nevertheless, demand for such drugs is very high due to their low price, and they are normally consumed by the majority of people in rural areas. Hence, despite the fact that such drugs are considered illegal by the state, they are not regarded as illicit by the majority of people.

Counterfeit medicinal drugs used to be very common among medical drug traders and distributors in Myanmar. However, these days, due to the ease of using various informal cross-border trade channels, these counterfeit drugs are being replaced by cheaper, low quality drugs from China, India, Bangladesh, etc. Medicinal drugs can be categorized into high-end and low-end products (termed “smooth” and “rough” markets in local market jargon). Drugs for the high-end market are normally imported by pharmaceutical companies through sea-freight with the approval of the Ministry of Health and with import licenses issued by the Ministry of Commerce. These drugs are registered with the health authorities of Myanmar and are more expensive than other drugs. Although some companies also use informal cross-border trade channels in order to reduce cost, most high-end drugs are legally imported. Although these registered drugs imported by pharmaceutical companies are produced in various countries including India, Malaysia, Thailand, Vietnam, Bangladesh, Indonesia, etc., Indian drugs account for more than 50 percent of registered drugs.<sup>16</sup>

Drugs for the low-end market, which are in much higher demand, are either smuggled from China, India, Thailand, Bangladesh, Pakistan, etc., or are produced in Myanmar. These are low-quality, cheap drugs that are normally used by the majority of people in rural areas and in the suburban areas of major cities such as Yangon and Mandalay. Some of these drugs are produced by the government's pharmaceutical industry on contract basis with private organizations or by private industries. The drugs produced by MPF (Myanmar Pharmaceutical Factory, formerly

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<sup>16</sup> Interview surveys with drug wholesalers at Mingalar market in Yangon in January 2010.

called Burma Pharmaceutical Industry, or BPI) used to be very popular in the local market as they were of higher quality than those from China. Hence, the prices of these drugs were always higher. However, after MPF began contracting out to the private sector, the prices of drugs produced by them declined because people believe that the private companies reduced the quality. Furthermore, the quality of drugs produced by contracting agents of MPF declined significantly after producers began obtaining raw materials in China.

Concerning exports, licenses to export various products can only be granted with the approval of relevant ministries. Export of some products, such as rice, onions, chilies, pulses, etc., is prohibited from time to time depending on domestic market conditions. Export of these products without proper export licenses is illegal although the products are considered licit by people. Such unlicensed exports are normally smuggled out of Myanmar through various border points that are not recognized by Myanmar trade authorities but are legal on the side of the neighboring partner countries. For instance, rice products (illegal on the Myanmar side since they are illegally smuggled out) become legal once they arrive at the other side (Thailand where they transit) and are transshipped to Malaysia.

Smuggling of Myanmar's popular natural resource products such as rubies, sapphires, jades, teak logs, etc., into Thailand is common around border areas. Although these are legal products that can freely be sold in Myanmar, exportation of them (without a proper license) is prohibited and illegal. However, after arrival at a partner neighboring county, they are openly sold as Myanmar's products.

Although products such as jades, fossils, etc., are illegally smuggled out of Myanmar, buyers and sellers do not normally know or care. Similarly, rubies and sapphires are mostly smuggled into Thailand where they are cut or re-cut and polished and some are re-exported to other countries such as Japan. Unlike rubies and sapphires from Thailand, Vietnam, and Cambodia, those from Myanmar do not require heat-treatment. Hence, they are called natural rubies and sapphires and are more expensive than heat-treated rubies and sapphires from other countries. As a result, precious minerals such as rubies, sapphires, jades, etc., and semi-precious minerals such as spinels, garnets, topazes, aquamarines, citrines, amethysts, assorted colors of sapphires (except

blue), quartzes, smoky quartzes, etc., are smuggled out of Myanmar through borders. Although these smuggled products are illegal, they are never considered illicit by the majority.



Figure 12. A Chinese shop selling jades and fossils that are smuggled out of Myanmar, located right in front of the legal checkpoint (Central Gate) in Jiegou, China (bordering Muse, Myanmar)

## 5 - Costs and benefits of informal cross-border trade

In the existing trade environment with its various pressures (i.e. pressure related to sanctions and pressure exerted by restrictive trade requirements), informal cross-border trade cannot be considered entirely negative because it gives some flexibility and serves as a cushion when trade with the West has tremendously declined as a result of sanctions.

Hence, informal or illegal cross-border trade tends to produce benefits while it also imposes some costs, as follow.

- Rapid development of cross-border trade at various border areas has attracted many people (traders, brokers, workers, and other businessmen such as shopkeepers, restaurateurs, etc.). As a result, the simple lifestyle of local people has been altered and some local people who could not keep pace with rapid development have been pushed away.

- Although corruption is being aggressively addressed by Myanmar authorities at higher levels, cross-border trade, which mostly takes various informal forms, may have increased corruption both in Myanmar and its neighboring partner countries. This may result in declining ethics and capacity of those in border areas, from both private and public sectors.

- Informal/illegal trade channels may be taken advantage of by professional traffickers of both persons and illicit goods such as drugs. Since informal/illegal crossings between Myanmar and its neighboring countries cannot be effectively controlled due to the sheer length of porous borders and lack of adequate capacity and resources, professional traffickers can easily make use of these crossings to traffic illicit products that can cause serious harm to people and even threaten national security. In addition, professional traffickers have been using these illegal crossings to traffic innocent people who normally get abused and/or become sex workers in various destination countries. These practices may have serious negative social impacts both on Myanmar and its neighboring partners.

- Illegal border crossings are also safe havens for illegal export of natural resources. Excluding natural gas, which is officially exported to Thailand from the Yadana and Yedagun off-shore fields, the majority of trade of other resources, particularly timber/wood and precious minerals, is often conducted through informal/illegal channels. A prominent example is Myanmar's timber/wood trade with China. Although the total volume of Myanmar's timber/wood exports to China is not very

large, the scale of logging along the border is considerable. As the costs of logging in Myanmar rise, this situation is becoming increasingly unsustainable from an economic perspective. The timber/wood trade has done little to promote sustained economic growth along the China-Myanmar border, as profits have not, by and large, been redirected into local economies. Furthermore, a non-transparent, uncertain regulatory and contractual environment has oriented the border logging industry toward short-term harvesting and profits rather than investment in longer-term timber production, resulting in forest degradation in Myanmar's border forests. This in turn impacts China's forests, as forest fire prevention and containment, control of natural disasters caused by soil erosion, and the management of wildlife, pests, and diseases have all become increasingly difficult.

- Although cross-border informal activities may have negative social outcomes in the long-term, they tend to offer benefits in the shorter-term, creating flexibility under various restrictive measures in Myanmar. First of all, trade facilitation is assured by informal practices of broker trade companies (i.e. licensed export/import companies that import or export products on behalf of real exporters and importers). In the presence of lengthy licensing procedures, trade facilitation would not have been improved without brokers and their informal practices. Myanmar's trade authorities have tried to facilitate cross-border exports and imports by establishing one-stop service centers at various border areas, and licenses are issued within one day. However, one-day issuance of license is only possible if all required documents are submitted. In order to prepare the required documents (i.e. financial documents, approval of relevant ministries and departments for some products, approval of EICC<sup>17</sup> or EISC<sup>18</sup> or TC<sup>19</sup> depending on types of products and value, etc.), it takes a few weeks to prepare to go to a one-stop service center. Hence, as long as these stringent requirements and approvals are required, the concept of a one-stop service center cannot

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<sup>17</sup> Export/Import Coordinating Committee, headed by the director general of the Directorate of Trade under the Ministry of Commerce.

<sup>18</sup> Export/Import Supervising Committee, headed by four ministers of different ministries and the chairman of the Central Bank of Myanmar.

<sup>19</sup> Trade Council.

be fully implemented. Informal practices of broker trade companies go through the process with their established connections and experience. As a result, most traders (except bigger companies applying for licenses by themselves with their own experienced staff) use broker trade companies in order to avoid going through lengthy licensing processes with stringent requirements. All the steps in the process are taken by broker trade companies on behalf of actual traders. These broker trade companies specialize in different products (such as export of marine products, import of clothing, import of footwear, etc.) and apply for licenses in advance so that real traders can export or import these products instantly under the names of broker trade companies. In this way, trade facilitation is achieved.

- Due to effective trade facilitation through informal practices, cross-border trade has become more vibrant. As a result, trade and job opportunities are open to people around the border areas. Some people have regular jobs (i.e. as shopkeepers, salespersons, etc.) but earn extra income by undertaking part-time informal trade activities by carrying illegal but licit items such as clothes, footwear, motorbike parts, etc., that are smuggled without import license. Through multivariate multinomial logistic regression analysis based on primary data collected in Muse and Myawaddy border areas, it can be estimated that the cross-border trade activities have had a more positive effect on income levels amongst men than amongst women. In terms of age, the chance of younger respondents experiencing a better effect on their income level is over four times higher than that of older respondents. The chance of middle aged respondents experiencing a better effect on their income is 1.7 times higher. As a result, cross-border trade is seen to have a better effect on the income of most male respondents in the “younger” category. However, levels of statistical significance are very low.<sup>20</sup>

- Despite the existence of stringent requirements and the licensing system, cross-border trade has flourished due to the informal cross-border trade activities creating jobs in border areas. As a result, in the

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<sup>20</sup> Winston Set Aung, *The Role of Informal Cross-Border Trade in Myanmar*, Institute for Security and Development Policy, 2009.

surveys, most respondents of average households thought that the development of cross-border trade had impacted positively on their income and livelihood. However, some low income level respondents (such as operators of small noodle shops, small video rental shops, etc.) complained that cross-border trade tended to increase prices around the area.

- Cross-border trade has become very important for Myanmar's trade sector, especially under the sanctions imposed by the West. The role of informal practices at border areas in trade facilitation has become important as well. With the existing licensing procedures and stringent requirements, cross-border trade would not be as vibrant without informal trade activities. Hence, trade going by land through Myanmar's borders (both under conventional and border trade methods) has become an important factor contributing toward Myanmar's economic development.

## **6 - Case studies related to cross-border trade and its effects**

In-depth interviews were conducted in Muse (bordering Jiegou and Ruili, China) and Myawaddy (bordering Maesot, Thailand) under various projects during 2007 to 2009. The following cases are representative of the majority of households in the sample.

**Case 1:** This case was located (i.e. the interviewee resided in the area, and the interview was conducted there) near the 105-mile gate in Muse. The interviewee was the head of a household and was of the Shan ethnic group. His family farmed paddy rice and had never been involved in the cross-border trade businesses. All members of the family had worked on their farm for a long time although they did not have ownership of the land. They did not know much about cross-border trade as they only did farming; however, their house had been relocated two times due to the construction of a road, gates, and warehouses used

in cross-border trade. Hence, cross-border trade did not have any significant positive effect on the family.

The interviewee said that cross-border trade had opened up opportunities mostly for businessmen, traders, and workers who migrated from other parts of Myanmar. However, farming was the main livelihood for most local Shan people around the border areas. Most locals continued their own farming without taking advantage of cross-border trade opportunities. They did not like cross-border trade development, and they suffered from price increases.

This case revealed that the majority of local people around the Muse border area are Shan ethnics who are involved in the agricultural plantation businesses. Some of them are being pushed away and/or having their livelihoods threatened due to infrastructural development around the borders. Most people who get opportunities from development of cross-border trade are those who have internally migrated from other parts of Myanmar. Further research, both qualitative and quantitative, is necessary to assess impacts of cross-border trade on the locals and ethnic communities.

**Case 2:** This case was also located near the 105-mile gate in Muse. The interviewee was running a small shop selling assorted consumer products. He had migrated internally from the middle part of Myanmar about five years ago. In order to get extra income, he occasionally drove smuggled Chinese motorbikes to various destinations in Myanmar, especially Lashio and Mandalay, bypassing several legal checkpoints.

There are three major checkpoints along the way from Muse to Mandalay: Muse 105-mile gate, Lashio Yaepu gate, and Pyin Oo Lwin gate. The interviewee said that he and other motorbike smugglers normally drive in groups. When they approach a checkpoint gate, they have to switch to various jungle trails until they reach the other side of the gate. When they get on the main road on the other side of the gate, they have to wait for hand signals given by vehicles travelling from Mandalay to Muse indicating whether there is a surprise checkpoint on the way ahead (or, from the passing vehicles' perspective, behind). If the signal is positive, they drive on the main road until they approach another gate. The interviewee knew that there is a risk involved, but these smuggling channels could give him extra income.

This case highlighted that there are many people around the border areas who are involved in various kinds of illegal, but licit in their social perception, activities. Restrictions and controls on these activities often have severe negative effect on such people's income and livelihood. Flexibility on restrictions and controls on cross-border trade may open up legal job, business, and trade opportunities for these people, rather than having them rely on smuggling to improve their livelihoods.

**Case 3:** This case was located in Jiegou, China bordering Muse, Myanmar. The interviewee was a Myanmar Chinese who had been running a trading company which delivered various Chinese products into Myanmar through legal cross-border trade channels by the conventional trade method. He said he was stationed on the Chinese side because he could live more comfortably there. For instance, 24-hour access to electricity is possible on the Chinese side (which is not the case on the Myanmar side) and he could own and drive a new model car, which is normally five to ten times more expensive on the Myanmar side.

Although he was involved in legal trade activities, he had to deal with many other agents involved in smuggling. He specialized in various products including clothing and footwear. Previously, clothing had to be smuggled into Myanmar because application for legal import license to import clothing was very difficult and expensive. The application for importation of clothing had since become much easier and more flexible so that he could acquire an import license in advance for bulk imports. Hence, his company, which was registered in Myanmar, imported clothing and other products on behalf of actual traders. Actual traders, who may not have registered import/export companies of their own, could use his company's import license, so did not need to have their own registered import/export companies through which to apply for import licenses.

This case revealed that flexibility in import restrictions and relaxation of stringent and lengthy requirements has pushed out illegal smuggling and helped encourage people/companies to import products through a legal channel. Such flexibility also helps reduce transaction costs of the legal channel. Smuggling will not stop even if more control measures are taken. Instead, more restrictions and controls will give

professional smugglers/traffickers incentive to come up with more effective professional smuggling tactics. Flexibility and reduction of transaction costs on legal trade can be an effective way to push out smuggling and develop legal cross-border trade.

## **Cross-border mobility and human smuggling from Myanmar**

Informal transboundary trade opens the door for other informal activities such as human smuggling. Informal trade channels through porous borders between Myanmar and its neighboring countries have become safe havens for human smuggling and trafficking in persons. As per the legal framework in Myanmar, voluntary mobility, facilitated by brokers or unregistered labor agencies, can be considered as human smuggling. Human smuggling can easily turn into trafficking in persons if the migrants (even if they migrate with the help of a registered labor agency) become vulnerable, exploited, and abused in the country of destination. In this case, all players involved (such as brokers, transporters, keepers who hide or provide accommodation for migrants before crossing borders, etc.) are deemed to have violated the law and can be imprisoned for many years as per the 1999 Overseas Employment Law and/or the 2005 Anti-Trafficking in Persons Law.

Many players nevertheless maintain the status of illegality intentionally or unintentionally in the course of cross-border mobility from Myanmar. They see their exercises (i.e. illegal mobility in the case of cross-border migration and illegal facilitation in the case of cross-border trade) in maintaining illegality in terms of licit (although in the state's view, illegal) behavior with the objective of negotiating their own way into a new livelihood space to secure their share of development through mobility.

As a result, human mobility across the borders between Myanmar and Thailand and Myanmar and China has become vibrant. In some cases, border crossings by Myanmar labor migrants to neighboring countries take place legally as the majority of migrants cross borders legally with one-day or seven-day border passes. In some cases, border

crossings take place illegally at various places along the porous border where there is no checkpoint on either side. After arrival at the other side, the majority of labor migrants overstays illegally and works at various job sites.

Cross-border mobility, both legal and illegal, has various costs and benefits. One cost is a negative social impact on migrants and their families in their hometowns. Migrants, being illegal, become vulnerable and must take dirty, difficult, disgraceful, and dangerous jobs with little or no labor protection in destination countries. Their families become heavily indebted as expensive mobility cost may be funded by borrowing at high interest rate. The surveys conducted in the dry zone and Mon state in 2009 by the Sustainable Mekong Research Network found that the average rate of interest that migrants' families have to pay is 120 percent per annum.

Another cost is shortage of labor for farming paddy rice, the staple food in Myanmar, in places where out-labor-mobility is rampant. Although migrants are eventually replaced by waged laborers (who migrate from other parts of Myanmar) once remittances begin and enable migrants' families to pay higher wages, this could pose a threat in the future.

Other costs include deteriorating ethics at borders in both the countries of origin and destination. Cooperation between relevant authorities of Myanmar and neighboring countries in conducting joint investigations, operations, etc., to combat human trafficking has become much stronger than in the past. However, changing tactics of professional smugglers through various new illegal channels, and inadequate resources of local authorities to keep pace with smugglers' changing methods, have been discouraging factors in controlling cross-border illegal mobility. Although control and prevention of illegal mobility is necessary, facilitating legal and safe mobility instead of emphasizing controls and restrictions that may promote more professional illegal tactics would result in win-win solutions.

An immediate benefit of cross-border mobility (either legal or illegal) could be the first-round effect<sup>21</sup> of mobility. Remittances sent by

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<sup>21</sup> The first-round effect of migration is the positive effect on migrants' families due to remittances.

migrants tend to have a first-round effect that mainly benefits their families in the country of origin. In some areas, such as Mon state, the initial stage of the second-round effect<sup>22</sup> is evident as migrants' families use remittances to buy houses and household assets, spend on education and health care, and pay wages to workers who have migrated internally to work on the families' farms. Furthermore, surveys in Mon state also revealed that in some areas, remittances have enabled migrant families of many villages to overcome capital constraints to finance public works projects such as construction of temples, schools, village roads, etc.

Lack of sound infrastructure, lack of proper irrigation systems, unfavorable weather, lack of proper knowledge, and capital constraints have forced many families to give up farming and resort to mobility as the only option in a situation where investment, business, and job opportunities are poor. It is not realistic to expect mobility to promote development effectively where complementary infrastructure, services, and ecological conditions are so unfavorable. People move because of a lack of meaningful development in the first place. In the absence of policies designed to channel migrants' savings into productive investment, it is impossible to expect a visible link between mobility and development. With the lack of efficient rural credit markets, it is also not realistic to expect migrants and their families to serve as both the procurers of remittances and the intermediaries between mobility and development. It is just not possible to expect migrants to play simultaneous roles as workers, savers, investors, and producers.

One overall benefit is that cross-border mobility (either legal or illegal) has a significant role in providing rural households with capital and means to reduce risk by diversifying income sources. In a situation where there is a lack of access to credit and income security, mobility definitely enables migrants' families to self-finance new household businesses and self-insure against perceived risks to household income. Better livelihood options and income security would enable migrants' families to invest in new technologies and production activities, and such expenditure would stimulate economic activities in other households.

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<sup>22</sup> The second-round effect of migration is the positive effect not only on migrants' families but also on non-migrants' families around the area.

Illegal cross-border mobility, human smuggling, and trafficking, especially from Myanmar, are multidimensional issues and there is a need to consider all the dimensions from various perspectives. It is necessary to achieve long-term and sustainable cooperation between authorities of relevant governmental departments/ministries in origin and destination countries, and also with other stakeholders including NGOs, research organizations, migrants, and their families.

Recommendations concerning specific cross-border mobility issues are presented below.

**Table 8. Current Issues in Migration and Recommended Measures**

**Current issues:** Legal labor mobility cost is so expensive that migrants sometimes have no choice but to choose affordable illegal channels. Consequently, these migrants tend to be vulnerable, exploited, and abused in the destination countries.

**Recommended measures:**

- It is necessary to analyze all hidden costs involved in cross-border mobility and reduce or eradicate these unnecessary costs.
- Some hidden costs include family remittance systems, brokers fees, 10 percent tax on income in foreign currency (although income may be very low by the standards of destination countries), and many others.
- Pragmatic policy measures should be adopted to legalize Myanmar migrants, and relevant authorities of destination countries should cooperate to protect migrants' rights.

**Expected outcome:** Legal, safe, and convenient mobility channels will be established.

**Current issues:** Most families fund mobility of their family members by borrowing at usurious interest rate (i.e. minimum 120 percent per annum). As a result, cross-border mobility has various negative social and economic impacts on migrants' families.

**Recommended measures:**

- By considering mobility as an alternative strategy of rural poverty alleviation, affordable credit should be made available for migrants and their families.
- Such credit should be available through the formal financial sector (i.e. through formal finance companies that are not under the ambit of stringent requirements of the Central Bank) so that this financial channel can be used for channeling remittances into productive sectors.

**Expected outcome:** A legal and safe mobility channel will become affordable and this will reduce illegal mobility channels.

**Current issues:** The majority of migrants' families spend remittances on consumption in non-productive sectors. As a result, the process of transformation from first-round effect (benefiting only migrants' families) to second-round effect of mobility (benefiting others) is slow. In addition, the link between mobility and development is weak.

**Recommended measures:**

- Spending of remittances on land, housing, and various speculative investments (that are not productive enough for development) is just a rational response to the uncertain, inflationary environments that are a result of inappropriate macroeconomic and sectoral policies discouraging small-scale household production that is within the reach of migrant families.
- It is important to develop multidimensional policies to harness cross-border mobility and remittances for local development by creating a favorable economic environment that is conducive to investment in productive activities at home.
- Development of formal rural credit markets (acting as an intermediary) can channel remittances to productive sectors.

**Expected outcome:** The link between mobility and development will be more visible.

**Current issues:** Benefits of remittances may accrue mainly to migrants' families, and this may create inequality.

**Recommended measures:**

- It is normal that the first-round effect of mobility mainly benefits migrants' families.
- Proper infrastructure should be established and appropriate policy measures should be adopted to strengthen the second-round effect of mobility, which would also benefit non-migrants' families through a multiplier effect.

**Expected outcome:** Mobility will benefit both migrants' and non-migrants' families and will contribute more to rural development and poverty alleviation.

## 1 - Illegal border crossings

Mobility of people between Myanmar and its neighboring countries, especially Thailand and China, flows through borders both legally and illegally. Crossing legally typically involves using a one- or seven-day border pass, then throwing it away on arrival at the other side and going beyond the limited area permitted to border pass-holders in order to work illegally elsewhere. Crossing illegally is done at a place

where there is no legal checkpoint on either side of the border. At Muse, there are several places where people simply cross over the fence or through a hole in it to get into Jiegou and Ruili or nearby places in China to work on various agricultural farms (Figure 13). Such illegal border crossers get into China on a daily or weekly basis and such crossing is a normal practice for them. Along the porous borders between Myanmar and China, there are many places where illegal mobility is possible. In Tachileik, there are several places where people cross to a private compound or a farm on the Thai side by paying a fee of about US\$0.3/person/entry (Figure 14).



Figure 13a. Legal mobility checkpoint at Muse-Jiegou (Myanmar-China border)



Figure 13b. Illegal border crossing at Muse-Jiegou (Myanmar-China border)



Figure 14a. Legal mobility checkpoint at Tachileik-Mae Sai (Myanmar-Thai border)



Figure 14b. Illegal border crossing at Tachileik-Mae Sai (Myanmar-Thai border)

Illegal border crossings are normally facilitated by brokers who take care of transportation on the other side (i.e. Thailand or China). Especially in Thailand, such transportation is important because illegal immigrants travelling by public transportation can be easily identified at checkpoints on the way from border areas to other destinations. Depending on the amount of fees paid, the transport can be a private van or a truck. Transportation fees can range from US\$160-500 depending on person, mode of transportation, and destination.

At the Kawthaung-Ranong border area between Myanmar and Thailand, most illegal migrants hide in small boats that travel from Kawthaung for 20 to 40 minutes to reach a designated private compound or a farm in Ranong on the Thai side (Figure 15). Migrants may need to stay in that area for a few days depending on the security situation in Thailand until their transport arrives. This is one of the normal routes for

Myanmar workers travelling back and forth between the two countries. For a lower fee, transportation is not easy. Illegal migrants may have to squeeze into a truck and hide during the whole trip. One accident in 2007 revealed that 121 people had been squeezed into a container truck travelling from Ranong to Phuket in Thailand; of them, 54 people died due to lack of air in the truck. That was not the first such accident. Similarly, 39 people died in a truck fire about 10 years ago.<sup>23</sup>



Figure 15a. The boats that migrants take from Kawthaung (Myanmar) to Ranong (Thailand)

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<sup>23</sup> Interview with Police Major General Apirak Honthong, in Ranong in 2008.



Figure 15b. The container truck into which 121 people were squeezed on the way to Phuket in 2008

Another place where significant mobility of people between Myanmar and Thailand occurs is Myawaddy, Myanmar bordering Maesot, Thailand. This place is more popular for cross-border informal trade than cross-border mobility because people entering Thailand through this border must travel on foot on the Thai side for several days in order to avoid local Thai checkpoints.<sup>24</sup> This area is, however, more accessible than Kawthaung by road transport from Yangon. In this area, there are various illegal crossing points where small boats cross the very narrow stream. Although these crossings are illegal, motorbike taxis are available on the Thai side for the transport of illegal border crossers to and from downtown Maesot. Some of these crossing places are not far from the Thai-Myanmar Friendship Bridge, which is the single legal gate on the Myanmar side in this area.

<sup>24</sup> Interviews with Myanmar migrants in Bangkok and Mahachai.

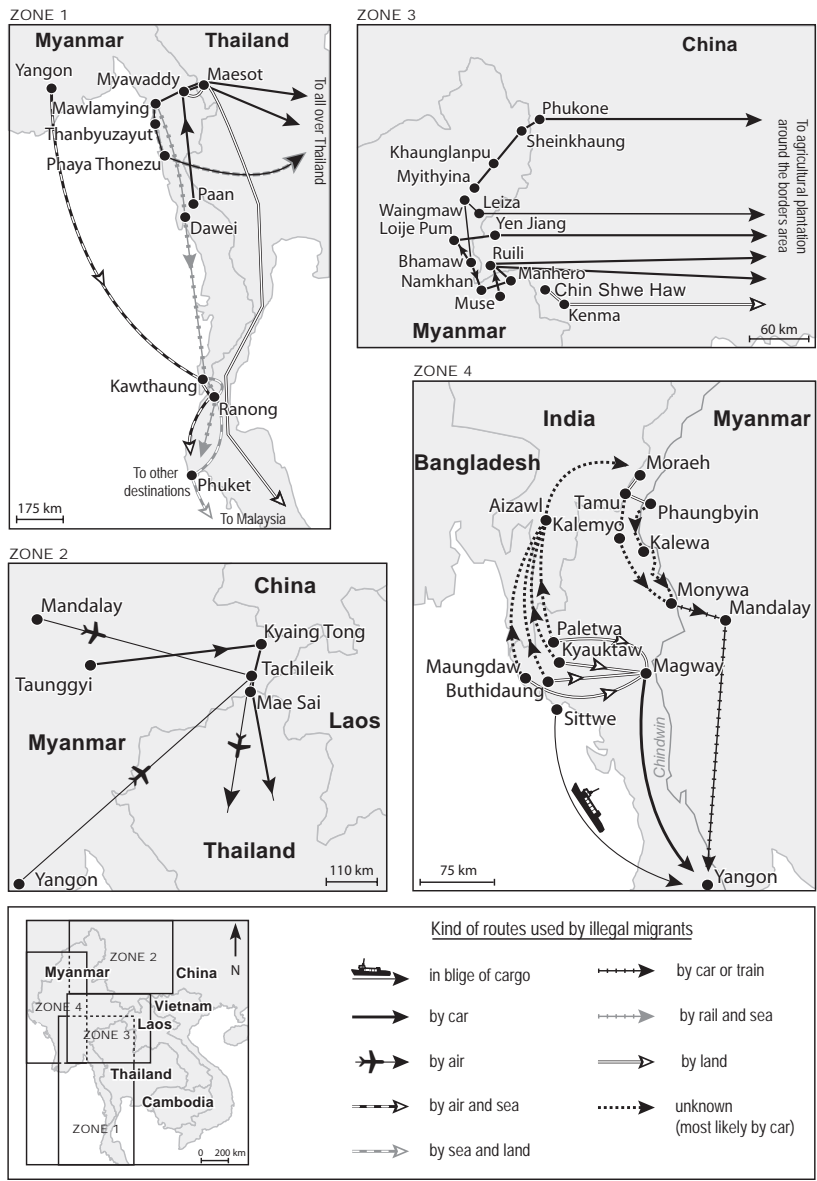
Apart from many illegal border crossings, the number of people entering Thailand through the legal checkpoint was found to average around 2,000 per day whereas the departure figure was around 1,600. Therefore around 400 people were not accounted for on the office's departure list on a daily basis. It can be assumed that they either remained in Maesot or crossed back to Myawaddy through illegal border crossing points.<sup>25</sup> As of 2009, this was the only area where only one-day border passes were issued whereas seven-day passes are available at other borders such as Tachileik-Mae Sai, Kawthaung-Ranong, etc. Hence, Myanmar and Thai people cannot stay overnight on the other side of the border unless they take illegal crossing points for their return.

The mobility of Myanmar migrants crossing borders legally or illegally is not just in one direction. Many Myanmar migrants return to Myanmar for holidays or to visit their families and to do so they have to take the same routes. It normally costs around US\$150 paid to the brokers for the safe return journey from Thailand back to Myanmar illegally through borders. Some migrants purposely get themselves arrested in Thailand and transported to the border. Those who are arrested normally contact brokers who negotiate with Thai local authorities to bring them to illegal border crossings for their return trip to Myanmar. Brokers convince many illegal migrants that unless they pay a fee to the brokers, they would be legally transferred by Thai police to Myanmar authorities who would arrest them for illegal mobility according to 1947 Myanmar Immobility (Emergency Provisions) Act. In reality, since the enactment of the Anti-Trafficking in Persons Law, Myanmar authorities have not been prosecuting or taking any legal action against illegal Myanmar migrants officially transferred by Thai authorities. However, the intimidating news/information spread by brokers, and Myanmar migrants' suspicion of local authorities in Myanmar, leads many migrants to believe otherwise.

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<sup>25</sup> Lee Sang Kook, "State in a State: Administration and Governance in a Thailand-Burma Border Town", in *Asian Journal of Social Science* 36 (2008), pp. 187-211.

Figure 16. Routes taken by illegal migrants going to Thailand and China from Myanmar



**Routes taken by most illegal migrants going to Thailand, China,  
and another popular destination such as Malaysia<sup>26</sup>**

Routes taken by illegally smuggled migrants to Thailand	
Taunggyi, Kyaington, Tachileik, Mae Sai to Thailand	car
Yangon, Tachileik, Mae Sai to Thailand	air
Mandalay, Tachileik, Mae Sai to Thailand	air
Mawlamying, Dawei, Kawthaung, Ranong to Thailand	rail/waterways
Mawlamying, Thanbyuzayut, Three Pagoda Pass to Thailand	car/land route
Mawlamying, Myawaddy, Maesot to Thailand	car
Paan, Myawaddy, Maesot to Thailand	car
Yangon, Kawthaung, Ranong to Thailand	air/waterways
Mawlamying, Dawei, Kawthaung, Ranong to Thailand	rail/water
Routes taken by illegally smuggled migrants to China	
Bhamaw, Loiye, Yen Jiang to China	car
Myitkyina, Khaunglanpu, Sheinkhaung, Phukone to China	car
Bhamaw, Waingmaw, Leiza to China	land
Bhamaw, Namkhan, Manhero, Ruilli to China	car
Muse, Ruilli to China	car
Chin Shwe Haw, Kenma to China	land
Routes taken by illegally smuggled migrants to Malaysia	
Myawaddy, Maesot, Thailand to Malaysia	land
Kawthaung, Ranong, Thailand to Malaysia	sea/land route

<sup>26</sup> 2006 *Annual Report of the Anti-Trafficking Unit*, Department against Transnational Crime, Ministry of Home Affairs, Myanmar.

**Major routes taken by the majority of Bangladeshis to enter Myanmar for the purpose of working or transiting to Thailand or Malaysia<sup>27</sup>**

Aizawl, Mizoran Province, Moraeh, Buthitaung to Myanmar
From Moraeh to Tamu, Kalemwo and Monywa to reach to Mandalay and then to Yangon by car or train.
From Moraeh, it takes three days on foot to Phaungbyin via Tamu and then they follow the Chindwin River to Kalewa and Monywa. From Monywa, they can travel by car or train to Mandalay and Yangon.
From Buthitaung, Maungdaw, Kyauktaw and Paletwa areas in Rakhine State, they would walk down to Magway Division and then go by car to Yangon.
From Sittwe, Rakhine State, they would hide in the bilges of cargo ships to cross the sea to reach Yangon.

## 2 - Causes and effects of cross-border mobility

Lack of adequate employment opportunities in Myanmar can be a good start when defining a cause (a push factor) of labor mobility. There are many other causes, to start with depending on different types of Myanmar people abroad such as refugees (conflict and non-conflict induced forced migrants) in various countries.

Lack of adequate employment opportunities is caused by lack of investment/business opportunities. This, in turn, is caused both by absence of a favorable investment/business environment in Myanmar and by over a decade of economic sanctions imposed by the West. As a result, people negotiate their own way into the new livelihood space to secure their share of development through mobility. Other causes vary greatly depending on location in Myanmar, from insecurity of livelihood, lack of rural agricultural development, and poverty to trendiness and better socio-economic conditions of neighboring migrants' families. If these factors are weighted based on their significance, the highest weight can be assigned to lack of job opportunities that could provide adequate

<sup>27</sup> 2006 Annual Report of the Anti-Trafficking Unit, Department against Transnational Crime, Ministry of Home Affairs, Myanmar.

income for the family. This may be followed by the decision by migrants and their families to diversify their income sources beyond farming.

There are many other causes behind the illegal or informal activities undertaken by each and every person in the course of cross-border mobility. Firstly, funding for mobility is acquired through informal/illegal money lenders. The main causes of the existence of informal money lending activities are the inefficient formal financial system and the lack of rural credit in Myanmar. The majority of people in Myanmar cannot have access to the formal banking sector. Even most businessmen in the private sector who are well trusted in their society need to borrow from other businessmen who have surplus funds; due to business trust, the typical interest rate for such borrowing is 36 percent per annum, which is much lower than 120 percent that migrants and their families pay. In order to have access to credit from the formal banking sector, it is necessary to have connections and legitimate collateral valued at double the amount to be borrowed. In Myanmar's banking sector, connections and guarantees of two account holders are required to merely open a bank account. Most banks still do not accept deposits of over 10 million kyats (approximately US\$10,000) due to strict regulations imposed by the Central Bank of Myanmar since the country's 2003 banking crisis. Microfinance programs are being initiated by several NGOs, but the loans available under such programs are normally very small, starting at US\$40, and are not meant for mobility. As a result, it is inevitable that migrants and their families rely on informal money lenders to fund their mobility costs.

Such an inefficient formal financial system in rural areas has led to expensive loans that are provided by informal money lenders. Lack of affordable rural credit has led to underdeveloped farming, which in turn has led to mobility being viewed as an alternative livelihood option for rural families. Additionally, expensive loans with high interest have led to high cost of mobility, which in turn leads to heavy debt burden for the migrants' families. This results in various negative social effects on migrants' families and migrants themselves, who have no choice but to work continuously for at least one and a half to two years just to pay back the loan taken to fund the mobility cost. Lack of affordable rural credit can lead to many other negative social and economic effects. Financial innovation in the form of creation of finance agencies that

focus on providing mobility-related loans at a reasonable interest rate could be a way to facilitate mobility and lessen the debt burden of many families in rural areas.

Secondly, after the funding is acquired from informal/illegal money lenders, illegal mobility takes place. The main cause of illegal cross-border mobility ranges from inefficiency of legal mobility channels to high mobility costs related to legal mobility. In some areas of Myanmar, such as Shan, Kachin, Mon, and Karen States, social connections and networks of similar ethnicities in neighboring countries are also a major cause of cross-border mobility through their own channels, which are perceived as licit in their social context but are illegal from the state's and the law's point of view. Legal channels of mobility in Myanmar are considered to be inconvenient and unaffordable, especially for those who live in rural areas where cross-border mobility to neighboring countries originates. Most migrants cannot easily access legal mobility channels through the brokers of registered labor agencies located in Yangon, the biggest city of Myanmar, due to inefficient communication and information. This fact alone increases the cost of mobility by around US\$100 to be paid to the broker in the form of a fee charged by the labor agency. Then an additional US\$100 per migrant sent by the labor agency is further incorporated into the fee in order to pay labor authorities.

In addition, there are hidden costs incurred by labor agencies due to the family remittance system imposed by Myanmar's labor authorities. Labor migrants are required to send 30 to 50 percent of their income back to their families through the official channel of legal financial transfer. Most migrants do not abide by this regulation for various reasons. As a result, the majority of migrants do not send anything through the official channel, leading to a situation where labor agencies must transfer the money out of their own pockets to the state's bank, pretending as if the money was transferred by the labor migrants whose overseas jobs were placed by them. There are transaction costs incurred by labor agencies to make this happen and these costs are incorporated in the fees they charge to migrants and their families.

Hence, labor migrants end up paying all the costs (i.e. official, unofficial, and hidden costs) that are incorporated in the fee charged by labor agents, plus all the costs related to their trip to Yangon in order to apply for passports, plus passport application fees, plus the interest they

have to pay on the debt incurred from informal money lenders to pay all these costs. If all the costs are combined, the total cost borne by a labor migrant going to Malaysia through the legal channel could reach well over US\$1,500 per person excluding interest payments. The total cost of mobility to neighboring countries through the legal channel can also be much higher than the cost incurred for illegal entry. The situation encourages many labor migrants to choose illegal methods of cross-border mobility.

Thirdly, after the informal/illegal mobility has taken place and labor migrants have reached the destination country legally or illegally, settled down, and found a job, they then start thinking about sending a significant portion of their income back to their families in their hometowns. Most of the migrants use *hundi* arrangements,<sup>28</sup> which are also not a legal channel of financial transfer, in order to transfer their remittances back home.<sup>29</sup>

The effects of an inefficient formal transnational financial transfer system, other limitations and constraints in the financial system such as a lengthy procedure for fund transfers, multiple exchange rates, high tax on foreign currency receipts, etc., have led to the emergence of illegal transnational fund transfer systems. This, in turn, has led to a situation where migrants often get cheated and their families sometimes do not receive remittances. On the other hand, with an inefficient financial system combined with lack of rural credit markets, it is not possible to channel migrants' savings into productive investment, thus it is not realistic to expect a visible link between mobility and development. With this invisible link, any positive effect of mobility through remittances will diminish after the first-round effect of mobility (which mainly benefits migrants' families) and it cannot efficiently create multipliers in

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<sup>28</sup> It is known as *hawala* in South Asia. It is a well-established and socially trusted form of transnational financial exchange.

<sup>29</sup> Under this arrangement, migrants do not need to go through the formal bank procedure to transfer money back home. They just need to know the *hundi* rate, which is not much different from the black market currency exchange rate. The spread between *bid* and *ask hundi* rates is the commission for *hundi* dealers. Migrants pay their money (in baht in case of Thailand) to a *hundi* dealer and eventually their families in Myanmar can get the money (in kyats) from a dealer in Myanmar connected to the dealer in Thailand. Most *hundi* dealers are shops, traders, etc., who operate active transfers of goods and money between the two countries.

the second-round effect (which would benefit other, non-migrant, families). As a result, the income inequality between migrants' and non-migrants' families will get wider, increasing social tension.

The main reason for using this illegal transnational financial transfer system is the many limitations and constraints faced by the majority of Myanmar labor migrants abroad in using legal international bank transfers. First, most migrants working in neighboring countries are there illegally and do not hold legal documents that would allow them to have bank accounts in the country they are working. Second, official transfer costs are high for Myanmar migrants who earn only a small amount. Third, it is very costly, and complicated for migrants' families to go to the foreign exchange bank in a major city to withdraw the money (less a 10 percent deduction as tax) in Foreign Exchange Certificates (FECs). Fourth, it is also difficult for people who have no connections in the city to sell these FECs in the black market for local currency.

**Case 4:** The interviewee in this case was a household head who had returned from Malaysia to visit his family in Yangon for a week. He returned to Myanmar through Myawaddy-Maesot (the Myanmar-Thai border). It is illegal for Myanmar's international passport-holders to return over land borders; they are supposed to come back through the international airport from which they departed. Border crossing is allowed only for border pass and/or border passport-holders.

The interviewee went to Malaysia two years ago. Every Myanmar job passport-holder working overseas is required to pay 10 percent of overseas job income as tax. The majority of job passports are valid for only three years. Most people have to wait six to twelve months after the issuance of their passports before they arrive at their destination countries due to lengthy legal mobility procedures. Hence, at the time of their arrival, most migrants have only two years passport validity remaining. It is also expensive for unskilled and semi-skilled Myanmar workers to extend their passports at a Myanmar Embassy abroad. They are also required to send 50 percent of their income back to their families by legal financial transfer into the state-owned bank, although their families cannot withdraw this money in a hard currency.

In practice, a 10 percent tax on income is considered to be very high for most migrants in Malaysia and Thailand who can barely make ends meet with their very low incomes and high living costs. If they must send 30 to 50 percent of their income back to the country of origin and have 10 percent of income deducted as tax, it would be impossible or unrealistic for them to survive in the destination countries. Hence, more and more people choose not to pay tax, not to extend their passports, and instead willingly become illegal. The majority of those who choose this course later come to realize that it is not a good option, but they cannot return to their previous legal status.

The interviewee did not pay tax so his passport would have been confiscated by the authorities if he had returned legally. Hence, he decided to return illegally to his family during his vacation. He also decided not to extend his passport after its expiry. He knew that being an illegal migrant worker, he would be more vulnerable in the future and would be easily abused by employers. He had no choice, however, because he had to send adequate remittances (around US\$200 per month) back to his family to support his wife and three children, one a newly born baby. If he paid tax regularly to Myanmar to be legal, and extended his passport, he would not have been able to send such remittances regularly.

This case revealed that more and more Myanmar legal migrants have become illegal due to the high cost of legality. A revision of the tax system to waive tax for low income migrant workers is urgently required. It is also necessary to provide such workers with support and assistance, and to protect their rights in the destination countries. If there are more costs than benefits to being legal, most migrants will choose to become illegal. Possible consequences will be undesirable not only for migrants and their families in their hometowns, but also for the country of origin and the destination countries.

Due to various aforementioned causes, illegal cross-border mobility persists, and many people are in the position to get involved in illegal activities at every step in the course of mobility. The effect is quite simple but horrific. One simple effect of illegal cross-border mobility is that millions of Myanmar illegal labor migrants, especially those in neighboring countries, have to live in a vulnerable condition and often get abused. Being illegal, the image of migrants in the eyes of many in

the destination countries is normally negative. As a result, there are endless stories of illegal migrants as people who sneak across the border, steal the jobs of local people, commit various crimes, etc. Media coverage of migrants has created the overwhelming impression in most people's minds that migrants are the bad guys. Bad behaviors of a few unscrupulous migrants highlighted by media are taken as representative of common behaviors of all illegal migrants.

Fourthly, with the lack of favorable investment, business, and job opportunities, migrants who return do not stay in Myanmar for a long time. The majority of returned migrants try to find various ways to go back again to the country from which they returned, or to a country that is more developed than their previous destination country. As a result, Myanmar cannot take advantage of their skills and knowledge acquired from abroad. The first wave of mobility is not supposed to be considered as a brain drain because the majority of those involved are unskilled workers who have no knowledge, exposure, or experience. These people can be considered brain gains in the future. After spending a few years abroad, they have acquired skills, knowledge, and experience that are required for the development of their hometowns. If their hometowns are not yet ready to accept such skills and knowledge, these migrants will be involved in the second wave of mobility which can be considered the real brain drain. With the lack of favorable infrastructure, business environment, affordable credit, etc., Myanmar will be particularly prone to brain drain in the second wave of mobility.

### **3 - Costs and benefits of mobility**

Several costs are associated with unsafe mobility. Migrants experience social costs due to their vulnerable legal condition that often exposes them to abuse, discrimination, and torture in the destination countries. Migrants suffer economic costs in the form of lower wages and lack of employment benefits due to their illegal and vulnerable status. These costs can be marginalized if illegal migrants can be legalized and protected under the labor laws of destination countries and be granted access to the labor rights to which they are entitled. This

cannot be achieved without strong cooperation and understanding between the countries of origin and destination. Through close cooperation, relevant authorities should consider making the legalization process simple, pragmatic, convenient, and affordable for migrants. Otherwise, the process will be another failure.

**Case 5:** This case was located in a Mon village in the southern part of Myanmar, near Mawlamyaing City. The case revealed both positive and negative effects of mobility. An interview was conducted with a household from which four members had migrated to Thailand through various illegal methods. The main interviewee was the household head who was in his 70s. His son-in-law first migrated to Thailand three years earlier and had since been working there illegally. He sent remittances regularly, with which the family renovated the house. Previously, the house was built with bamboo walls and a roof made of palm leaves, but with the remittances sent by the son-in-law, and the family's own savings, the house was renovated into a solid structure built of brick and hardwood.

After three years, the interviewee's son-in-law had become more-or-less settled in Thailand. Then the family and himself, as the household head, decided to let his daughter (wife of the son-in-law working in Thailand), grandson (son of his daughter), and granddaughter-in-law (who had just married his grandson a month earlier) go to Thailand. The three of them from the family, together with a girl from their village, went to Thailand in 2008 through an illegal channel with the help of a broker. They went to Kawthaung, then took a small boat across the Andaman sea for 40 minutes to reach a private farm in Ranong, Thailand. They had to wait at the farm for a couple of days until a transport vehicle (a container truck) arrived. They were among 121 Myanmar people who got squeezed in a 20-foot container truck headed to Phuket, a resort town in Thailand.

Among the 121 people in the truck, some were new migrants who were in Thailand for the first time, some were experienced migrants who had been travelling to and fro between Thailand and Myanmar, and some were children. During the trip, the truck's ventilation system broke. People inside the truck banged on the door to signal the driver, but he supposedly did not hear, though some claimed the driver heard but shouted for them to be silent because the sound could attract the

attention of passersby or police. The grandson of the household head who was interviewed got really scared and eventually fell unconscious, holding his mother and his wife in his arms.

The truck pulled over on a side track off the main road near Suksamran District, Thailand and the driver opened the door. By that time, 54 people had already died due to lack of air and most of the rest were unconscious. The driver then ran away. When the grandson eventually regained consciousness, he found that both his mother and his wife had died in his arms. The son-in-law came to know the news and informed the family, sharing the horror of the event with the village.

The survivors of the incident were prosecuted by Thai authorities as illegal migrants, provoking international criticism. Those who were under 18 were transferred to the immigration detention center in Ranong, Thailand. With cooperation between authorities of Thailand and Myanmar, and some NGOs, the remaining survivors were transferred to Myanmar and families of the deceased were eventually eligible for compensation.

Social costs on migrants' families are due to heavy debt burden, which is caused by high mobility costs and lack of an accessible formal financial credit system. An economic cost is that a large portion of migrants' remittance income goes towards paying interest, which is normally 120 percent per annum. Migrants from the dry zone of Myanmar tend to go to Malaysia using legal channels, incurring comparatively high costs, while migrants from Mon State generally go to Thailand by illegal channels, incurring comparatively low costs. As a result, survey analysis suggested (albeit with low statistical significance) that in the dry zone level of satisfaction of migrants' families is 31.1 percent less than that of non-migrant families, whereas in Mon State level of satisfaction of migrants' families is 55.8 percent greater than that of non-migrant families.<sup>30</sup> However, there is a way that these costs can

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<sup>30</sup> Binary logistic regression model setting "whether or not a household in the dry zone has satisfaction" as a dependent variable,  $y$ , and "whether or not it is a migrant's household" as an independent variable,  $x$ :  $y = 1/[1+e^{-(0.527-0.373 x)}]$ ; odds ratio=0.689 (reference variable is households in control group); P-value=0.311; binary logistic regression model setting "whether or not a household in the Mon state has satisfaction" as a dependent variable,  $y$ , and "whether or not it is a migrant's household" as an independent variable,  $x$ :  $y = 1/[1+e^{(0.318+0.444 x)}]$ ; odds ratio=1.558 (reference variable is households in control group); P-value=0.496.

be minimized if the legal mobility procedures are made simple and affordable, and if mobility credits are made easily accessible at an affordable interest rate.

The country of origin experiences economic costs because remittances go through informal *hundi* transfer due to inefficiency of the formal transnational financial transfer system. Further, a cost is incurred by the country because remittances cannot reach productive economic sectors due to lack of investment, business, and credit climates. In order to minimize these costs, it is important to create a favorable investment, trade, and business environment, to improve necessary basic infrastructure such as roads and transport, electricity, and telecommunication, and to improve the credit system so it can mediate remittance savings into productive investments.

The country of origin experiences a social cost due to loss of labor. This cost is still very low in Myanmar because most migrants are surplus labor due to lack of employment opportunities in their hometowns. Some farms, however, are left with inadequate numbers of workers, although these are eventually reinforced by wage laborers coming from other parts of the country. Remittances sent by migrants make it possible to attract laborers from other places to come and work on the farms.

Another social cost is due to the fact that older family members (grandparents) are left with dependent young members and/or with small children of migrants. This cost can be mitigated only through the improvement of the rural social welfare system in the country of origin. At the moment, rural social capital and networks (through which neighbors treat neighbors as family members) serve as a cushion for this negative social impact.

**Case 6:** This case was in Mahachai, Samut Sakhon Province, Thailand, where there are estimated to be around 400,000 Myanmar migrant workers working at various seafood processing factories. Although the majority of these migrant workers have acquired worker IDs with the help of their employers, most of them entered Thailand without any legal travel documents. The interviewee was a young Myanmar worker who had been in Thailand for two years. His mother came to Thailand a few years earlier while he was staying with his grandmother in a village not far from Mawlamyaing in Myanmar. He was raised by the

grandmother with the remittances from his mother and finally came to Thailand through a usual illegal channel to work together with the mother.

He said he had been working very hard to send remittances back to his grandmother. He complained how hard the work was and how difficult it was to get a job in Thailand. He said he had to work from dawn to dusk to get only a small amount of money, which was shared with his mother who was not feeling well. His mother had gone to Thailand when he was quite young and brought him when her health had deteriorated. Hence, he had become responsible for his mother in Thailand and grandmother in his hometown in Myanmar. He had to work hard to pay his mother's medical expenses so he could not send a large amount of money to his grandmother. He was afraid that his grandmother could be a bit angry with him. The interview team asked for his home address in Myanmar, and later went there to interview his grandmother.

The interviewee's grandmother said that the interviewee had never sent back remittances since he left his hometown for Thailand. She said that he was like a black sheep of the family and before leaving had spent the remittances sent by his mother without working anywhere in Myanmar. He used to work at a factory where his father was a manager, but he quit the job simply because he did not want to work. She thought that he would change when he got to Thailand and started working. Thus, his mother made all the arrangements to bring him to Thailand. However, he did not change his attitude and lost jobs quite frequently. He had not been working since he lost a job a few months ago and had been living on his mother's income. The grandmother said that he had become a big burden for his mother, who had to work hard despite her poor health.

This case revealed a big difference in stories told by two people (one in the country of origin and the other in the destination country) from the same family. This case should serve as a lesson for researchers that stories heard in a country of destination may be entirely or partly different from the reality in the country of origin. The case also revealed that there are stories of failure like this, despite the positive effects of mobility in most cases.

Mobility does offer several benefits. Mobility can improve the socio-economic status of migrants' families as a first-round effect. Survey analyses in Myanmar suggested that probability for migrants' families to have higher socio-economic status ranking is 1.4 times higher in the dry zone (in one village where the social condition is not very different from that in Mon State) whereas it is 10 times higher in Mon state (Table 9).<sup>31</sup> Statistical significance is lower in the dry zone because most migrants' families there are still struggling to pay back the debt related to mobility, since the mobility cycle with Malaysia has not yet matured, whereas in Mon State, families of migrants working in Thailand are in much better condition since they could receive remittances from multiple family members working in Thailand.<sup>32</sup>

**Table 9. Independent variables in binary logistic regression**

Study Site	Independent Variables	B.	S.E.	D.F.	Sig.	Odd-R.
Dry Zone	Migrant HH vs. Non-Migrant HH (Ref: Non-migrant)	0.375	0.653	1	0.566	1.455
	Constant	0.724	0.305	1	0.017	2.063
Mon State	Migrant HH vs. Non-Migrant HH (Ref: Non-migrant)	2.380	1.216	1	0.050	10.800
	Constant	-1.792	1.080	1	0.097	0.167

B. = beta; S.E. = standard error; D.F. = degree of freedom;  
Sig. = significance level or in this case it is p-value; Odd-R. = odds ratio

Source: Analysis with primary data from the survey.

<sup>31</sup> Binary logistic regression model setting "whether or not a household belongs to high or low socio-economic status ranking" as a dependent variable,  $y$ , and "whether or not it is a migrant's household in the dry zone" and "whether or not it is a migrant's household in Mon state" as independent variables,  $x$ :  $y = 1/[1+e^{-(0.724+0.375\ x)}]$ ; odds ratio=1.455 (reference variable is households in control group); P-value=1.455:  $y = 1/[1+e^{-(1.792+2.380\ x)}]$ ; odds ratio=10.800 (reference variable is households in control group); P-value=0.050.

<sup>32</sup> Winston Set Aung, *Illegal Heroes and Victimless Crimes: Informal Cross-Border Mobility from Myanmar*, Institute for Security and Development Policy, 2009; Muanpon Juntopas, Winston Set Aung, Saykham Voradeth, Yaowalak Aprichartollop, Masao Imamura, *Labour Mobility from Mekong Region: a feasible option for livelihood diversification for the poor?*, The Sustainable Mekong Research Network Project Number 6591, 2009.

**Case 7:** This case was located near Mawlamyaing in Mon State. The interviewee was a woman managing a small goldsmith shop. She and her family had made a decision to send her oldest daughter to Thailand through an illegal channel in order to work at a seafood processing factory in Mahachai, Samut Sakhon Province. After some time, the daughter found a Myanmar migrant worker there who came from Kawthaung. He had also gone to Thailand illegally and had taken a few jobs. Then he became a skilled worker at a textile factory in Thailand, obtained his worker's ID with the help of his boss and had since been working legally although he did not have a legal passport, which is common for Myanmar workers working legally or illegally in Thailand.

They got married in Thailand and delivered a child, who, a few months after birth, was sent back to her hometown through an illegal broker. The couple sent remittances regularly, which helped the family establish a small goldsmith business. Then, the family decided to send two younger members (a sister and a brother) to Thailand through a usual illegal channel. The two younger ones got their respective jobs in similar seafood processing factories around Mahachai. After the arrival of the two younger siblings, the oldest daughter's income was used for to pay the costs (accommodations and meals) of all the family members in Thailand, while the incomes of the two younger siblings were sent back to their mother in their hometown in Myanmar. The family was preparing to send the oldest son to Singapore through a legal channel, which would cost about US\$3000.

This case reveals the first-round effect of mobility, which mainly benefits migrants' families in their hometowns. The case also shows that the family valued legal and safe mobility, since the mother was planning to send the oldest son to Singapore legally. However, the family clearly could not afford legal mobility due to high cost and complicated procedures. Results of surveys in different areas confirmed that the majority of Myanmar migrants regularly sent remittances back to their families in their hometowns. A study also found that individual

remittances from Myanmar migrant workers in Thailand tend to rise with income, but decline with time.<sup>33</sup>

Additionally, a survey in a Mon village<sup>34</sup> revealed that almost all families had at least one family member working in Thailand. As a result, remittances from migrants in Thailand could enable most families to accumulate social capital and get more involved in community and social affairs. It was observed that with the financial contribution of households in the village, mostly from households of migrants' families, the village temple/pagoda was enlarged and renovated, a concrete road connecting with the main highway was constructed, and the village head office was reconstructed replacing a wooden structure with brick.

**Case 8:** This case was located in Zinkyek town in Mon State, where most young people had migrated to Thailand. The interviewee was the head of a household from which a son and a daughter had gone to Thailand by an illegal channel and had been working there since. At the time of the interview, the father (the interviewee) and his wife had just come back from Thailand, through an illegal channel, bringing back their grandchild who had been born in Thailand a few months earlier.

Their son got married with a Myanmar woman migrant worker in Thailand and had a child. The majority of Myanmar migrant workers normally send their children, a few months after birth, to grandparents in their hometowns by means of brokers going back to Myanmar through various illegal channels. The interviewee and his wife were rather well off in town due to remittances sent regularly over several years by their son and daughter, so they could go to Thailand personally (illegally without travel documents), visit around Thailand for one whole month, and bring their grandchild back to their hometown.

The family had been involved in paddy farming for a long time, which used to be their main livelihood. Mobility of their son and daughter had created a new alternative source of income for the family.

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<sup>33</sup> Sean Turnell, Alison Vicary, Wylie Bradford, "Migrant-worker remittances and Burma: an economic analysis of survey results", in Monique Skidmore and Trevor Wilson (eds), *Dictatorship, Disorder and Decline in Myanmar* (Canberra: ANU E Press, 2008), pp. 63–86.

<sup>34</sup> The survey was conducted by Winston Set Aung in 2008 with the assistance and support of the Anti Trafficking Unit of Myanmar. It was a part of a project undertaken by the Sustainable Mekong Research Network to produce a documentary film on mobility.

After a few years, remittances sent regularly by their children had become the most reliable major income for the family. Most families in town used to help each other when planting and harvesting paddy and as a result no waged workers were needed. However, because the young people of most families had gone to Thailand, there was not enough labor left in town. As a result, most families had to hire workers from nearby villages, paying them in kind (i.e. in paddy or rice after cultivation). Once they were receiving regular remittances from their family members working in Thailand, townspeople started hiring waged workers from other parts of Myanmar, usually from Waw, Saw, Irrawaddy Delta, etc. The interviewee admitted that it had become more cost effective to hire waged workers because the level of wages was lower (although still slightly higher than wage level in other areas from where these workers came) than payment in kind, and productivity had increased due to efficient use of labor.

This case revealed both first-round and second-round effects of mobility. In the first-round effect, migrants' families in their hometown benefited greatly from mobility through remittances. This kind of job creation, wage payment, and expenditure by migrants' households could be the initial stage of the second-round effect. The effect could be generated when remittances, as an injection of income from outside the economy, are spent and stimulate economic activities in other households. If the government could devise appropriate policies to develop proper credit markets, remittances may generate growth linkages by providing liquidity. Migrant households could provide loans to non-migrant households and produce larger local income multipliers.<sup>35</sup> If the legal mobility could be made more convenient, accessible, and affordable, migrants and their families would be safer, would be able to strengthen the second-effect of mobility, and could contribute more to rural development and poverty alleviation to some extent.

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<sup>35</sup> Taylor J. Edward, Arango Joaquín, Hugo Graeme, Kouaouci Ali, Massey S. Douglas, and Pellegrino Adela, "International Mobility and Community Development", *Population Index*, Vol. 62, No. 3 (Autumn 1996), pp. 397-418.

When proper infrastructures are in place, fundamentals for facilitation of investment and business are improved, and an efficient rural credit market is established, mobility and remittances will contribute to development. If the government policies could enable returned migrants to apply their overseas technological and production knowledge and experience in their communities of origin, with a better business environment rural employment would be created, direct and indirect multiplier effects of mobility would be more significant, and household non-farm incomes of both migrants' and non-migrants' families would improve. If these policies could be tilted to become more pro-poor, and to ensure that poorer families benefit, mobility could become an effective strategy for national poverty alleviation. Through effective pro-poor policies, the first-round effects of mobility would be positive because income inequality and opportunity costs of out-mobility in the sending areas as first-round effects of mobility would be reduced.

# Conclusion

Informal/illegal or quasi-legal movement of goods and persons across borders between Myanmar and its neighboring countries, especially Thailand and China, has become more vibrant in the past decade due to various factors.

One factor is improved infrastructure, such as road and transport systems, and another factor is the stability at cross-border areas, which together have significantly strengthened cross-border trade.

The third factor is that sanctions by the West have had both positive and negative effects on cross-border trade. A positive effect is that U.S. trade sanctions, by limiting Myanmar's international trade, have strengthened cross-border trade as an outlet. Time series regression analysis suggests that the sanctions had statistically significant positive impact on Myanmar's cross-border trade. Among the sanctions, the impact of the measure imposed by the U.S. in 2003 had a statistically significant impact.

A negative effect is that sanctions have driven Myanmar to rely more on neighboring countries, especially China, India, and Thailand, for trade and investment. As a result, Myanmar has lost market diversification and competitiveness in the world. Regression analysis further suggested that sanctions had statistically significant positive effect on the logarithm of Myanmar's cross-border trade with three active neighboring countries: China, India, and Thailand. Of the sanctions, the 2003 U.S. sanction is statistically significant.

Another negative effect is over-exploitation of resources and smuggling of them in raw form to neighboring countries. Sanctions on investment, first imposed by the U.S. in 1997, significantly weakened foreign direct investment, limiting value-added industrial development and restricting Myanmar's international trade. As a result, the majority of Myanmar's resources are being exported or smuggled, without any

value added, across-borders by land to neighboring countries where value-adding processing is done and the resources are either sold in the domestic markets or re-exported and transshipped to other countries.

The fourth factor affecting cross-border trade is internal restrictions in Myanmar. Restrictions on trade, licensing procedures (despite the existence of one-stop service centers in several border trade areas), and frequent interventions in the trade sector in terms of price ceilings, price floors, etc., tend to divert legal trade to informal or quasi-legal trade that is normally undocumented on the Myanmar side, though it may be documented on the side of the neighboring partner countries. These restrictions, ad-hoc policies, etc., may be the result of inadequate exposure. Inadequate exposure is an effect of sanctions that have restricted foreign investment by responsible and large corporations, limited industrial development, etc. As a result, sanctions may have an indirect effect on the gap between legal and illegal trade. Time series regression analysis also highlighted that sanctions (represented by dummy independent variables) have tended to widened the gap (i.e. set as the dependent variable) between trade that is documented on the Myanmar side and that documented on the side of Myanmar's neighboring partner countries.

There were indications that flexibility in restrictive trade policies on some specific products had converted smuggling into legal trade that is documented both in Myanmar and its neighboring partner countries. Under the existing restrictive circumstances, informal broker trade companies that import or export products on behalf of real traders play a pivotal role in cross-border trade that unintentionally encourages more legal trade activities. Although they are mainly involved in quasi-legal trade activities, their role in terms of trade facilitation is quite significant.

While informal broker trade companies are mostly involved in legal trade, by applying for export/import licenses in advance and using them to import or export products on behalf of real traders, there are other types of brokers and/or carriers who normally smuggle goods such as Thailand-made energy drinks, monosodium glutamate flavor enhancer, rice, onions, etc., that may be considered illegal by trade authorities but are considered licit by the people.

The various factors that affect legal, quasi-legal, and illegal cross-border trade have various effects. One negative effect is that informal

cross-border trade in illegal items tends to strengthen unethical practices in border areas on both sides (i.e. Myanmar as well as its neighboring partner countries). Furthermore, infrastructural development at border areas in order to improve cross-border trade might have negative effects on local people in these areas who must relocate to other areas. In addition, these infrastructural developments might have caused deforestation and potentially transboundary environmental issues around border areas. On the positive side, legal and quasi-legal cross-border trade tend to have positive effect on income level and livelihood conditions of local people (who are involved in trade) around border areas. Through multivariate multinomial logistic regression, it was estimated that cross-border trade activities have had a more positive effect on income levels amongst men than amongst women. In terms of age, the chance of younger respondents experiencing a better effect on their income level is over four times higher than that of older respondents.

With a view to enhancing positive effects and marginalizing negative issues of cross-border trade (especially quasi-legal and illegal trade), existing policy measures should be adjusted. First of all, existing restrictive policies should be made flexible and ad-hoc interventions should be minimized. If intervention is necessary, advanced notice should be given in order to protect traders against potential losses. While the existing restrictive policy measures and licensing system remain, the facilitating role of broker trade companies should be recognized. Attempts should be made to narrow the gap between what is considered by the state as illegal and what is considered by the people as illicit. This could marginalize a considerable amount of undocumented trade, i.e. the gap between what is documented on the side of Myanmar and its neighboring countries.

Furthermore, appropriate measures should be taken to enter into more bilateral or multilateral trade agreements, to strengthen effective trade promotions, to improve trade facilitation, to eliminate complicated and lengthy processes, to make trade credits available, and to make trade policies and procedures stable, transparent, convenient, and affordable for small and medium sized traders. In addition, promotional measures should be taken to induce more foreign direct investment in the manufacturing and processing sectors for production of value-added

products by creating a favorable investment/business environment. If Myanmar could export more value-added products instead of exporting its natural resources in raw form, making the value of Myanmar's exports much higher, trade would contribute more towards economic development, open up more employment opportunities and livelihood options for local people, and contribute to human resource development through technology transfers.

Finally, emphasis should be given to pro-poor policy measures with a view to establishing a visible link between trade and poverty alleviation. In order for cross-border trade development to benefit people in border areas and contribute to poverty alleviation, policy should be adjusted to include a pro-poor approach through which more disadvantaged people will benefit. Through this approach, cross-border trade development will contribute not only towards the economic development of Myanmar but also towards poverty alleviation, at least in areas close to the borders.

The following measures should be considered for the development of legal and documented cross-border trade and to improve product development, market diversification, and competitiveness.

**Table 10. Current Issues in Cross-Border Trade and Recommended Measures**

**Current issue:** Cross-border smuggling has increased, leading to various negative consequences. Smuggling channels might become safe-heavens for more professional illegal activities such as trafficking in persons and illicit items.

**Recommended measures:**

- Restrictive ad-hoc policies should be relaxed and made flexible.
- Frequent interventions in the trade sector with ad-hoc policies should be reduced.
- Products that are considered illegal and restricted by trade authorities but licit by the community should be reviewed.
- Further detailed research should be conducted to analyze hidden costs related to legal trade channels and minimize them as much as possible.

**Expected outcomes:**

- The cost of legal trade will be lower than the cost of smuggling.
- Smuggling activities will automatically be minimized.

**Current issue:** Although one-stop centers exist at several borders, cross-border trade procedure is still not tremendously simplified and remains lengthy due to various stringent requirements.

**Recommended measures:**

- Licensing should be required only for certain products as per international conventions related to export control.
- A reporting system can be practiced for some products.
- Apart from these products, the rest should be traded without going through licensing.
- If cross-border trade through the conventional trade method is preferred, the banking system at border bank branches should be made efficient through an electronic and/or SWIFT system.
- More focus should be placed on efficient trade facilitation.

**Expected outcome:**

Cross-border trade will be improved, faster, and more efficient.

**Current issue:** Competitiveness of most export products, especially resource products such as timber/wood and precious minerals, has been declining.

**Recommended measures:**

- Create a favorable investment climate and promote value-added industries.
- Improve financial transaction processes.
- Encourage investment in value-added production.
- Promulgate and enforce laws and regulations related to environmental protection and resource use.

**Expected outcomes:**

- Increased sustainability of resources.
- Creation of more employment opportunities.
- Increased export values.
- Increased export competitiveness.

**Current issue:** Informal transboundary trade opens the door for other illicit activities.

**Recommended measures:**

- Strengthen cooperation with neighboring countries.
- Improve trade facilitation by simplifying import/export and customs inspection procedures, eliminating the licensing system, cooperating with finance authorities for faster processing of financial transactions, providing trade credits, etc.
- Strengthen the border police force and authorities in charge of transnational crime control.
- Encourage research on illegal cross-border activities and the control of such activities.

**Expected outcome:**

Mitigation of transboundary issues through cooperation with neighboring countries.

**Current issue:** Myanmar relies excessively on trade with neighboring countries, losing its product development and market diversification.

**Recommended measures:**

- Emphasis should be placed on signing bilateral, and if possible multilateral, trade agreements with as many countries as possible.
- Capacity-building and training should be provided to enhance the quality of products to meet international requirements.
- Promote supporting industries and small and medium-sized industries for cost effective product development.

**Expected outcome:**

Improved product development and market diversification. As a result, price discrimination will be reduced and will reduce the impact of market downturns (or economic shocks) of selective neighboring countries.

**Current issue:** The border logging industry aims for short-term harvesting and profits rather than investment in longer-term timber production. This results in forest degradation in Myanmar's border forests, which in turn has an impact on China's forests.

**Recommended measures:**

- Impose strict control of illegal logging along the border.
- Cooperate with China to control illegal logging
- Impose strict control on logging concessions and monitor those concessions that have already been granted.
- Encourage local and foreign investors to make long-term investments in value-added production.
- Enforce forest rehabilitation programs.

**Expected outcome:**

Sustainable use of forest resources.

**Current issue:** Focus is mainly on increased trade for economic development instead of on trade for sustainable development (i.e. economic and social development with regard for environmental protection and poverty alleviation).

**Recommended measures:**

- Existing policies should be tilted to adopt a pro-poor approach.
- Ensure that poor people or local people get some benefit out of cross-border trade.
- Legal framework for environmental protection should be in place.

**Expected outcome:**

Livelihood conditions of the poor and local people will be improved and this will contribute toward poverty alleviation to some extent.

**Current issue:** Trade in natural resources such as precious minerals (jades, rubies, sapphires) is mostly undocumented. Smuggling of these items into China and Thailand is common.

**Recommended measures:**

- Simplify export procedures (licensing system, price recommendation, floor-price setting).
- Encourage local and foreign investment in resource-processing activities, such as gem cutting and polishing.
- Improve transportation, communication, and financial infrastructure.

**Expected outcomes:**

- Eventual decline in smuggling.
- Gradual improvement in the documentation of the resource trade.
- Increased income from the export of value-added products.
- Increased employment opportunities for locals.

**Current issue:** Resource trade is conducted to achieve short-term gains at the expense of long-term sustainability.

**Recommended measures:**

- Implement effective trade policies to determine how short-term gains from natural resource trade should be efficiently utilized to ensure long-term sustainability.
- Guarantee rural people's access to and control of the natural resource base and offer opportunities and incentives to use these resources sustainably.
- Provide educational programs related to the sustainable use of natural resources at the grass-roots level.
- Legal framework for environmental protection should be in place.

**Expected outcome:**

Significant improvement in sustainable development.

# Annexes

**Annex 1. Myanmar's border exports (US\$ million)**

Border Points	1996 1997	1997 1998	1998 1999	1999 2000	2000 2001	2001 2002	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007
Chin Shwe Haw	0	0	0	0	0	0	0	0	0.066	1.024	2.954
Kaw Thaug	14.382	44.019	13.292	9.17	21.58	47.227	28.311	13.398	18.779	24.071	34.628
Lwel Gel	0	0	1.491	4.022	3.328	3.101	2.859	8.588	4.023	5.527	16.024
Maungtaaw	1.171	2.586	8.369	8.595	9.28	15.981	7.425	2.889	5.559	3.322	4.158
Meik	0	0	0	18.387	19.804	25.479	19.041	26.309	33.956	38.173	37.527
Muse	28.914	82.105	93.392	92.369	120.888	130.014	155.304	168.663	195.35	120.509	118.101
Myawaddy	0	5.946	2.098	2.643	6.107	15.511	8.434	15.906	22.167	52	54.088
Sittwe	0	0	11.27	13.532	5.964	10.574	5.605	2.102	2.77	2.178	1.205
Tachileik	1.192	1.128	2.186	1.384	2.935	1.76	2.114	1.79	2.942	6.979	17.167
Tamu	5.938	11.746	1.815	5.493	7.24	10.793	7.324	7.306	7.945	7.164	0.506
Yeid	0	0	0	0	0	0	0	0	2.72	3.906	4.284

**Annex 2. Myanmar's border imports (US\$ million)**

Border Points	1996 1997	1997 1998	1998 1999	1999 2000	2000 2001	2001 2002	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007
Chin Shwe Haw	0	0	0	0	0	0	0	0	0.001	0.004	0.321
Kaw Thaug	32.807	17.239	16.661	7.447	18.484	39.428	19.027	20.394	15.426	23.547	42.511
Lwel Gel	0	0	1.49	4.558	2.863	1.745	2.249	8.539	3.941	5.981	17.512
Maungtaaw	0.406	0.679	0.3	0.145	0.077	0.125	0.348	0.44	0.166	0.482	0.375
Meik	0	0	0	0	0	0.076	0.32	0.233	0.202	0.056	0.084
Muse	157.53	58.127	97.92	90.336	97.23	114.102	130.317	155.3	151.605	125.254	85.228
Myawaddy	0	8.033	2.115	2.529	5.722	14.185	6.663	18.716	22.517	45.449	70.364
Sittwe	0	0	0	0	0	0.457	0.706	1.851	0.782	1.823	1.025
Tachileik	3.976	1.839	2.062	0.757	0.517	1.186	1.323	1.78	2.311	4.643	4.677
Tamu	14.253	10.495	1.789	3.055	5.593	8.531	4.474	2.77	2.869	1.691	0.073
Yeid	0	0	0	0	0	0	0	0	0.325	2.752	2.621

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