

BEW

**B**URMA **E**CONOMIC **W**ATCH

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*Burmese Quarry Worker, Thailand*

*Photo: Alison Vicary 2004*

## **Welcome to BEW**

Welcome to the first issue of Burma Economic Watch (BEW) for 2004. BEW is a periodical that aims to provide up-to-date and reliable data, analysis and commentary on the economy of Burma. Information on the Burmese economy is both difficult to obtain and notoriously unreliable. Comment and analysis is often scarcely less so. Our aim is to make a modest contribution to improving each, and to encourage informed debate.

BEW is the eponymous journal of our centre here within the Economics Department at Macquarie University. It is free and may be quoted, with relevant attribution, without restriction. We greatly welcome comments and correspondence.

BEW is produced by an editorial team of scholars devoted to the study of Burma and its economy. Our team is:

Wylie Bradford

Joseph Macri

Sean Turnell

Alison Vicary

To contact us, or to seek information as to how you may obtain copies of BEW by e-mail, please write to us at: [bew@efs.mq.edu.au](mailto:bew@efs.mq.edu.au). Alternatively, if you would like to contact us by traditional mail, please write to Sean Turnell, Burma Economic Watch, Economics Department, Macquarie University, NSW 2109, Australia.

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## **Issue No.1 2004**

As is well known to most of our readers, political events in Burma have grown ever more fraught in recent times. Less well known is that the country's economy has fared no better, and Burma shows little prospect soon of escaping the poverty cycle it has been enmeshed in for four decades.

In this issue we have three contributions by the BEW team:

First up is an important piece by Wylie Bradford on coming to grips with the perennial difficulties of making comparisons between the economic performance of Burma and other countries. A principal obstacle that researchers face is the question of what common standard to employ – a difficult decision with respect to any country, but much worse in Burma’s surreal universe of multiple exchange rates. The decision is not a trivial one but, as Wylie demonstrates, is critical in determining outcomes. Sadly, many researchers on Burma pay too little heed to the issue, and their findings suffer as a result. Wylie’s contribution here in BEW provides something of a primer for getting it right.

Our second article is written by Sean Turnell, and is concerned with updating his analysis of Burma’s banking crisis of 2003. A devastating if little understood event (not least by Burma’s monetary authorities!), its effects in undermining whatever trust the people of Burma had in formal monetary institutions will have profound implications for the country’s economic development. The need to update the story of the crisis is prompted by a number of developments, including the release of relevant data by the International Monetary Fund, and the growing scandal of recent revelations as to the extent to which leading financial institutions in Burma have been involved in money laundering.

Our third article, by Alison Vicary, outlines a major project currently being undertaken by BEW into the contribution of Burmese refugees and migrant workers to the economy of Thailand. The project is an enormous logistical operation that will create a vast database from surveys that are currently in the field across the length and breadth of Thailand. The project is a unique one, and its findings will be reported on in many subsequent issues of BEW.

As noted in our welcome above, we greatly appreciate receiving comments and feedback on our work, so feel free to write to us about anything you read. And, of course, all information on Burma and its economy is both scarce and valuable – please feel free to share what you know with us!

Warmest regards,

The BEW Team.

## **Purchasing Power Parity (PPP) Estimates for Burma**

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### **Purchasing Power and International Comparisons**

National Accounts data are obviously indispensable inputs into any assessment of a country's economic performance over time. However, analysis of growth rates of economic quantities such as Gross Domestic Product in either nominal or real terms, at aggregate or per-capita levels, is insufficient for a complete description of the extent of improvement or deterioration in a nation's economic position. The *relative* dimension is also important – it is desirable to have some means of comparing the performance of different economies both at selected points in time and across time. Clearly, a country in which real GDP per capita is growing at 1.5% per annum over a decade or more is progressing in terms of productive capacity, and perhaps with regard to the welfare of its citizens (at least in purely material terms).<sup>1</sup> Furthermore, if surrounding or otherwise comparable economies have recorded rates higher or lower than 1.5% we can make some general statements regarding relative performance.

However without some way of directly comparing economic quantities across countries, we are unable to furnish comparisons in terms of levels, and thus we cannot draw conclusions regarding relative living standards. For example, imagine real GDP per capita in country B is known to be twice that of country A at some point in time *when measured in terms of a common standard*, and that both countries experience growth in this quantity at the rates of 1.5% pa (B) and 3.5% pa (A). After twenty years income per head in Country B will still be 35% higher than that in Country A when both are measured in terms of the same standard used to make the initial comparison.<sup>2</sup> Hence, mere comparisons of domestic growth rates do not supply a basis for judgements concerning relative living standards and thus welfare. Country A has outperformed B in growth terms over a significant period, yet the citizens in B remain in a superior material position throughout.

What is required is precisely the 'common standard' referred to in my example. How are we to compare economic quantities expressed in different currencies across countries so that economic performance can be properly ranked? A popular method is express all values (e.g. GDP per capita) in terms of a common currency, specifically \$US. Although this method puts quantities expressed in different currencies on an equal footing in some

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<sup>1</sup> The proper theoretical treatment of 'welfare' involves many complexities. Throughout I will focus on material prosperity, the apparent productivity per head of an economy, as a reliable if inexact proxy.

<sup>2</sup> As a matter of interest, note that 35 years of growth at the rates specified would be required for A to converge to the same income per head as B.

sense, it has notable deficiencies when it comes to making international comparisons of welfare and productive capacity:

- ◆ Determination of exchange rates:- in the world of theory, where ‘fundamentals’ (trade and non-speculative capital flows) determine all exchange rates in foreign exchange markets left undisturbed by government action, the ‘common currency’ comparison method makes sense. In that world, exchange rate differentials will reflect price differentials between countries and the Law of One Price will hold – the price of every (traded) good will be the same everywhere in the world when expressed in the same currency. Hence the value of any ‘basket’ of goods will be unique in the same sense and directly comparable across countries. However, in reality exchange rates are often fixed at patently ridiculous levels, especially in the woefully underperforming economies of failed states. This has obvious relevance to Burma, where the exchange rate has been fixed at values varying from slightly below 6 to slightly below 8 kyat to the \$US for the past two decades, with black market rates running to around 150 times the official rate. Clearly, conversions to \$US using the official rate are useless for international comparisons; as that rate bears no relationship to the actual economic conditions in Burma, the conversion grossly overstates the true economic (internationally comparable) value of quantities expressed in kyat.
- ◆ Exchange rate movements unrelated to welfare:- even where a country’s exchange rate is market-determined, the ‘common currency’ approach is unreliable, as movements in exchange rates need not imply any corresponding variation in productive capacity or welfare. For instance, following a 10% currency depreciation, the value of a country’s real GDP per capita in \$US will be lower so long as real income per head increases by no more than 10% over the period of observation. Yet if real GDP per capita in domestic currency terms is increasing, then the country concerned is *better off* materially speaking – the ‘common currency’ approach implies the opposite! This is clearly unsatisfactory.

The underlying problem with the ‘common currency’ method is that it provides a perfectly acceptable answer to the wrong question. What we wish to know is how well-off is a person in Burma with, say, 1000 kyat compared to a person in the US with a sum of dollars, or a person in Thailand with a sum of baht, in Malaysia with a sum of ringgits and so on. In one sense, this question reduces to that of how much each person can buy with their money holdings *within their respective economies* – the purchasing power (command over goods and services) of the given sums in the different currencies.

The common currency conversion does not answer this question. It tells us how many dollars our person with 1000 kyat would have if they were to travel to the US and exchange their kyat on arrival, for example. If all of the individuals in our example were to follow suit (apart from the US citizen!), we would learn upon arrival how

much purchasing power each of the sums represented *in the United States economy*, and we could rank them accordingly.

However, we wish to know how much purchasing power each sum has *before* the trip, rather than after, how what the kyat buys in Burma compares with what the baht buys in Thailand and so on. Using exchange rates as a conversion factor does not answer this question.<sup>3</sup> Instead, we need a conversion factor that is related directly to the root cause of variations in domestic purchasing power across currencies: price differentials. Such a conversion factor will transform values (such as GDP or GDP per capita) in different currencies into a unit of constant purchasing power – we will be able to compare the values in *purchasing power parity* terms.

### **Calculation of PPP estimates**

The calculation of PPP conversion factors (or ‘deflators’) is straightforward in principle and complicated in practice. Extensive work has been done on the methodology over the last three decades under the auspices of the United Nations International Comparison Program, and has resulted, *inter alia*, in the well-known Penn World Tables, the latest version of which (version 6.1) provides PPP data for up to 168 countries for the period 1950-2000.<sup>4</sup> In essence, if for all goods we can observe the price at which each trades in every economy we can construct a set of ‘international’ prices (a kind of average) and from this set determine a deflator for each country that converts amounts in its domestic currency into purchasing power that is comparable across currencies. As this purchasing power must be expressed in terms of some existing currency, it has been the usual practice to use \$US as the base of comparison, and to call the units of purchasing power ‘international’ dollars (\$I). PPP deflators are thus in essence exchange rates that convert currencies into \$I, \$I1 having the same purchasing power everywhere as \$US1 has in the USA in the year of comparison.<sup>5</sup>

Estimation of PPP deflators in practice has involved the collection of price data on goods that could be regarded as uniform in quality and characteristics across countries, and the combination thereof into international price indices using sophisticated statistical techniques. Where countries were included in so-called ‘benchmark’ data

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<sup>3</sup> Which is why the use of black market exchange rates as a conversion factor is no great improvement. They are economically more relevant than official rates, but they still lead to comparisons of *international* rather than domestic purchasing power. Exchange rate conversion is therefore appropriate whenever we consider cross-border flows of expenditure or financial capital, or trade in assets denominated in foreign currencies.

<sup>4</sup> For technical information on PPP calculation generally see <http://www.worldbank.org/data/icp/>. For more information on the history of the ICP and the construction of the Penn tables see <http://pwt.econ.upenn.edu/>.

<sup>5</sup> In fact, the PPP deflator is the exchange rate that would be observed in the ideal world of theory in which the Law of One Price holds. Furthermore, the choice of base or *numeraire* currency is arbitrary and makes no difference to relative rankings etc. Thus we could express PPP values in international kyat, rupiah, pesos etc if we so chose.

collection exercises, the deflators have been derived from actual data. For those countries not involved, regression and other statistical techniques are used to derive acceptable estimates. Burma falls into the latter category, with PPP estimates provided for the period 1950-1989 in the Penn World Table (PWT) version 5.6.<sup>6</sup>

The calculation of new PPP estimates across time naturally requires access to reliable new data. Burma is not included in PWT 6.1 on the grounds that the data available cannot be linked in a satisfactory manner to the long term data series used to construct the estimates in PWT 5.6.<sup>7</sup> Nevertheless, estimates are necessary if we are to quantify the effect of SLORC/SPDC activity on Burma's economy through, in part, comparisons with neighboring countries. Fortunately, the PPP deflators themselves can be updated in an approximate manner that, while not necessarily producing numerically exact estimates, ensures that the direction and order of magnitude of the unknown 'true' estimates will be adequately tracked.

The key to updating the deflator estimates is to recognise that their value is driven by the extent to which prices change in the country in question relative to the country of the base currency (i.e. the USA). If 1 kyat in 2000 has the same purchasing power in Burma as \$US0.50 has in the United States (PPP deflator = 2) and all prices in Burma and the US grow at the same rates for 10 years, then in 2010 1 kyat will buy in Burma what \$US0.50 buys in the US in that year. If Burma's prices rise faster than US prices, the purchasing power of the kyat measured in current \$I will fall (PPP deflator will rise) and *vice versa*. Hence, we can update the PPP deflator from a particular year according to how prices change in Burma relative to the United States.

A thoroughgoing approach would require access to detailed price data at disaggregated levels pertaining to identical products. In the absence of this, we must fall back on *general* measures of price change, specifically annual changes in the implicit price deflator (IPD) for gross domestic product. The IPD is a current-weighted index that estimates overall price movements for an economy by comparing the current value of GDP (the value of all final goods and services produced within the economy in a given period) with what its value at last years prices. By comparing what we paid in total for this years output with what we would have paid for the same output at last year's prices we obtain a measure of overall price changes. Instead of focussing solely on annual changes, we might pick a particular year as the base year and compare the value of subsequent year's GDP to their values at base year prices. Such an IPD series provides an indication of overall price movement over time.

Table 1 shows the values of the IPD's (base year 1985) for GDP for Burma and the United States over the period 1985-2000.<sup>8</sup> The dramatic extent of inflation in Burma is

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<sup>6</sup> PWT 5.6 data are currently available for download at <http://spe.cgu.edu/spedata/exldata.htm> (accessed 23 May 2004). PWT 6.1 available via: [http://pwt.econ.upenn.edu/php\\_site/pwt\\_index.php](http://pwt.econ.upenn.edu/php_site/pwt_index.php) (accessed 24/5/04).

<sup>7</sup> For comments on the treatment of Burma in the previous and latest versions of PWT see: <http://pwt.econ.upenn.edu/Documentation/append61.pdf>.

<sup>8</sup> Data sources as follows –

- Burma: Asian Development Bank *Key Indicators 2003*

readily apparent – prices overall have grown *twenty-five fold* in 16 years, a period over which prices in the United States are yet to *double* on average – and stands as a stark indictment of the economic incompetence of the current regime. Significant inflation was present prior to 1988 but it is has continued unabated at severe levels since 1990. Figure 1 represents the relationship graphically – the fact that a logarithmic scale is necessary to fit both series legibly on one chart is evidence itself of the extent of the disparity in inflation rates between the two nations.

The third column of Table 1 shows the *IPD ratio* – essentially the ratio of annual changes in Burma’s IPD to those for the United States. The IPD ratio for 1996, for example, is calculated as follows:

$$IPDR_{1996} = \frac{\left( \frac{IPD_{1996}^B}{IPD_{1995}^B} \right)}{\left( \frac{IPD_{1996}^{US}}{IPD_{1995}^{US}} \right)} \quad (1)$$

where ‘B’ and ‘US’ refer to Burma and the United States respectively and all IPD’s are constructed with reference to the same base year (in this case 1985).

As the IPD ratio is a measure of relative general price movements, it can be used to update known current price PPP deflators in line with the relationship between relative price movements and PPP measures outlined above. If we knew the PPP deflator for Burma for 1995, for example, we could obtain an estimate of the value for 1996 via

$$PPP_{1996}^B = PPP_{1995}^B \times IPDR_{1996} \quad (2)$$

and the value for 1997 by multiplying the estimate for 1996 by the IPD ratio for 1997. Successive update estimates are obtained by repeated applications of this procedure.

The results obtained from this method are approximate – as stressed above the ‘true’ values can only be calculated using detailed and reliable price information – but I believe them to be sufficiently accurate. I tested the method by selecting a high-inflation country (Kenya) and estimated its PPP deflators for the period 1986-2000 using the method above, starting from the PPP deflator for 1985 obtained from PWT

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- [http://www.adb.org/Documents/Books/Key\\_Indicators/2003/xls/MYA.xls](http://www.adb.org/Documents/Books/Key_Indicators/2003/xls/MYA.xls) (accessed 23/5/04). Official figures for the IPD for 2001 are not yet available through external sources.
  - United States: Bureau of Economic Analysis, National Economic Accounts pages <http://www.bea.gov/bea/dn/nipaweb/index.asp> (accessed 23/5/04). Base converted to 1985=100.

6.1. I then compared the estimates with the ‘true’ values in PWT 6.1. The estimate series tracked the actual series extremely closely, with an  $R^2$  of .99 and a Root Mean Squared Percentage error less than 1%. We can be confident that our estimates for Burma’s PPP deflators capture the essential information in terms of magnitude and direction.

To begin the estimation process, we need a value for the PPP deflator for Burma in at least one year. As noted earlier, Burma was included in PWT 5.6, with observations on a range of variables for the period 1950-1989. Since the PPP deflator is used to convert values such as GDP per capita measured in domestic currency into \$I measures, it follows that for any year in which we have both nominal kyat and \$I values available, we can derive the deflator simply by dividing the kyat observation by that in \$I.

Available National Accounts data for Burma (via the Asian Development Bank) overlap with PWT 5.6 for the period 1985-1989, so PPP deflators for Burma can be derived for these years. There is an apparent anomaly, however, in the PWT 5.6 results. They show GDP per capita in \$I increasing significantly from I\$500 to I\$591 from 1988 to 1989. This could only happen if a) inflation in Burma was much less than that in the USA during 1989 *or* b) output per capita measured in constant price terms grew very significantly in Burma during 1989 *or* some combination of a) and b) occurred.<sup>9</sup> Table 1 shows an IPD ratio of over 1.51 for 1989, thus ruling out scenario a). There is no evidence in the official accounts of sufficient growth in Real GDP per capita to justify option b). More importantly, given the severe disruptions of the uprising period, it is implausible that such an improvement in material living standards would have occurred. Hence, I use 1988 as the last date for ‘true’ PPP deflators (at least in terms of PWT methodology) and the starting point for extrapolations.

Table 2 shows the derived PPP deflator series for Burma for the period 1980-2000. The values for 1980-1988 are ‘true’ values derived from PWT 5.6, with values from 1989 onwards estimated using equations (1) and (2) above. The impact of Burma’s chronic inflation experience is evident in the precipitous decline of the purchasing power of the kyat. In 1980, 100 kyat in Burma bought as much as \$33.89 in the United States. By 2000, 100 kyat could only command as much in terms of goods and services in Burma as could \$2.22 in the USA.

As the purpose of PPP calculations is comparison, I have also supplied the deflators for Thailand for the same period, derived from the data in PWT 6.1. The impact of Burma’s inflation stands out starkly in this context also. Thailand has experienced higher rates of inflation than the United States, leading to a rising PPP deflator – 100

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<sup>9</sup> It is important to remember that \$I measures of output are defined in terms of *current* international prices, so that growth rates calculated between years are misleading – GDP in \$I will change from one year to the next due to combinations of changes in domestic prices, international prices and domestic real output. The growth of output in real terms is indicated by the growth rate of GDP in domestic currency terms and can be used to derive constant international dollar series. However, the growth rate of real GDP in domestic currency terms and in constant international dollar terms will therefore always be the same by definition.

baht in 1980 had the same purchasing power in Thailand as \$11.45 did in the US, while in 2000, 100 baht was equivalent to \$US8.42. However, the severe and sustained inflation in Burma has led to a reversal of the rankings of the currencies in terms of purchasing power, a fact that Alison Vicary reports to be well-known, and lamented, on the border. Using the PPP deflators we can see that in 1980 100 kyat in Burma had the purchasing power of 296 baht in Thailand, but by 2000, 100 kyat in Burma was the equivalent of only around 26 baht in Thailand. Figure 2 illustrates this reversal of fortunes

As noted at the beginning of this essay, the main purpose of PPP estimation is cross-country comparisons of living standards. Although the collapse of the purchasing power of the kyat compared to the baht is likely to be an important push factor underlying the significant flow of persons from Burma to Thailand, we must also take account of the relative productive capacities of the two economies. Table 3 lists estimates of GDP per capita in current \$I for Burma and Thailand over the period 1980-2000.<sup>10</sup> Figure 3 sets the scene visually.

Here the economic failure of Burma relative to Thailand is clear and indisputable. Output per head in Thailand was quadruple that of Burma in comparable terms in 1980, and the ratio moved in Thailand's favour over the next two decades. In fact, the ratio doubled throughout Burma's 1980's crisis period, and much of the apparent 'catch-up' since the advent of SLORC/SPDC is actually due to Thailand's own stumbles during the Asian financial crisis. Indeed, Burma's economic position relative to Thailand (in terms of output per head) in 2000 was worse than that at any time in the period 1950-1988 (based on PWT 5.6 figures). Even though official data for IPD inflation in Burma are not yet externally available for the post-2000 period, all indications are that inflation has continued at rates at least in the 20-30% range. We can expect from this that the economic position of Burma relative to Thailand has only worsened in the interim, in line with the purchasing power of the kyat.

In fact, we can say that for Burma to reach the level of GDP per capita that Thailand experienced in 2000 within 50 years, it would require real growth in per capita output in Burma of 3.6% per annum. In terms of world growth history, this is an extremely high sustained rate of growth. At the rate of 2% pa (close to the world 50-year average), Burma was *90 years* behind Thailand in 2000. In world comparative terms, a GDP per capita of \$1131 in 2000 places Burma in the least-developed category, with only 17 countries in the PWT 6.1 database scoring worse, all of which are in Africa.<sup>11</sup> The economic failure of SLORC/SPDC is comprehensive, ongoing, and shows no credible signs of abating in the severity of its effects. There is no doubting that the strength of the economic 'push' factors driving cross-border movements between Burma and Thailand will not be diluted in the absence of regime change.

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<sup>10</sup> Thai data from PWT 6.1, Burma data from PWT 5.6 (1980-1988) and ADB National Accounts data (1989-2000) on nominal GDP per capita divided by the corresponding annual PPP deflator.

<sup>11</sup> The countries are Burundi, Burkina Faso, Chad, Ethiopia, Guinea-Bissau, Madagascar, Mali, Mozambique, Malawi, Niger, Nigeria, Rwanda, Sierra Leone, Togo, Tanzania, Uganda, and Zambia.

## Caveats

There are several points that should be borne in mind in drawing inferences from our PPP estimates:

- ◆ Broad coverage of IPD's for GDP – the PPP estimates derived for Burma use IPD inflation relative to the USA to proxy price changes. However, GDP is a ‘basket’ containing every good and service produced in an economy from pencils to aircraft carriers. When drawing inferences about welfare we should remember that household expenditure will be focussed on a subset of the total production within an economy in a given year. Hence in 2000 we can say that the value of total output per head in the Burmese economy would purchase \$1131 worth of all goods and services produced in the United States economy. Detailed welfare statements would require PPP estimates of household incomes and expenditure. In principle these are no more difficult to calculate than estimates for GDP, but the data are at present unavailable.
  
- ◆ Alternative estimates – at BEW we have chosen to base our estimates on PWT data, an internationally recognised source for PPP information. However, given the vagaries of Burmese data, alternative estimates are currently available. The Central Intelligence Agency's World Factbook 2001 estimated Burma's GDP per capita at I\$1500.<sup>12</sup> To a large extent the discrepancy arises because CIA estimates of per capita output use population figures adjusted downwards for excess mortality due to HIV.<sup>13</sup> UNDP provides an estimate for 2000 of I\$1027, however close inspection of the notes to the table indicate that this figure actually pertains to 1996 and, in any case, is based on non-standard definitions.<sup>14</sup> Once again, it is important to stress that these are estimates, and that no great significance can be placed on differences of tens of dollars. What is important is that trends are tracked, and we believe that our estimates do that tolerably well.<sup>15</sup>

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<sup>12</sup> Archived CIA Factbooks are available at <http://www.theodora.com/wfb/> (accessed 24/5/04) and the latest release from <http://www.cia.gov/cia/publications/factbook/> (accessed 24/5/04).

<sup>13</sup> That this adjustment has been made is explicitly stated in the Factbook entry for Burma. Hence, Helen James's assertion that “U.S. demographic assumptions appear influenced by the perception that the junta is unable to sustain normal growth” appears to be no more than facile apologetics for the regime. James, H. (2004) “King Solomon's Judgement”, in John Badgely (ed) *Reconciling Burma/Myanmar: Essays on U.S. Relations with Burma*, *NBR Analysis* 15(1) pp 55-66. Section quoted is from page 56, note 2. This publication is available for free download at <http://www.nbr.org/publications/analysis/> (accessed 24/5/04).

<sup>14</sup> Available at [http://hdr.undp.org/reports/global/2002/en/indicator/indicator.cfm?File=indic\\_279\\_1\\_1.html](http://hdr.undp.org/reports/global/2002/en/indicator/indicator.cfm?File=indic_279_1_1.html) (accessed 24/5/04).

<sup>15</sup> Morten Pedersen cites a figure of \$300 for contemporary GDP per capita in PPP terms. This is obviously an error on his part, as such a figure is completely at odds with existing data on Burma, and would make Burma the poorest country in the world by a considerable margin (e.g. at half the income per head of Tanzania!). Pedersen, M. (2004) “The Crisis in Burma/Myanmar: Foreign Aid as a Tool for Democratization”, in Badgely *op. cit.* pp 87-101. Citation refers to page 96.

- ◆ Burmese data pathology – our estimates are based on official data, and so can only be as reliable as these sources permit. Sadly, official data supplied by the regime are deficient in many respects. Population estimates vary widely due to the absence of contemporary census data. The ADB data utilised by BEW relies on 1983 census data updated using data from the Population Changes and Fertility Survey in the 1990's. Other organisations (UNDP, CIA etc) make different demographic assumptions and come up with alternative figures. The variances are not trivial – the CIA currently puts the population of Burma at up to 10 million persons lower than the official estimates! In terms of economic data, the regime fares no better. The ADB noted recently that Burma's apparent strong growth record is inconsistent with other available basic economic data.<sup>16</sup> In particular, the regime appears to claim double-digit growth rates despite little or no change (or indeed declines) in critical inputs such as land area sown, fertiliser, electricity consumption, and so on. Distortion and exaggeration of economic performance for propaganda purposes is standard practice in authoritarian regimes. Furthermore, the incentive structures within State organisations can hardly be expected to foster honest reporting of bad news; we can expect that the phenomenon of telling superiors what they are believed to want to hear results in widespread and compounded distortion as data moves up from the factory or field to the Central Statistical Organisation. Finally, information on IPD inflation in Burma is available only with a lag (2001 not yet available) and is subject to its own problems. According to the ADB data, IPD inflation fell from 35.9% in 1998 to 22.6% in 1999 to 2.5% in 2000. Although IPD inflation rates are not available, consumer price and food price indices were recording changes similar to 1999 in 2001 and rates above 50% in 2002. This pattern of rampant inflation punctuated by one year of relative stability is probably unprecedented in world inflationary history, and appears to have left no trace in terms of the behaviour of other variables in the national accounts! Clearly, there is a substantial credibility deficit with regard to the official data. As such, the estimates provided must be regarded as 'best-case' scenarios – in all likelihood the regime data significantly overstates real growth and understates inflation (in 2000). *The combination of these means that income per head in PPP terms is likely to be lower than our estimates suggest, and the comparative situation with regard to Thailand and other countries that much worse.*

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<sup>16</sup> Asian Development Bank *Asian Development Outlook 2004*, available at: <http://www.adb.org/Documents/Books/ADO/2004/mya.asp> (accessed 24/5/04).

**Table 1: Implicit Price Deflator series**

<b>Year</b>	<b>Burma</b>	<b>United States</b>	<b>IPD ratio</b>
<b>1985</b>	100.0	100.0	-
<b>1986</b>	106.6	102.2	1.0425
<b>1987</b>	129.2	105.0	1.1770
<b>1988</b>	161.7	108.6	1.2108
<b>1989</b>	255.0	112.7	1.5189
<b>1990</b>	302.3	117.0	1.1409
<b>1991</b>	374.1	121.1	1.1941
<b>1992</b>	455.5	123.9	1.1886
<b>1993</b>	605.7	126.8	1.2987
<b>1994</b>	704.5	129.5	1.1393
<b>1995</b>	906.1	132.1	1.2587
<b>1996</b>	1114.8	134.6	1.2070
<b>1997</b>	1490.2	136.9	1.3112
<b>1998</b>	2025.9	138.4	1.3429
<b>1999</b>	2484.6	140.4	1.2091
<b>2000</b>	2549.6	143.4	1.0050

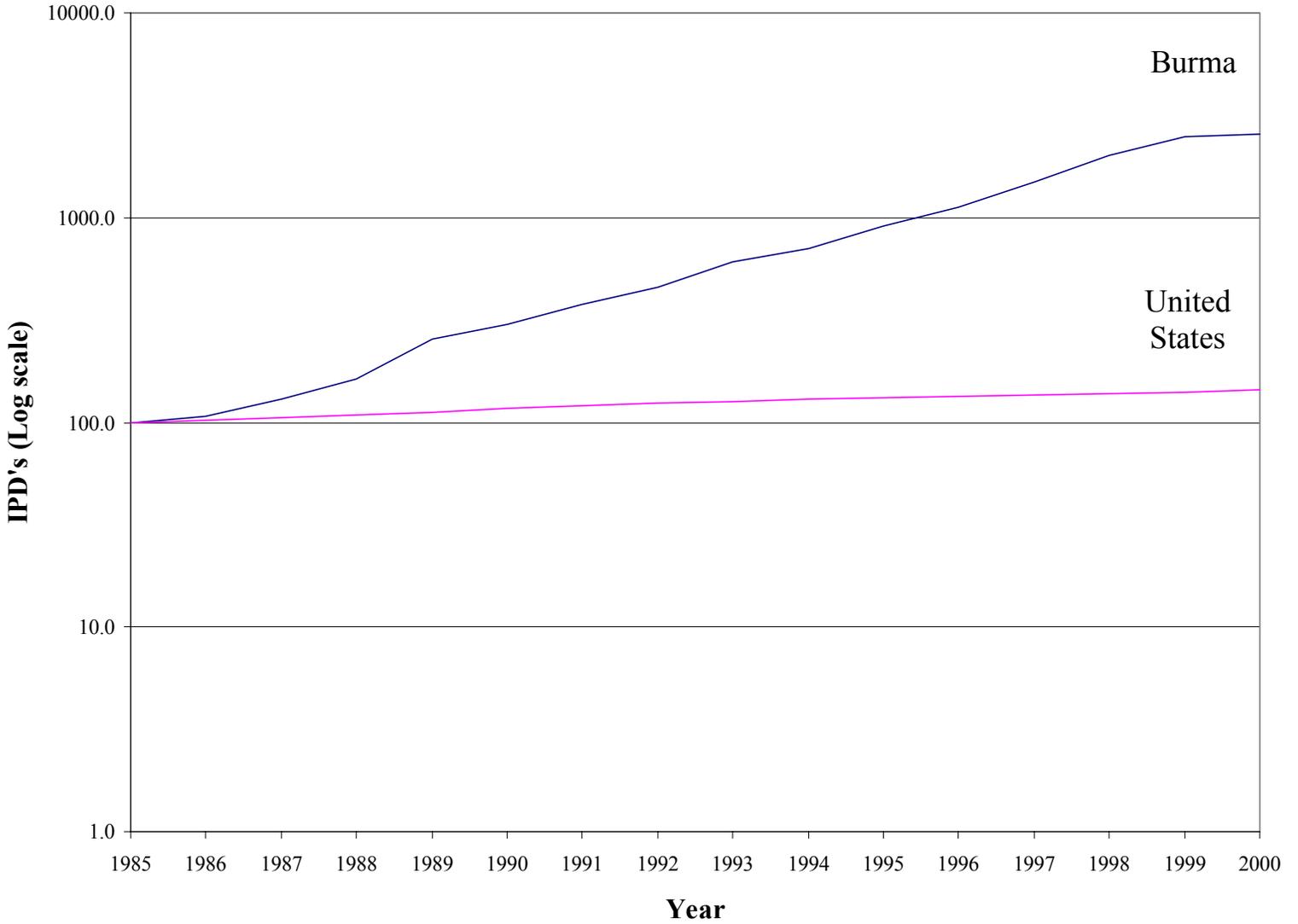
**Table 2: PPP deflator series**

<b>Year</b>	<b>Burma</b>	<b>Thailand</b>
<b>1980</b>	2.95	8.73
<b>1981</b>	2.80	8.76
<b>1982</b>	2.71	8.76
<b>1983</b>	2.67	8.56
<b>1984</b>	2.61	8.33
<b>1985</b>	2.53	8.55
<b>1986</b>	2.65	8.46
<b>1987</b>	3.11	8.61
<b>1988</b>	3.77	8.77
<b>1989</b>	5.73	9.14
<b>1990</b>	6.54	9.41
<b>1991</b>	7.82	9.52
<b>1992</b>	9.31	9.72
<b>1993</b>	12.10	9.89
<b>1994</b>	13.78	10.25
<b>1995</b>	17.37	10.64
<b>1996</b>	20.98	10.83
<b>1997</b>	27.58	11.27
<b>1998</b>	37.08	12.30
<b>1999</b>	44.83	11.85
<b>2000</b>	45.02	11.88

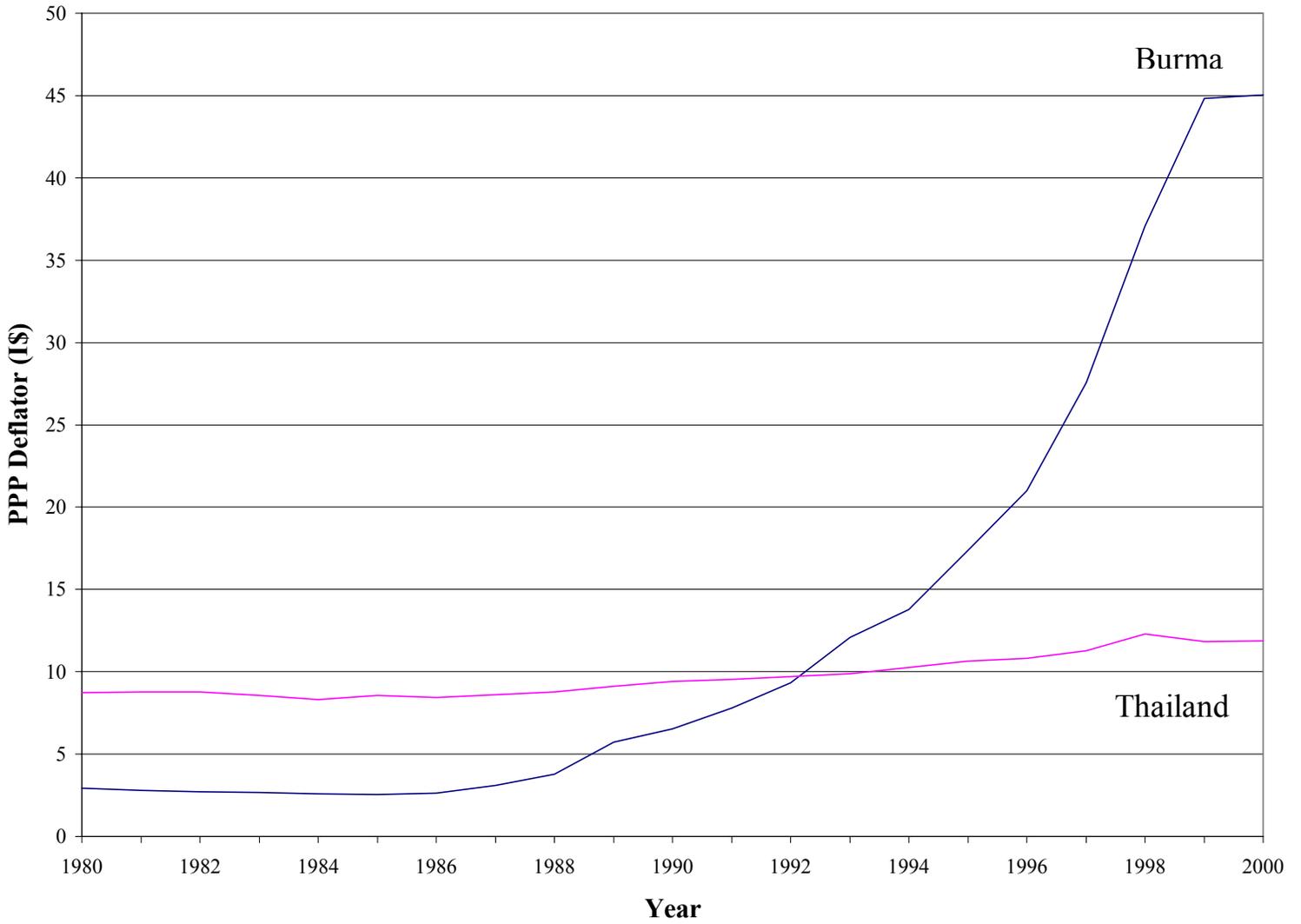
**Table 3: GDP per capita (current \$I)**

<b>Year</b>	<b>Burma</b>	<b>Thailand</b>	<b>Ratio (Th/B)</b>
1980	391	1625	4.2
1981	448	1818	4.1
1982	495	1976	4.0
1983	525	2172	4.1
1984	567	2352	4.1
1985	599	2416	4.0
1986	585	2580	4.4
1987	569	2860	5.0
1988	500	3313	6.6
1989	543	3727	6.9
1990	569	4175	7.3
1991	575	4651	8.1
1992	633	5077	8.0
1993	691	5532	8.0
1994	781	6019	7.7
1995	778	6637	8.5
1996	829	7094	8.6
1997	875	7051	8.1
1998	901	6410	7.1
1999	994	6477	6.5
2000	1131	6715	5.9

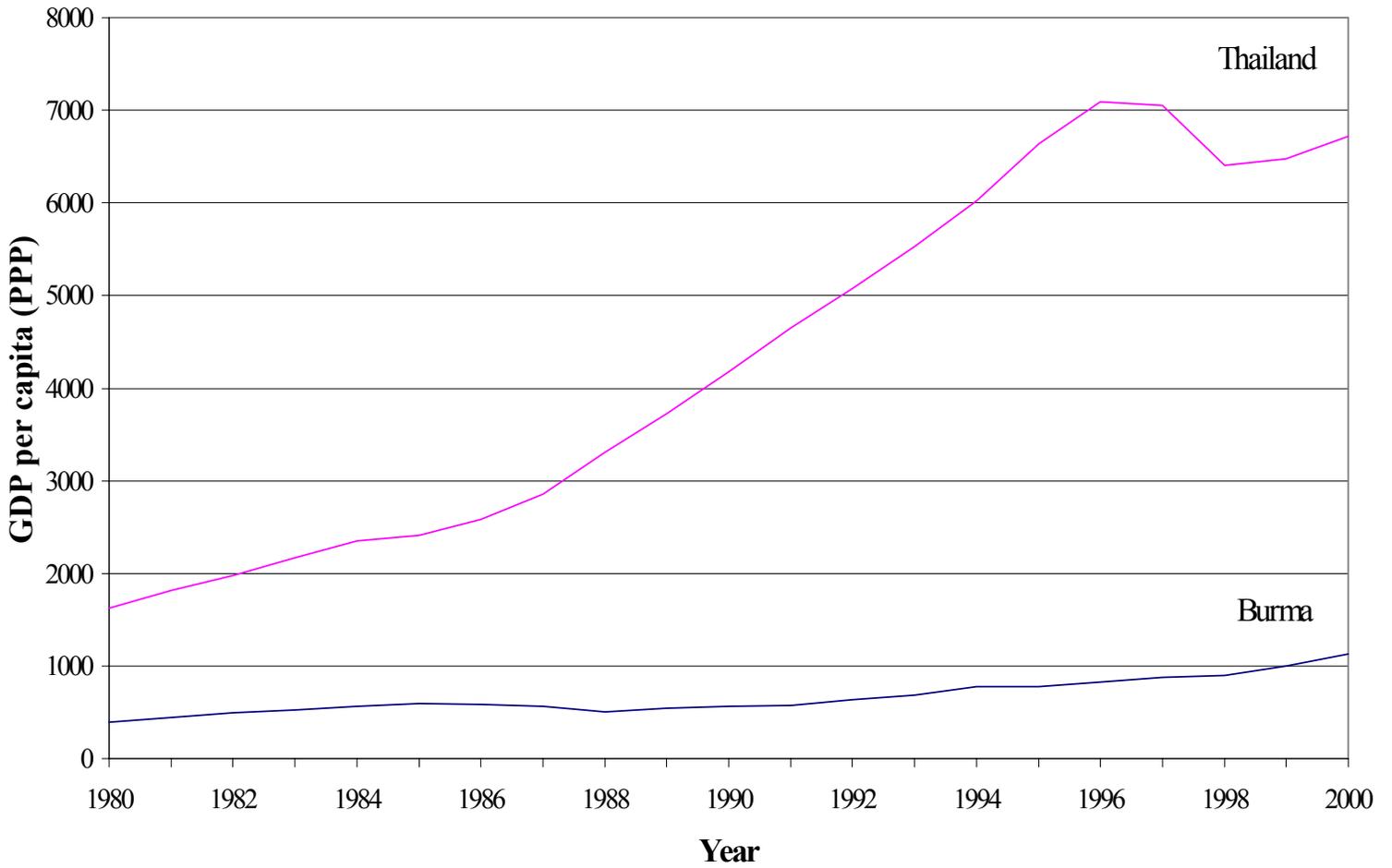
**Figure 1: Implicit Price Deflators (1985=100)**



**Figure 2: PPP Deflators, Burma vs Thailand**



**Figure 3: Burma v Thailand - GDP per Capita (current PPP)**



## **BURMA BANK UPDATE**

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As most readers will be well-aware, in 2003 the inherent contradictions in Burma's private banking sector burst to the surface, and an arena of private enterprise in the country that *appeared* to be performing well collapsed in spectacular fashion. Thereafter followed scenes sadly familiar in the country, as people took flight from the formal money economy and institutions that – functioning properly – should be pillars upon which economic development can proceed.

Of course, being Burma, it was never entirely clear what was behind the banking crisis in 2003, or what its course and consequences would be. This author has attempted to clear some of the fog in previous essays, but verdicts on most issues remain both tentative and contentious.<sup>17</sup> The purpose of this update is to review some of the developments since the events of 2003 – which partly shed a retrospective light on what took place. Unfortunately, these developments have almost entirely been negative, culminating in the firming of money-laundering charges that suggest Burma's leading financial institutions have been as criminal as they have been incompetent. One thing is certain – Burma is further away from a properly functioning financial system than at any time since bank nationalisation became a pillar of its 'way to socialism' in 1962.

### **The 2003 Crisis**

Burma stopped publishing national accounting data some time ago, but up until the present day a certain amount of data on Burma's economy is published regularly via the IMF. In this regard, the monthly IMF publication 'International Financial Statistics' (IFS) is especially valuable. Each month it carries two double-page 'spreadsheets' of data on Burma's economy. These include such items as estimates of GDP growth, government spending, taxation, exports, imports, capital flows, and so on. Mostly, however, they consist of financial data – the 'numbers' relating to a country's banks and financial institutions. The data is supplied to the IMF by member countries. It is 'fitted' to certain universal category definitions applied by the IMF, but is otherwise unaltered and, as such, is hostage to the proclivities of the supplying governments.

IFS data is published with quite a lag, so it's only now that it can be used to shed 'light' on Burma's banking crisis of 2003, and even so, it's still only the early months that are covered. Of course, *great* caution is required – as noted, these are numbers provided by the military regime – but with this qualification acknowledged, the following points from the data are noteworthy:

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<sup>17</sup> See 'Burma's Banking Crisis', *ASEAN Economic Bulletin* Vol. 20, No 3 (December 2003), pp. 272-82

- On the liabilities (essentially deposits) side of the balance sheet, the damage wrought by the banking crisis is very apparent from the IFS data. Demand deposits (what we often label ‘checking’ or ‘at call deposits’), showed a very substantial decline between the 4<sup>th</sup> Quarter 2002 and the 1<sup>st</sup> Quarter 2003 – and then further falls to the middle of the year. The decrease across the quarters, from 290,520 to 177,050 million kyat (39 per cent) is to some extent to be expected. After all, these are meant to be the most ‘liquid’ form of bank deposits. The scale of the fall is shocking nevertheless, and a telling indicator of the seriousness of the 2003 crisis. This is especially so when we recall that this flight of deposits took place despite the considerable restrictions on deposit withdrawals imposed during the crisis by the banks and Burma’s monetary authorities. The decline in demand deposits has continued, moreover, into the 2<sup>nd</sup> Quarter of 2003 (and after the crisis had ‘officially’ ended), falling a *further* 17 per cent to 146,603 million kyat by May. Grave doubts must now be entertained not only about the regard the Burmese people have for banks as depositories, but also as pillars of the country’s payments system. Demand deposits are, of course, the principle instruments by which non-cash payments and remittances are made.
  
- The fall in ‘time, savings and foreign currency’ (TSF) deposits in Burma’s banks during the crisis was also precipitous, and also on-going. From 541,307 million kyat at the end of the 4<sup>th</sup> Quarter 2002 they fell to 415,888 million kyat (23 per cent) in the 1<sup>st</sup> Quarter 2003, and then to 374,657 million kyat (a further 10 per cent) to the end of May. It will be noted that TSF deposits are a larger item than Demand Deposits, and because of their normally ‘stable’ nature they form the funding base of the banks. As such their decline does not auger well for the future of Burma’s private banking sector. Once more, it must also be recalled that these falls took place *despite* the withdrawal limits imposed by the authorities.
  
- As on the liabilities side, so on the assets side – with the IFS data showing dramatic falls across the crisis period (and after) in numerous lending categories. Most damaging, however, was the decline in bank lending to the private sector – the sector upon which any hopes for Burma’s future prosperity must rest. The IFS data shows a dramatic decline in this item over the 4<sup>th</sup> Quarter 2002 to the 1<sup>st</sup> Quarter 2003 – from 609,101 to 482,775 million kyat (21 percent). In the further two months to May, bank lending to the private sector fell another 17 per cent, to 400,917 million kyat. This decline in private sector lending could be the result of a number of factors;
  - Firstly, it *could* be the outcome of the loan ‘recall’ announcements that came in the worst months of the crisis. Such recalls would, of course, directly reduce the amount of loans to the private sector if they were acted upon. Much anecdotal evidence suggested most borrowers *did not* pay attention to the frantic calls for repayment (as the withdrawal restrictions likewise seem to have been circumvented) – but some surely did.

- Secondly, loans in Burma are usually for terms of a very short duration (a year or less). As such, recalls or not, many loans would have come up for repayment during the crisis period. Given the circumstances that the banks found themselves in, it was not likely that maturing loans would be renewed or simply ‘rolled-over’, nor would the banks have been in a position to engage in new lending. The continued decline in private sector lending beyond the first quarter 2003 would lend some support to this reasoning.
  - Thirdly, Burma’s economy and the private sector especially (more dependent on private bank finance), was materially damaged by the banking crisis, and was not in a position to seek new loans. This factor as explanation is likewise supported by the on-going declines in private sector lending.
  - Fourthly, in the wake of the crisis and the money-laundering charges, three of Burma’s biggest banks – Asia Wealth Bank, Mayflower Bank and Yoma Bank – have yet to recommence operations. It is possible, but not likely, that the outstanding loans of these banks have been dropped out of the data.
- By contrast, the IFS data for the 4<sup>th</sup> Quarter 2002 – 1<sup>st</sup> Quarter 2003 reveals an increase in bank lending to the central government. Indeed, not just a rise – but spectacular growth – from 42,548 million *kyat* at end 2002 to 107,863 million in 1<sup>st</sup> Quarter 2003. This 154 per cent increase has a number of likely explanations:
    - Firstly, there seems to be an issue of re-classification since, matching the increase in bank claims on the *central* government, has been a dramatic fall (95 per cent across the quarters) in lending to ‘non-financial public enterprises’. Such re-classifications have happened in the past in Burma, when the central authorities have wanted to ‘clear the books’ of state-owned enterprises in various efforts to improve their functioning and financial position. In *this* case, however, we at BEW believe that this is about ‘dressing up’ the books of the banks rather than their borrowers – shifting non-performing loans into a category that enables them to appear as unimpaired assets of the banks. With other asset categories in decline as a result of the crisis, this switch would make the banks appear healthier than they otherwise would. Also, to the extent that the Burmese authorities and the banks were concerned to adhere to the Basle capital adequacy accords (the international banking regulations that Burma is *formally* signed up to), this switch would relieve the capital position of the banks. Loans to the central government are deemed less-risky than those to state-owned enterprises and, as such, banks require a smaller capital commitment to them.
    - Secondly, in bank crises there is often a *relative* shift from private to public sector claims as private loans become non-performing –

and public debt remains unimpaired. Of course, in Burma's case in 2003, the shift is more than a relative one.

- Thirdly, in other countries at other times, the public sector has bailed out private firms in trouble – substituting the banks' private debt for government securities or other claims on the government. In a more reasonable political economy this would be a likely explanation for the phenomenon being examined here, but it would invariably be public knowledge if so. We have insufficient information as to whether this possible factor has any explanatory power in Burma in 2003.
- So much for the extent and nature of the crisis – but what of the actions of the Central Bank of Myanmar (CBM)?

The IFS data gives us some clue as to the extent and timing of CBM actions in response to the crisis, though the picture is not entirely clear.

First up though – there is now no doubt (there *was* previously) that the CBM did engage in lending to the private banks in the wake of the crisis. In 'the wake of' is a phrase deliberately chosen, however, for the IFS data seems to confirm the suspicion that CBM assistance did not arrive until well *after* the crisis had set in. Thus, from the 4<sup>th</sup> Quarter 2002 to the end of 1<sup>st</sup> Quarter 2003, 'credit from monetary authorities' to deposit banks in Burma rose from 44,251 to 164,993 million kyat. This 120,742 million injection of funds looks like the actions of a responsible central bank supporting the banking system it supervises.

Closer inspection of the data is less flattering. For example, at the end of the final quarter of 2002 (the point at which we can locate the 'crossover point', when the crisis in the informal finance companies moved into the banking system), credit from the monetary authorities to commercial banks actually *fell* – by 7,643 million kyat. Support did arrive in January (advances of 45,147 million kyat) and, especially, February (86,912 million kyat). Of course, by February *systemic* crisis had well and truly set in. Nevertheless, the data for February is curious – since it suggests a level of support for the banks by the CBM that was far greater than it actually claimed at the time (25 billion kyat)! In banking crises perception and expectations are everything, and the revealed 'modesty' is surprising and puzzling.

A further caution that needs to be made with respect to the above is that the item examined – 'credit from the monetary authorities' – is not one that *only* indicates emergency support. At any time it is likely that banks will possess credit from monetary authorities, simply because they deal with these authorities via their transactions with the government and its agencies. Such dealings include all manner of items – from the crediting of salaries of government employees to the (required) selling of foreign currency to the CBM – and these will always show up in movements in the credit positions of banks vis-à-vis 'monetary authorities'.

Thus the exact numbers of the analysis above are less important than the magnitude of their changes – and from this it does now seem clear that the CBM provided support to the banks, even if rather late in the drama.

- On a lighter note, on 24 September 2003 the Governor of the CBM appeared before the annual meeting of the IMF/World Bank. To this august assembly he wanted to be reassuring. Burma's banks, he declared, had non-performing loans at the 'very manageable level of 2.09 per cent' of their total assets. Such numbers would make an Alan Greenspan proud.

### **Money Laundering**

Recently there have been some very significant developments regarding the persistent allegations of money-laundering by, and through, Burma's banks. These developments, encompassing related actions by the OECD and the USA, will have the effect of isolating further (and almost completely) Burma's financial system from the rest of the world. In chronological sequence these actions include:

- 3 November 2003. The Financial Action Task Force (FATF), an international body concerned with money-laundering and based in the OECD, called for additional counter-measures to be taken against Burma as a 'non-cooperative' jurisdiction.<sup>18</sup> Burma had been so-designated back in June 2001, and this latest announcement came in the wake of what FATF called the country's continuing failure to address 'major deficiencies in its anti-money laundering regime'. The already-existing measures against Burma (so called 'Recommendation 21' actions) required financial institutions in FATF member countries to 'give special attention to' relationships and transactions with Burmese (financial and non-financial) enterprises. The additional measures announced on 3 November, to be implemented by FATF member country financial institutions and regulators, included:
  - Stricter 'know thy customer' requirements of financial institutions to Burmese entities with a view to ensuring the identification of 'beneficial owners' of funds.
  - Greater scrutiny of individual transaction on the basis that, involving Burma, they were 'more likely to be suspicious'.
  - The taking into account Burma's 'non-cooperative' designation if and when deciding upon the authorisation of local subsidiaries, branches, representative offices and the like of Burmese financial institutions.
  - Warning non-financial institutions that transactions with any entities in Burma 'might run the risk of money laundering'.

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<sup>18</sup> FATF's declaration on Burma, from which the following is heavily drawn, can be found at: [www.fat-gafi.org/pdf/PR-20031103\\_en.PDF](http://www.fat-gafi.org/pdf/PR-20031103_en.PDF)

In the view of this author it is this last point - which is extraordinarily broad in scope and potentially devastating in its effects beyond merely the financial sector - which could be most telling of the FATF measures.

- 18 November 2003. The US Treasury announces that Burma as a jurisdiction, and two of its leading banks (Asia Wealth Bank and Myanmar Mayflower Bank) are of 'primary money laundering concern'. As such, the US Treasury Secretary is authorised (under Section 311 of the USA Patriot Act<sup>19</sup>), in collaboration with the US State Department, Department of Justice and various financial regulators, to direct financial institutions in the US to 'take certain "special measures" ' against the banks in question.<sup>20</sup> Such measures 'range from enhanced recordkeeping or reporting requirements to a requirement to terminate correspondent banking relationships with the designated entit[ies]'. In the case of this ruling specifically:

The designation of Burma is intended to deny Burmese financial institutions access to the U.S. financial system through correspondent accounts. Thus, the proposed rule would prohibit U.S. financial institutions from establishing or maintaining any correspondent account for, or on behalf of, a Burmese financial institution. This prohibition would extend to any correspondent account maintained by a U.S. financial institution for any foreign bank if the account is used by the foreign bank to provide a Burmese financial institution indirect access to the U.S. financial system. In such a case, the U.S. financial system would be required to ensure that the account no longer is used to provide such access, including, if necessary, terminating the correspondent relationship.

Both the AWB and the Myanmar Mayflower Bank were covered by the measures above, but the US Treasury took additional 'independent action' against these two in order, it said, 'to reinforce the importance of termination of relationships with these two institutions, and to ensure that no exemptions are available for them'. The reason for signalling the AWB and Mayflower out was that the US had information that the two:

...are controlled by and used to facilitate money lending for such groups as the United Wa State Army - among the most notorious drug trafficking organizations in Southeast Asia. The Burmese government has failed to take any regulatory or enforcement action against these financial institutions, despite their well-known criminal links.

- The sanctions instigated for the purposes of combating money laundering were motivated by different concerns than the wide-ranging sanctions imposed on Burma by the US Administration earlier in 2003.<sup>21</sup> These latter sanctions (set out in the 'Burmese Freedom and Democracy Act, 2003' and Executive Order 13310)

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<sup>19</sup> 'Providing Appropriate Tools Required to Intercept and Obstruct Terrorism' (PATRIOT) Act, 2003.

<sup>20</sup> The following draws heavily on the official enunciation of these measures, as set out in the *Federal Register*, vol.68, no.227, Tuesday, November 25, 2003, pp.66305-66311.

<sup>21</sup> The 'Burmese Freedom and Democracy Act, 2003' and Executive Order 13310, signed by President Bush on 28 July 2003.

were motivated by the US concern for political oppression in Burma, and built upon the sanctions on new US investment in Burma imposed in 1997. Nevertheless, they too had implications for Burma's financial sector, including;

- (1) A ban on the exportation or re-exportation, directly or indirectly, of financial services to Burma;
- (2) the blocking of property and of interests in property of the State Peace and Development Council and three state-owned foreign trade banks that are in the United States or in the possession or control of U.S. persons, and
- (3) a ban on the importation of Burmese goods into the United States.

The sanctions imposed on Burma's financial system, and the AWB and Mayflower banks in particular, were created not so much because of the political abuses in the country (though clearly these provided the context), so much as for the dangers these institutions posed for the US financial system.

- The US Treasury announcement made a point of declaring that the action against the AWB and Mayflower was 'the first time that the Treasury Department has used its authority under Section 311 against a foreign financial institution'. The ban on AWB and Mayflower would remain in place 'until it is demonstrated that they have severed their links with narcotics trafficking organizations'.

Reports linking the AWB and Mayflower to money-laundering and the narcotics trade had been 'thick in the air' well before the US announcement. In Burma even other bankers referred to Mayflower as the 'Poppy Flower Bank'. The Shan Herald News Agency alleged at the time of the US ban that 43% of the share capital of Mayflower Bank was owned by Pauk Yu Chan, a noted drug trafficker. *The Irrawaddy*, 20 November, noted the long-standing claim that the Mayflower's Chairman, Kyaw Win, was 'reportedly a close friend of former drug lord, Khun Sa'). In an earlier shareholder shuffle, in 2000 Kyaw Win sold an 80 percent stake in Mayflower Bank to the United Wa State Army, once described by the US State Department as the 'world's largest armed narcotics-trafficking organisation'.<sup>22</sup> The Chairman of the AWB, Eike Htun, also Chairman of the Olympic Group, has likewise been surrounded by allegations of proximity to the narcotics trade. Protests were staged in Thailand in May 2000 when Eike Htun was invited to attend an Asian Development Bank conference in Chiang Mai.<sup>23</sup>

- On 5 December 2003 the SPDC issued the regulations required to bring into force its 'Law to Control Money and Property Obtained by Illegal Means' promulgated on 17 June 2002 in an attempt to fend off FATF's longstanding findings. On paper these rules (titled 'The Control of Money Laundering Rules') met many of the hitherto objections of FATF and the US State Department.<sup>24</sup>

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<sup>22</sup> Cited in *The Irrawaddy*, February 1998, 'Burma: Asia's first narco-state?', vol.6, no.1.

<sup>23</sup> News report, *The Irrawaddy*, June 2000, vol.8, no.6.

<sup>24</sup> Details of the Law, as well as Rules supposedly designed to enforce and implement it, can be found at the online research pages of *The Irrawaddy*: <<http://www.irrawaddy.org/res/money.html>>

Also on 5 December, the Democratic Voice of Burma (DVB) reported that the SPDC has established an 'Investigation Body' under the Central Control Board of the Ministry of Home Affairs to enquire into the money laundering allegations against AWB and the May Flower Bank.<sup>25</sup> Such a body was explicitly mentioned under Rule 14, section 9, of 'The Control of Money Laundering Rules' noted above. According to reports by the DVB, the Investigation Body will examine all accounts (and account holders) whose deposits exceed 30 million kyat.

The Investigation Body is chaired by Hla Tun, who is simply described as a 'licensed public accountant and financial consultant'. The Body also comprises:

Myint Tun, Bureau of Special Investigation  
Than Than Aye, Director, Auditor General's Office  
Maung Maung, Director, CBM  
Soe Myint, Director, Ministry of Commerce  
Myint Soe, Chairman, Myanmar Garment Entrepreneurs Association [sic]  
Sein Win Hlaing, General Secretary, Union of Myanmar Federation of Chambers of Commerce and Industry  
Tin Tun, Director, Bureau of Special Investigation (who is the Secretary of the Body).

The Investigation Body is asked to report to the Central Control Board in three months. It's instructed that it 'should be careful not to affect the regular functions of the banks' [!].

- 9 December 2003. In the wake of the Investigation Body's enquiries, all banking operations of AWB and Mayflower Bank are suspended. This includes all access of depositors to their funds and neither bank is allowed to take in new deposits, advance new loans or provide remittance and other money transfer services.
- On 12 April 2004 the US announces certain rules and regulations designed to enforce the anti-money-laundering measures imposed on Burma's financial system, and the AWB and Mayflower Bank in particular, on 18 November 2003.<sup>26</sup> On the same date the US also took the opportunity to criticise the regulations announced by the SPDC on 5 December 2003 to bring its money-laundering laws into effect. The problems with these regulations, according to the Financial Crimes Enforcement Network (FinCEN) of the US Treasury, were that
  - a) The rules set no threshold limits.
  - b) They made no provision for a 'mutual assistance law' (that is, they lacked machinery to allow cooperation with other jurisdictions).
  - c) There was no indication that the SPDC would 'provide adequate resources for supervision of the financial sector and end policies that make it easy for drug money to enter the legitimate economy'.

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<sup>25</sup> For more, see [www.dvb.no](http://www.dvb.no)

<sup>26</sup> This, and the following, draws upon the *Federal Register*, vol.69, no.70, April 12 2004, pp.19098-19103.

The US was clear that it wanted via these rules the complete isolation of AWB and Mayflower:

The United States is sending a strong message to other jurisdictions and financial institutions to take similar steps and cut off these two banks from the international financial system due to the unacceptable risk of money laundering.

**ECONOMIC SURVEY OF ‘BURMESE’ WORKING IN THAILAND<sup>27</sup>:  
AN OVERVIEW OF A BEW PROJECT**

**PART ONE**

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The BEW team is in the final stages of completing a survey of approximately 1,400 people from Burma employed in Thailand, conducted in 15 provinces.<sup>28</sup> The movement of significant numbers of people from Burma into Thailand, in spite of the widespread employment of Burmese people as manual workers (as shall be examined, often in important export industries) has been poorly documented and little discussed outside of the internal politics of Thailand and the increasing Burmese Diaspora. This is the first part in a series of articles examining the situation and economic contribution to Thailand of people from Burma.

The number of people and the provinces surveyed does not encompass the geographical nor even the industrial spread of Burmese workers. However, there were two impediments that limited the spread of the survey. The size of the grant obtained from our university (Macquarie) meant that the team was unable to finance the conducting of the survey in all the geographical areas where Burmese migrant workers are employed.<sup>29</sup> Also, the security problems for Burmese people in Thailand meant that it was not possible to conduct the survey in certain areas and workplaces. These latter problems were not always due to employer pressure, but also from certain sectors of Thai officialdom, notably police and militias. Despite the limitations of the survey with regard to the number of Burmese migrant workers and industrial and geographical spread, we believe that the survey is the most significant to have been conducted so far.

*Overview of Survey*

The questions in the survey were designed to elicit an understanding of the situation for Burmese migrant workers and their role in the economy of Thailand. The survey addressed the following areas regarding Burmese migrant workers.

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<sup>27</sup> The term “Burmese migrant workers” and “Burmese workers” is used in the article. However, this does not connote the ethnicity of the person. The terms are simply less cumbersome than always using “migrant worker from Burma” or “worker from Burma”. The survey has been supported by a Macquarie University Development Grant.

<sup>28</sup> All the interviewers for the survey were migrant workers or people who worked for organizations in Thailand working on issues relevant to migrant workers. The survey could not have been conducted with the assistance and cooperation of many people. These people are included in the reference to the BEW team at the end of this article.

<sup>29</sup> The use of the term migrant worker is also used as short hand. No inference should be drawn from its use regarding the reasons for leaving Burma. The author is aware that many people from Burma working in Thailand have fled human rights abuses and conflict zones.

- Demographic information including age, ethnicity, education, marital status, place of origin.
- The situation in the geographical area of origin (Burma) of the migrant worker; the particular situation for the migrant worker's family in Burma, and their reasons for leaving.
- The migrant workers use of brokering services in Burma and Thailand.
- The migrant workers' legal situation regarding their possession of identity cards and work permits.
- The type of job performed by the migrant worker, their workplace, their wages and work conditions in Thailand.
- The methods and level of income of the migrant worker and their families.
- The accommodation and living conditions of migrant workers and their families in Thailand
- The size of remittances and the purpose for which this money is utilized.

#### *Provinces Surveyed*

The survey was conducted in the following provinces, though not all areas of each of these provinces was able to be surveyed.

- Bangkok
- Singburi
- Lopburi
- Saraburi
- Tak (Mae Sot District)
- Ratchaburi
- Kanchanaburi (Kanchanaburi and Sangklaburi Districts)
- Ranong (Ranong District)
- Samut Sakhon (Mahachai)
- Phetchaburi
- Chiang Mai (Chiang Mai and Fang Districts)
- Mae Hong Son (Mae Hong Son and Pai Districts)

The aggregated information obtained from the survey will be supplemented by other available data on the economy of Thailand. The information obtained from the survey has yet to be analysed. However, even prior to analysis some general, non-specific and tentative conclusions will be drawn regarding the situation of Burmese migrant workers in Thailand.

#### *Demographics*

The survey includes questions on demographic details including age, place of origin, ethnicity and education levels. The survey will allow a profile of migrant workers to be established to assist in understanding the background and the problems that have caused people to leave Burma for Thailand.

The majority of migrant workers from Burma seem to be overwhelming from the rural areas in Karen, Mon and Shan states and the Tenasserin Division. In addition to their geographical proximity to Thailand, the Karen, Mon and Shan States (despite the 'cease-

fires') have long been conflict zones. Anecdotal evidence suggests that the majority of young people in some rural areas in these states are leaving for work in Thailand. The cease-fires in some areas appear to have encouraged people from the townships to relocate to Thailand, due to the improved safety conditions allowing movement.

There are also many people from Kachin State that border China and Arakan State that border India. There are smaller numbers of Karenni working in Thailand and this is no doubt due to the small population and the existence of refugee camps along the Karenni Thailand border. Many Karenni working in Thailand (though certainly not all) appear to have arrived prior to the establishment of the Karenni refugee camps in 1992. There also appears to be increasing numbers of people from Rangoon Township making their way to Thailand in search of employment. However, only small numbers of people from the central areas of Burma appear to be working in Thailand.

The majority of people from rural areas appear to have little formal education. In some of the rural areas of Shan State, the appalling educational opportunities and economic circumstances have led to at least 3 generations of many families being illiterate.

#### *The Situation in Burma*

The survey included a series of questions designed to assess the impact of any human rights abuses on the local economy. The questions do not ask if the interviewee ever experienced human rights abuses, but rather asks if these abuses occurred in their neighbourhood. The survey was not designed to allocate people to the category of refugee or migrant worker, but rather on the idea that human rights abuses, though heinous in themselves, also affect the capacity of individuals to engage in economic activities. Sometimes human rights have direct and immediate effects on the local economy, as when people flee an attack or are forcibly relocated. However, human rights abuses, curtailments on freedom and inept 'policies' also have serious implications for an economy. Some people might not be legally designated as refugees, but this does not mean that limitations on freedom - land theft, poorly delineated property rights, limits on the freedom of movement, high and pernicious taxation, monopoly rights to resources and the use of violence to control business activity - have not impacted on their ability to pursue their livelihood.

The survey includes questions addressing the living standards of the migrant worker's family in Burma. These include the occupation of family members, their ownership of land, educational attainment and issues such as taxation, debt and hunger. The survey did not ask for family income, due to the difficulties associated with making comparisons across time and in different geographical locations. The movement of Burmese into Thailand began in the 1970s, making any income comparison meaningless. In addition, geographical differences in inflation levels, the limited participation in an exchange economy for many people and the difficulties many migrant workers have in remembering and calculating their own income levels, also make comparisons or even calculations impossible.

*Brokering Services*

There is an increased interest in 'human smuggling', at least in the public forum, from the Thai government, certain NGOs and international agencies. Brokering arises from regulations imposed on the free movement of people across national boundaries, causing some people to utilize the service of human smugglers. This service, designed to circumvent regulation, imposes large costs on people utilizing it (not to mention increased corruption in both sending and receiving countries). The survey addresses the nature of brokering services, the method of payment, the cost of the service, and the length of time it takes to pay off debt. It also addresses the problem of limited information and the impact of the limited ability that those utilizing brokering services have in enforcing agreements. So far there has been no assessment of the costs incurred by 'Burmese' migrant workers resulting from laws that make crossing national boundaries illegal.

Many people from Burma do not use brokering services to enter Thailand. This is for a number of reasons. Those fleeing human rights abuses and conflict are not in a position to avail themselves of such services. Others simply use the roads that lead to Thailand, bribing the various 'authorities' in Burma that, for the purpose of extracting 'taxation' and surveillance, systematically interfere with the free flow of people and goods. Many people utilizing this method of travel, who are not directly fleeing human rights abuses, have entered Thailand previously. Many people utilize informal brokering services accompanying traders and those who regularly travel to Thailand. In many villages there is at least one person who will arrange (usually for a fee) travel to Thailand. Some employers in Thailand who hire large numbers of workers even contract with brokers to enter Burma to recruit a certain number of workers for their workplace. In some circumstances the employer will pay the broker for their services, while in others the payment will be paid by the workers, either up front or extracted from their wages. In some circumstances the broker will receive two payments, one from the employer and one from those he/she brings to Thailand.

There are also more formal and organized brokering systems operating inside Burma. These appear to be organized on the basis of geography, with one group passing on people to another at certain points on the path. Some of the cease-fire groups are also involved, offering brokering and enforcement services to people living in areas under their control. The extent of involvement of the leadership of some cease-fire groups is not always clear, with brokering just one method of 'taxation.' One cease-fire group has become quite popular with its 'constituency' by enforcing the terms (and adding some of their own) to the contract between the broker and those utilizing their services. Some of the brokers governed by this enforcement mechanism fear the consequences of any failure to deliver people to their destination. SPDC soldiers seem to be less enterprising (at least on the border posts) in this business activity, simply extracting individual payments from those entering Thailand and from people dumped at deportation points.

However, brokering services are more commonly utilized for travel within Thailand. The use of brokering services arises from the difficulty encountered by any individual entering a country without speaking its language. This difficulty is significantly increased

when that entry is illegal and local authorities are engaged in the constant surveillance of border passes and major transit routes. Much of the trafficking within Thailand involves the different arms of local authorities. The regulations governing the flow of people into Thailand and the consequent surveillance, detention and arrests, provide significant income supplementation for many members of the Thai authorities. This may simply involve the (very common) accepting of bribes to release people detained for immigration violations. In some circumstances, however, the authorities themselves are actively involved in human trafficking between Burma and Thailand.

Many people are arrested and deported as the authorities on the ground have to satisfy their superiors, certain politicians and the Thai populace. However, most of these deportees simply turn around at the border and cross back into Thailand with the assistance of brokers, some of which are employed to enforce the regulations on the movement of people into Thailand.

#### *Identity Cards and Work Permits*

Since 1996, the Thai government has attempted to legalize the employment of migrant workers from Burma, Laos and Cambodia, by offering those illegally resident the ‘opportunity’ to register for the right to work, usually on an annual basis. This section asks if the interviewee is a holder of any one of the (considerable) number of Thai identity cards that have been issued to people from Burma. It also asks a series of questions relating to work permits. The purpose of these questions is to ascertain the proportion of people holding these cards but, more importantly, to assess if possessing these cards has an impact on income and other economic indicators.

A considerable number of people from Burma, particularly those from the so-called ‘tribal’ groups such as Karen, Padaung, Palaung, Lahu, Akah, and Kayah, have been issued with Thai identity cards. Some Shan and Mon have been issued with identity cards, but these card holders tend to have fewer rights than those issued to the other ethnic groups from Burma. Most of the cards, except for the so-called “Hill Tribe Card”, do not allow the holder to legally work and place various restrictions on movement. One card limits the holder to freedom of movement in a designated quarter of a sub-district. These cards have been issued only in certain provinces, mostly those on the border with Burma, including Mae Hong Son, Tak, Chiang Mai, Chiang Rai and Kanchanburi Provinces. The methods of issuing the identification cards and their associated rights vary at the discretion of the Provincial Governor and local officials. In some provinces, people legally issued with identity cards had their documentation deleted when the system was partially computerised – a consequence of rivalry amongst officials and bureaucratic incompetence. Despite the significant numbers of people from Burma holding Thai ID cards, the vast majority of Burmese in Thailand are illegally resident in the country.

The work permit system in Thailand is inflexible, creating problems for employers, employees and imposing costs on the Thai economy. One of the most significant rigidities in the system is the annual registration and the tying of work permits to one employer. The jobs Burmese occupy generally require limited skills and the demand for workers is highly seasonal, making labour turnover in many industries high. This forces

many employers and employees to violate the regulations governing the employment of foreign workers. The unskilled nature of the jobs, the often poor occupational health and safety conditions and the tenuous legal position of Burmese workers, means that employment conditions are often very poor. The linking of the work permit to a specific employer, by limiting worker mobility, exacerbates the violations experienced by some Burmese workers. Elsewhere, the mobility of labour in unskilled labour markets is often the only protection that people have from poor and sometimes abusive conditions at their workplaces.

#### *Nature of Work*

This section asks basic questions regarding the job and the characteristics of the present workplace of the interviewee. This will allow for a cross-sectional comparison of migrant workers in different industries and will allow any relationships between job, workplace, income and conditions of the migrant worker to be assessed. Most Burmese workers in Thailand are employed in unskilled jobs, but they constitute the majority of the labour force in certain industries important to the Thai economy. These include small-scale farming; orchards and plantations; shrimp and fish farming; animal husbandry; forestry; fishing; food and seafood processing; construction; and domestic workers.

Burmese workers rarely occupy the same jobs, or the same workplace, as Thai citizens. When Thai citizens and migrant workers do occupy the same jobs, the Thai citizens often receive higher wages and/or better conditions. The extent of this discrepancy has not been assessed and the survey results will hopefully provide some assessment on the extent of segmentation either within or between industries.

Workplaces and/or industries in particular areas of Thailand tend to be dominated by a particular ethnic group and/or people from a particular locality in Burma. This relationship is partially a reflection of geographical proximity but, as in other countries, is also the result of the informal (and often illegal) nature of the labour market. The clustering of workers of a particular ethnicity or from a particular geographical location occurs as this, at least initially, enables employment to be obtained and provides greater security for the individual and the group.

#### *Work and its Conditions*

The survey includes a comprehensive section on the number of hours and days worked, and the choice people can exercise regarding its determination. The number of hours worked (in different industries and workplaces) is important in determining the economic situation of migrant workers and their contribution to the Thai economy. Burmese workers in Thailand face a number of difficulties with regard to their choice of the number of hours and days worked. Some workers are underemployed, working fewer hours and days than preferred. Many of the underemployed migrant workers are employed intermittently in the agricultural sector in areas close to the Burma border. Many of these workers, either because of their illegal status, or the limits on movement associated with their Thai identity card, or fear and age, are unable to move to localities where more employment is available. In some border provinces in Thailand farming communities have at their ready a highly flexible labour force composed of people from

Burma. The limitations on their movement ensures the availability of very low paid workers who can be hired on a daily basis when needed. In certain areas these workers do not receive money, but only payment in kind (usually accommodation and food). Other workers, such as those in the textiles and garments industries, sometimes have to work more days and many more hours than desired. There is usually no negotiation over time worked and a refusal to work the times designated results in unemployment and illegal residency.

The jobs occupied by migrant workers are often characterized by poor occupational health and safety conditions. Workers in the orange orchards in Fang and Mae Ai Districts in Chiang Mai Province, for example, are exposed to chemicals that reportedly cause leukaemia. Workers in quarrying suffer high death and injury rates mostly from falling rocks. Workers employed in recycling plastics are exposed to an unknown number of chemicals. The lack of ventilation in some factories in the textile and garment industry cause respiratory problems. Meanwhile, the enforced sedentary nature of certain jobs occupied by women cause reproductive health problems. The survey will provide an estimate of these costs borne by migrant workers.

#### *Wages, Wage Payment Systems and Unpaid Work*

These questions address the methods of determining the pay of migrant workers, including the usage of payment systems such as piece rates, hourly wage rates, daily wages and salaries. Most workers are paid daily wages, even though they are paid on a fortnightly or monthly basis. Piece rates are also common in certain industries, such as garments and textiles, agriculture and quarrying. However not all workers, even in the same workplace have their pay determined by the same mechanisms. Also of interest is the extent of payments for any time worked beyond 'normal' hours. Many workers complained of the non-payment of overtime. The survey also assesses the use of fines in the workplace and the deductions from wages for 'services' provided by the employer. Fines can be enacted for lateness, sickness, breakages and service deductions (brokerage fees, payments to Thai authorities [bribes], loans, electricity, accommodation and food).

The survey includes questions designed to assess the extent of underpayment and non-payment of wages. Underpayment and non-payment, particularly in a person's first employment experience, appears to be common. Many Burmese workers told of not being paid either in money or in kind, some complained of only receiving accommodation and limited food, while others were paid less than the amount quoted at the beginning of their employment contract. This problem sometimes arises because of misunderstandings (sometimes deliberate), regarding the repayment of the brokerage fee. However, many problems arise because of the limited information new arrivals have about job markets, and poor language skills. These problems are enhanced by the knowledge accumulated by many people living in the border provinces regarding the situation of new arrivals, encouraging and providing opportunities for dishonesty. The limited legal status of migrant workers, including those who hold work permits, means that there are many problems with the enforcement of wages and conditions. The extent and cost to migrant workers of these problems has so far not been estimated.

### *Accommodation and Living Conditions in Thailand*

The survey includes questions to ascertain the basic living conditions and income levels of the families of migrant workers. Whereas most of the previous questions addressed only the individual, this section assesses the circumstances of the family. The living conditions of migrant workers vary greatly – with some relationship to the industry of employment. Migrant workers employed in textiles, garments and knitting often live in very large dormitories that are poorly ventilated, with inadequate water and sanitation causing the spread of sickness and disease. Though the size of the workforces are similar, the basic living conditions for migrant workers employed in large food processing factories are often adequate in terms of sanitation and ventilation. Workers in both sectors above rarely have areas that allow for community or group activities. The living conditions for those in the plantations and larger farms are often better due to the much smaller size of the workforce. Health problems related to ventilation and sanitation are less prevalent, and there are also rarely problems regarding the availability of space for community or sporting activities. Accommodation for migrant workers employed seasonally in small scale agriculture is rudimentary, without access to piped water, electricity or sanitation, though the conditions are probably somewhat similar to those in Burma.

### *Remittances*

The last section of the survey is designed to assess the methods and size of remittances. There is presently little information on the size and methods used by migrant workers to remit earnings. Remittances by Burmese in Thailand do not involve the transfer of Thai currency, as most migrant workers cannot open bank accounts. Even when bank accounts can be opened expropriation by the military regime is a ready possibility. The most popular method of transferring funds is the Hundi system, now operating in an increasing number of villages in Burma due to the introduction of mobile phones. Another popular method of remitting still used is the carrying of gold. However, many Burmese migrant workers do not transfer funds as their income level is too low, ensuring that there is no surplus after essential living expenses have been met to be remitted. There are also many people who have neither family members left at home or no longer know their whereabouts. Conflict and human rights abuses in some areas of Burma have meant that whole families now reside in Thailand.

### **SURVEY TEAM**

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