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Report RL30604

*THAILAND: RELATIONS WITH THE U.S., ECONOMIC
RECOVERY, AND PROBLEMS WITH BURMA-A
RESEARCH TRIP REPORT*

Dick K. Nanto, Foreign Affairs, Defense, and Trade Division

Updated June 30, 2000

Abstract. This report summarizes information and observations from a research trip to Thailand conducted May 27-June 5, 2000, with supplementary material from other sources. It provides an overview of Thailand's relations with the United States, recovery from the financial crisis, and problems with Burma (Myanmar) centered on illegal drug trafficking and refugees.

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Thailand: Relations with the U.S., Economic Recovery, and Problems with Burma – A Research Trip Report

June 30, 2000

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Thailand: Relations with the U.S., Economic Recovery, and Problems with Burma – A Research Trip Report

Summary

This report summarizes information and observations from a research trip to Thailand conducted May 27-June 5, 2000, with supplementary material from other sources. This report provides an overview of Thailand's relations with the United States, recovery from the financial crisis, and problems with Burma (Myanmar) centered on illegal drug trafficking and refugees. Thailand is of interest to the United States at this time because its apparent economic recovery can be a bellwether for the region and the country is facing a threat to its national security from the narcotics trade and refugees from Burma. Since Thailand is a military ally, the United States has a direct interest in its disputes with Burma.

U.S. relations with Thailand are generally favorable both in terms of security and economics. A consensus existed among Thai government officials and business executives that their economy was on the road to recovery. After growth rates of -1.8% in 1997, -10.0% in 1998 and 3.6% in 1999, real gross domestic product (GDP) is expected to expand by about 4% in 2000. A question remains, however, about the sustainability of the recovery and the strategy of relying on exports to the booming American economy. Since the onset of the financial crisis in 1997, the U.S. bilateral trade deficit with Thailand has doubled.

Thailand's northern border with Burma (Myanmar) presents the greatest current threat to Thai security. It is the scene of increased illegal drug trafficking – aimed at the Thai population – and a flood of refugees – mostly from ethnic groups in Burma. Thailand has pursued a policy of engagement with Burma and led in the movement to admit Burma as a member of the Association of Southeast Asian Nations, although that policy of engagement now seems to be undergoing revision. Thai authorities are taking stronger action to stem the illegal drug trade and to attempt to deal with the displaced persons from ethnic groups across the border. This encompasses a larger role for the Thai military who are cooperating with the police in drug interdiction and suppression. The drug problem with Burma has gone beyond the traditional opium and heroin to methamphetamines. These are produced primarily in plants across the border in the Shan state and aimed at Thai consumers. In 1999, an estimated 200 million tablets were smuggled into the country.

Thailand is housing more than 100,000 displaced persons from Burma in ten temporary camps – which all too often have turned into semi-permanent settlements. An estimated 700,000 additional Burmese live in Thailand outside the established camps. Most have been displaced because of the fighting between the military junta and ethnic minorities along the border areas with Thailand. These refugees are placing a heavy economic, social, and political burden on the Thai government. For FY1999 and 2000, the U.S. State Department is administering U.S. appropriated funds related to the crisis in Burma and along the Thai-Burmese border of \$6.5 million.

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Thailand: Relations with the U.S., Economic Recovery, and Problems with Burma – A Research Trip Report

Thailand was the tinder that in 1997 ignited the Asian financial crisis. Recovery now is underway, but the economic improvement in Thailand is being offset by a serious and worsening illegal drug and refugee problem with Burma (Myanmar). This report summarizes information and observations from a research trip to Thailand conducted May 27-June 5, 2000, with supplementary material from other sources.¹ The focus of the trip was on relations with the United States, Thailand's recovery from the financial crisis, and problems with Myanmar centered on illegal drug trafficking and refugees.²

Thailand is of interest to the United States at this time because: (1) its apparent recovery from the Asian financial crisis can be a bellwether for the region; (2) it is facing a threat to its national security in the form of a sizable illegal narcotics trade from Burma that not only is putting the younger generation of Thais at risk but the profits from that trade are being used to strengthen certain ethnic groups in Burma who make the drugs and who are, at times, hostile to Thailand; (3) the Burmese military junta's crackdown on ethnic minorities in Burma is causing a huge refugee problem for

Figure 1. Map of Thailand



¹ The congressional staff delegation was sponsored by the U.S.-ASEAN Business Council and the Royal Thai Embassy in Washington, D.C.

² Unless otherwise indicated, information in this report came from meetings with Thai officials, private Thai think tanks, U.S. businesses in Thailand, and U.S. embassy/consulate officers. For further information on U.S.-Thai relations, see CRS report 98-366, *Thailand-U.S. Relations*, by Larry A. Niksch.

Thailand that requires help from abroad – including \$6.5 million in U.S. appropriated funds, and (4) since Thailand is a military ally, the United States has a direct interest in Thailand's disputes with Burma.

Located in Southeast Asia between Cambodia and Burma and north of Malaysia, Thailand is a country of 61 million people on a land area about the size of Texas. The economy has a gross domestic product of about \$120 billion. Per capita income averages around than \$2,000 with a much higher level of about \$7,000 in Bangkok and lower levels in the countryside. The Thai political system is a constitutional monarchy that, after periods of military rule, now holds democratic elections for parliament members under a new constitution promulgated in 1997.³

U.S.-Thai Relations

U.S. relations with Thailand are generally favorable both in terms of security and economics. The two countries are allies under the Southeast Asia Collective Defense Treaty (Manila Pact of 1954) and run about 30 joint exercises per year (including peacekeeping and emergency evacuation). During the Gulf War, the U.S. was provided access to Thai bases. Thailand quickly responded to the call for support of the peacekeeping effort in East Timor (formerly of Indonesia) by dispatching some 1,500 troops there. Thailand and the United States also cooperate on a number of other issues, particularly in stemming the flow of illegal narcotics and coping with refugees from neighboring countries.

In 1999, the United States ran a \$9.3 billion merchandise trade deficit with Thailand. This was nearly double the \$3 to \$5 billion in trade deficits prior to the beginning of the financial crisis in 1997. (See Figure 4.) The top U.S. imports from Thailand include electronic machinery and equipment, other machinery, apparel, fish, and miscellaneous manufactures. The top U.S. exports there include electrical machinery and equipment, other machinery, transportation equipment, chemicals, and agricultural products. (For details, see the Appendix to this report).

The Thai economy provides an attractive base for U.S. firms from which to reach Southeast Asian markets. Companies such as Dole, Proctor & Gamble, General Motors, and Ford Motors have sizable operations in Thailand. After the United States, Thailand is the second largest market worldwide for pickup trucks. Ford ranks third in this market. (In Thailand, pickups often are converted into minibuses.) U.S. companies are said to play an important role in the Thai economy in providing models of safe and healthy workplaces. In general, they are considered to follow U.S. standards with respect to labor and the environment. No groundswell of opposition to U.S. investment in Thailand has arisen.

Two issues, however, seemed to mar the otherwise cordial U.S.-Thai relationship. The first is the initial U.S. response to the Thai financial crisis in July

³ A newly established election commission recently has disqualified several senators for alleged vote buying during their campaigns and forced two rounds of new elections in those districts. An Anticorruption Commission also has been active.

1997. The United States did not pledge to provide backup loans as part of the financial support package coordinated by the International Monetary Fund (IMF). This created the impression among the Thai people that the United States was not concerned about their crisis, particularly after the U.S. later pledged secondary financing for Indonesia and South Korea. They also expected U.S. financial assistance because of their movement toward democracy. Later, the United States compensated somewhat for its initial lack of support by providing Thailand with \$1 billion in Export-Import Bank credits, cancelling the sale of U.S. fighter planes (thereby saving Thailand's hard currency), and providing \$400 billion in loan guarantees by the Overseas Private Investment Corporation for projects involving U.S. investment in Thailand. These involved real resource help, quite unlike the promises of secondary financing in the IMF support package in which the U.S. did not participate and which Thailand never activated.

The second issue of contention was the Administration's decision in 1999 to support New Zealander Mike Moore for the post of Director General of the World Trade Organization rather than the Thai candidate, Deputy Prime Minister Supachai Panitchpakdi. The Thais viewed the United States as the leader among the nations favoring the New Zealander for the post. Thai feelings were allayed, however, when under a compromise, each nominee is to serve half the six-year term of the post.

With respect to the illegal trafficking in women and labor for the U.S. market, Thai officials only noted that they try to cooperate with other countries in combating the problem. They are training their police and trying to enforce laws. They also noted that the networks dealing with narcotics seem unrelated to those dealing with the traffic in women and children.

U.S. businesses in Thailand raised a concern about the double taxation treaty that took effect at the beginning of 1997 after thirteen years of negotiations. This treaty is to terminate on January 1, 2003, unless the Thai government changes its laws to allow disclosure.⁴ According to U.S. business interests, to let this treaty terminate would put them at a large disadvantage in operating in Thailand. They urged the U.S. side to pursue talks more aggressively on this issue.

U.S. agricultural exporters in Thailand also expressed concern that the official policy of Thailand was to not allow genetically modified (GM) products into the country. Since American companies export considerable wheat, potatoes, soybean

⁴ According to the Convention Between the United States of America and the Kingdom of Thailand for the Avoidance of Double Taxation, when information is requested by a Contracting State in accordance with Article 3, section 28, the other Contracting State is obligated to obtain the requested information as if the tax in question were the tax of the requested State, even if that State has no direct tax interest in the case to which the request relates. Since Thailand had no such provision in its law, this requirement was suspended in the convention until such time as the United States receives from Thailand a diplomatic note indicating that Thailand is prepared and able to implement the provisions of this paragraph which would require enabling legislation to be enacted and to become effective. If the diplomatic note is not received by June 30, 2002, the Convention is to terminate on January 1, 2003. U.S. government officials are aware of the problem and hope that it will receive higher priority within the Thai government as the deadline draws near.

meal (for chicken feed), and other products for which GM varieties exist, their concern was that eventually they would run into problems with the market there. They pointed out that Thailand has only one laboratory to verify GM-free products.

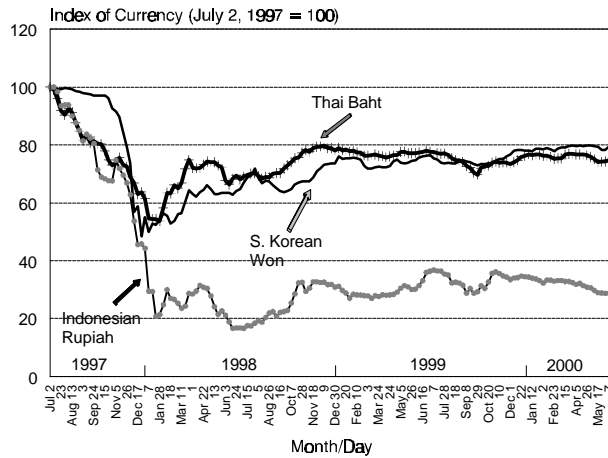
Recovery from the Financial Crisis

The visiting congressional staff group sought answers to three basic questions with respect to Thailand's financial crisis:

- What was the cause of the crisis?
- Was the economy recovering?
- Will the policy measures allow for sustained recovery?

The cause of Thailand's financial crisis was rooted in a combination of a fixed exchange rate, current and capital account liberalization, under-developed regulatory, reporting, and supervisory institutions, and mismatches among borrowers and lenders that created enormous risks for the financial system.⁵ Particularly significant was the mismatch between foreign short-term borrowing used for domestic long-term lending that fed a speculative bubble in real estate and stock markets. This was combined

Figure 2. Indices of Currency Values of the Thai Baht, South Korean Won, and Indonesian Rupiah Relative to the U.S. Dollar (1997-2000)



Source: Data from PACIFIC Exchange Rate Service

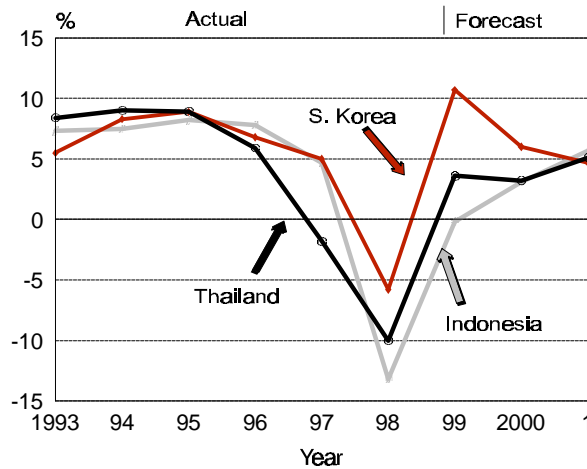
with attempts to maintain a fixed exchange rate in the face of rising trade deficits and the threat of massive bankruptcies among finance companies and other banking institutions that faced nonperforming loans of about 18% of their loan portfolios. Once investor confidence was shaken, a stampede to move assets out of the Thai baht into foreign currencies doomed the fixed exchange rate, despite government attempts to maintain it by selling foreign exchange reserves. Eventually, the Thai authorities had to turn to the IMF to coordinate a \$17 billion financial support package. The package, however, came with stringent requirements on monetary and fiscal policy that, in retrospect, resembled conditions imposed on hyper-inflationary Latin American economies and may not have been appropriate for the situation in Thailand. Eventually, the IMF eased its requirement that Thailand run a budget surplus, but not before the economy had dropped into recession. As can be seen in Figure 2, after the worst of the currency depreciation in 1997-98, the Thai baht has remained relatively

⁵ For further information on the financial crisis, see: CRS Report RL30272. *Global Financial Turmoil, the IMF, and the New Financial Architecture*, by Dick K. Nanto.

stable at about 75% of its pre-crisis level. It has performed similarly to the South Korean won and much better than the Indonesian rupiah.⁶

In June 2000, a consensus existed among Thai government officials and business executives that their economy was on the road to recovery. One think tank analyst, however, described the recession and recovery, not as “V or W” shaped, but as “L” shaped (it had dropped and is expected to stay down). As shown in Figure 3, After growth rates of -1.8% in 1997, -10.0% in 1998 and 3.6% in 1999, real gross domestic product (GDP) is expected to expand by about 4% in 2000. The recession for Thailand, as well as South Korea and Indonesia, appears to be V-shaped, but the post crisis levels of growth for Thailand are only about half those in the early 1990s.

Figure 3. Real Economic Growth Rates for Thailand, S. Korea, and Indonesia 1993-2001 (forecast)



Source: Standard & Poor's DRI

A question remains among policymakers, however, about the sustainability of the recovery. In mid-2000, the recovery seemed more broadly based than it did in late 1999, but the economy definitely is not back to where it was prior to 1997. Considering that businesses had become accustomed to growth rates of 5 to 10% per year prior to the crisis, the two years of recession plus slow recovery have put the economy about 25% below where it would have been without the financial crisis. This means that many businesses are suffering from excess capacity in production lines, and real estate developers are facing low occupancy rates in office buildings built with borrowed funds.

According to the Bank of Thailand, at the end of 1999, capacity utilization in the motor vehicle sector was only 36%, in construction 50%, in food 44%, in iron and steel 39%, and in petroleum production 86%. Overall manufacturing production in 1999, however, was up 12.5% over 1998. Unemployment was still around 4%.

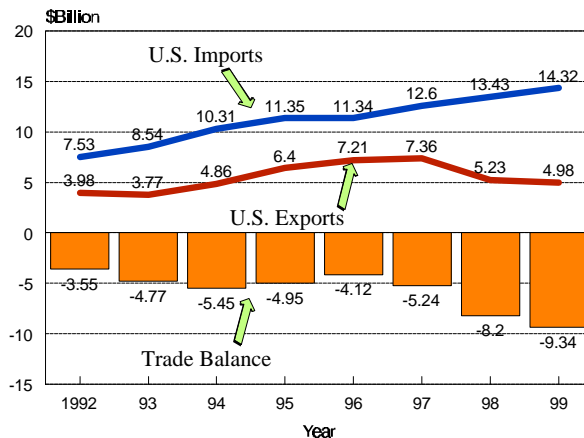
A concern for Americans is that the recovery strategy for Thailand includes export-led growth that depends on shipping products to the booming American economy. As shown in Figure 4, since the onset of the financial crisis in 1997, the bilateral trade deficit with Thailand has doubled from \$4.1 billion in 1996 to \$9.3 billion in 1999. Thai policymakers point out that Thailand's exports of goods to the

⁶ For a review of the causes, consequences, and policies related to the financial crisis in Thailand, see: International Monetary Fund. Thailand: Selected Issues. IMF Staff Country Report No. 00/21. February 2000.

United States at \$14.3 billion in 1999 amounted to only about 1% of total U.S. imports that exceeded \$1,025.3 billion that year. Still, it seems that this development strategy of increasing demand in the economy by selling to the booming and open American market is not sustainable. It is the same strategy being pursued by dozens of other countries in the world. A single country might succeed in doing it, but all countries cannot do it without causing balance-of-payment problems for the United States.

A point to note is the rising influence of Japan in Thailand. Of the 130 billion baht (\$3.4 billion) stimulus package announced in March 1999, 53 billion baht (\$1.4 billion) came from the Miyazawa plan financed by the Japanese government. Also, according to U.S. business executives, Japan has been promoting its influence through its aid and training programs, particularly with respect to small- and medium-sized enterprises. The Japanese government has been providing experts who are introducing the Japanese model for small businesses.

Figure 4. U.S. Imports From, Exports to, and Merchandise Trade Balance with Thailand 1992-1999



Data Source: U.S. Department of Commerce

Like most newly industrializing nations, Thailand has developed a dualistic economy with a rising middle-class population centered primarily in Bangkok and a rural population scattered throughout the rest of the country. The middle-class (and wealthy) still have pent up demand for the accouterments of a mass-consumption world – cars, consumer electronics, fashionable clothing, and comfortable housing. The middle class are important, not only for their effect on the economy, but for the workings of democracy and for the taxes they pay. They vote for government officials and then finance their policies. During the financial crisis, the middle class bore the brunt of the downturn, and they still face lower wages, higher debt, and more job instability than before the crisis.

Thailand's rural areas were less affected by the economic disruption, although laborers who lost their jobs in Bangkok, often went back to the countryside looking for work. Agriculture accounts for half of the Thai population. As the crisis progressed, depressed world prices for commodities, particularly rice, hurt Thai farmers. Agricultural incomes are down, and Thai authorities are seeking ways to assist farmers without violating the rules of the World Trade Organization.

In the post-mortem on the financial crisis, the Thai public seems to be making a scapegoat out of the International Monetary Fund. The criticism of the Fund is that its conditions as part of its financial support package required the Thai government to pursue tight fiscal and monetary policies and to close ailing financial institutions.

This worsened the recession and compelled the government to incur a sizable fiscal deficit in trying to recover from the crisis. Much of the criticism of the IMF, however, seems based on the fact that it reversed its initial stringent conditions and admitted its early mistakes. The criticism does not seem to be based on any solid economic assessment that some alternative policy would have worked better during the extraordinary turmoil in the early part of the financial crisis. In meetings with Thai officials, none of them was willing to spell out in detail to what extent the IMF recovery plan was responsive to Thai input or whether it merely reflected similar plans made previously for Latin American countries. Some said that given the situation, they had to “take the bad medicine with the good.”

The fiscal stimulus required to bring the economy out of the recession has pushed the government’s budget into deficit. In 1999, the fiscal deficit reached 119 billion baht (about \$3 billion or 2.3% of GDP). As of February 2000, the government held a public debt of about \$23 billion – roughly equivalent to one year’s government revenue or 13% of GDP, while the Bank of Thailand had debts of another \$13 billion. The public now is debating over who will pay for this borrowing.

The nascent economic recovery seems to have slowed the pace of reforms. The closing of insolvent financial institutions and imposition of new banking standards have progressed apace, but privatization of key government-owned monopolies and improvements in corporate governance seem to be lagging. The government is working to recapitalize financial institutions, reprivatize state-owned banks, and solve the problem of non-performing loans. A total of 68 finance companies were either liquidated or merged. The government took over 6 of 15 commercial banks and eventually sold two of them to foreign investors. The government also has injected about \$12 billion into the equity of state (and intervened) banks.

In terms of privatizing companies, in the telecommunications sector, Thailand has made promises as part of its reforms under the IMF financial support package and commitments with the World Trade Organization to liberalize its telecommunications services. The government has directed three state-owned enterprises to make preparations for initial corporatization and eventual privatization of their organizations. These include the Communications Authority of Thailand (international telecommunications), the Telephone Organization of Thailand (telecommunications in Thailand and neighboring countries), and the Mass Communications Organization of Thailand (radio and television broadcasts in Thailand). They are to begin by establishing a holding company fully held by the government which is to own the companies and eventually sell shares in them to the public.⁷ Progress in implementing this privatization plan, however, has been slow. One explanation for the delay is that the Thai military and other government officials are involved in some of the state-enterprises. Their family wealth may depend on these businesses. Another explanation is that labor unions, who tend to be strong in state-owned enterprises, vehemently oppose privatization.

⁷ Financial Times Information. Asia Intelligence Wire. International Market Insight Reports: Thailand: Update On Privatization of Com Authority. *International Market Insight Reports*. June 23, 2000. Internet version.

One bright light in the reform process has been in data dissemination by financial institutions. The first step in establishing sound regulatory and oversight systems is in gathering accurate and timely data on the activities of financial institutions. The Bank of Thailand and Finance Ministry seem now to have much improved data collection and dissemination mechanisms in place.

As the Thai policymakers look beyond basic recovery from the financial crisis, they have identified education as a major weakness in supporting future sustained growth. They point out that their technical education level is lower than that in Singapore, Malaysia, and other newly industrialized nations. Given that China is expected to capture more and more labor-intensive industry, they are concerned that Thailand will not have the skills for the high-technology industries to which their economy will have to move. The country lags behind neighboring economies in Internet and computer usage and in English facility. The government has passed a National Education Act, but the current educational system has enormous special interests and inertia.

Relations Between Thailand and Burma (Myanmar)

Thailand's northern border with Burma (Myanmar) presents the greatest current threat to Thai security. It is the scene of increased illegal drug trafficking – aimed at the Thai population – and a flood of refugees – mostly from ethnic groups in Burma.

With respect to their national security, Thai officials considered a high-intensity conflict, a major war, with any of their neighbors unlikely within the next five to ten years. They were concerned, however, over two low-intensity categories: international terrorism/organized crime and conflicts with Burma. Since 33 of the 76 provinces in Thailand are near the border

Crossing the Thai-Burma Border on Inner Tubes



with Burma, the conflicts with that country have affected Thai security. In terms of the priorities of Thai security policy, the first priority is relations with neighbors; second is relations with the great powers; and third is relations with regional groups. With neighbors, the political objectives are to promote good understanding, build trust, and protect Thai security. Thai officials noted that relations with Cambodia had improved considerably and relations with Malaysia were considered to be excellent.

The problems with Burma stem from three basic causes. The first is that the border with Burma is mountainous, ill-defined, porous, and long disputed. The area

traditionally has been populated by ethnic tribal people who may or may not recognize national governments. The current military government in Burma is attempting to unify the country by force and is loathe to grant autonomy to minority groups along the border. Since the late 1980s, the Burmese military junta has carried out military campaigns against the minority populations along the Thai border. Thai officials in the area report that the fighting in Burma will sometimes spill over into Thailand. Artillery shells occasionally cross the river on the border. The fighting also has triggered a flood of refugees into Thailand with Karen people even crossing land mine fields to reach Thai border crossings. These clashes have been occurring for 15 years. According to Thai officials, one problem is that the Myanmar ruling junta has turned over the area of Karen control to the Karen Buddhists and has been using them to suppress the Karen Christians and Muslims. Many Karen Christians and Muslims, therefore, have fled to areas across the border in Thailand.

Figure 5. Map of Myanmar (Burma)



These fights between the Burmese government and minority populations have compelled some of the ethnic groups, particularly the Wa in the Shan state across the border from northern Thailand, to depend even more on drug trafficking to generate income for their people.

Thai Policy Towards Burma

Thailand has pursued a policy of engagement with Burma. It was a leader in the movement for admitting Burma as a member of the Association of Southeast Asian Nations. Unfortunately, Thai officials now express their disappointment that after membership, Burma seems not to be following certain ASEAN principles. The country allegedly pursues its own interest with little regard to commitments under ASEAN. Thai officials stated that they have little choice but to attempt to maintain good relations with Burma. Without such relations, they cannot manage the long border between the two nations. In attempting to negotiate with the Myanmar government, they have found that it takes a long time to build understanding and

trust. Despite the many problems, the Thai government says it must continue to try to reconcile differences with Burma.

Thailand trades with Burma and allows, for example, 400 to 500 Burmese each day to cross the Friendship Bridge at Mae Sot in Tak province – many of whom are on one-week visitor visas. Despite the attacks by Burmese ethnic groups on the refugee camps across the border in Thailand, there is no evidence that the Burmese government has territorial ambitions.

In discussions with Thai officials, it was apparent that Thai policy of constructive engagement towards Burma was being toughened, but the exact nature of the change was difficult to pin down. When the issue was brought up with officials at the National Security Council by group members in May 2000, they denied that any changes had taken place and brushed off any such information as speculation. Still it was apparent that the situation along the border with Burma posed the greatest immediate threat to Thai security. The illegal flow of narcotics threatened to make addicts of a new generation of young people along with a sizable part of the Thai workforce while financing hostile activities by groups in Burma. The Burmese suppression of ethnic groups, moreover, was pushing displaced persons across the border and placing a heavy social, economic, and political burden on Thailand.

It appears that the Thai government is moving toward a policy of selective engagement with Myanmar that includes more aggressive measures to deal with the illegal drug trade along the northern border. This policy encompasses a larger role for the Thai military who are cooperating with the police in drug interdiction and suppression. Even though military leaders in Northern Thailand expressed regret that they should have to devote resources to do what they consider to be police work, they are now coordinating the anti-narcotics effort in the area.

Scattered news reports indicate that a more aggressive stance is being taken by Thailand against drug trafficking. The Shan Herald Agency for News (located in Chiang Mai, Thailand), for example, reported that remnants of the Shan forces defeated by the Wa in 1994 have recently received arms from their “old Thai friends.”⁸ The *Far Eastern Economic Review* reported in June 2000 that Thailand was “supporting clandestine sabotage operations in Wa-controlled territory inside Burma.” Details are scarce, but training Burma’s ethnic Karen community to be agents in the war on drugs and an explosion at a Wa-controlled dam have been mentioned. A commander in the Thai army has stated that with respect to cross-border sabotage by the Thais, a “surgical strike would be viable.”⁹

⁸ Crispin, Shawn W., et al. Thailand, Drug Tide Strains Tides. *Far Eastern Economic Review*. September 9, 1999. Internet edition at [<http://www.feer.com>].

⁹ Tasker, Rodney and Shawn W. Crispin. Thailand, Flash Point. *Far Eastern Economic Review*. June 1, 2000. Internet edition at [<http://www.feer.com>].

If a war should break out along the Thai-Burmese border, questions may arise with respect to U.S. obligations under the Manila Pact which allies it with Thailand.¹⁰ The probability of escalating the conflict to the point where treaties would be invoked, however, seems small at this time. Thailand is wary of war with Burma, since they have been enemies since ancient times, and in conflicts Burma usually wins. In the past, ethnic groups in Burma have served as buffer armies. A larger conflict, moreover, could weaken ASEAN as it would involve two of its members and its principle of noninterference in the internal affairs of member nations might be called into question. The issue of dealing with hostilities between two ASEAN members has no precedent for the organization. Hostilities also could bring China more into the picture, since it is reportedly supplying weapons and personnel to the Wa army and is Burma's only real ally. Thai officials pointed out that China is interested in gaining access to Burmese ports on the Indian Ocean.

With respect to U.S. policy toward Burma, opinions expressed by officials and business leaders in Thailand was that unilateral sanctions, such as those imposed by the United States, are not solving the problem. They pointed out that the U.S. pursues policies of engagement with North Korea, China, and Vietnam, so why not with Burma? The basis for U.S. policy toward Burma stems from the military regime's repression and failure to move towards democratic government. U.S. sanctions toward Burma include: suspension of economic aid and withdrawal of Burma's eligibility for trade and investment programs; an arms embargo, blocking assistance from international financial institutions; downgrading U.S. diplomatic representation to Charge d'affaires, and visa restrictions on senior officials and their families. In 1997, the United States tightened the sanctions to prohibit certain U.S. transactions with and new investment by U.S. persons there.¹¹ Also, each year since 1989, the U.S. has certified that Burma has cooperated insufficiently in counter-narcotics efforts.¹² Despite opposition to U.S. sanctions, however, some officials indicated that lifting them unilaterally without some action by Burma might send the wrong message to the government in Rangoon.

¹⁰ The U.S. and Thailand are allies under the 1954 Southeast Asia Collective Defense Treaty (Manila Pact) which remains in force despite the dissolution of the Southeast Asia Treaty Organization in 1977. Article IV(1) of this treaty provides that in the event of armed attack in the treaty area (which includes Thailand), each member would "act to meet the common danger in accordance with its constitutional processes."

¹¹ With respect to Burma, the Customs and Trade Act of 1990 authorizes the President to impose such economic sanctions determined to be appropriate; the Foreign Assistance Act of 1961 prohibits use of U.S. foreign assistance paid as the U.S. proportionate share to international organizations when those organizations run programs in Burma (as well as in certain other nations); the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1997 prohibits most foreign assistance and authorizes the President to restrict visas and impose investment sanctions until such time that the President determines and certifies that Burma has made measurable and substantial progress in improving human rights and implementing democratic government.

¹² U.S. Department of State. Conditions in Burma and U.S. Policy Toward Burma, For the Period September 29, 1999 – March 27, 2000. May 3, 2000.

Illegal Drug Trade

The area around northern Thailand has long been known as the Golden Triangle (intersection of Burma, Laos, and Thailand) for production of opium and heroin. The Thai government estimated that in 1999, Burma produced 1,090 metric tons of opium, Laos 140 tons, and Thailand 6 tons. The decline in Thai production is considered to be one result of a vigorous eradication and crop substitution program.

The current threat, however, is not from heroin or opium (even though Thailand still has an estimated 300,000 heroin addicts) but from methamphetamines (referred to in Thailand as “yaa baa” or the mad drug and as speed in the United States). These drugs are produced primarily in plants across the border in the Shan state in Burma. They are highly addictive, relatively cheap,¹³ and can easily be smuggled into the country in backpacks. Unlike most opium and heroin, they are sold in Thailand rather than transported further into international markets. According to Thai officials, in 1999, an estimated 200 million tablets were smuggled into the country from Burma (of which about 40 million were seized by Thai authorities). Addictive usage has exploded among Thai students, entertainers, truck drivers, office staff, factory workers, fishermen, and farmers (who have to work nights to get crops to markets in Bangkok by morning).

Thai authorities contend most of the methamphetamines are produced in some 50 plants run by United Wa State Army (UWSA) minority insurgents in the Shan state. Since the manufacturing process (from synthetic or natural ephedrine plus caffeine and other ingredients) is simpler than that of heroin, manufacturing laboratories can be smaller and more mobile. Thai officials asserted that the Burmese government condones the illegal drug trade by the Wa in exchange for a cut of the profits.¹⁴ The UWSA consider themselves a nation. They are sophisticated, highly organized, and armed (allegedly with heavy machine guns, mortars, and even Chinese-made surface-to-air missiles procured possibly through Cambodia¹⁵). Evidence of the profitability of the drug trade can be seen in the new construction on the Burmese side of the border of housing, schools, roads, and hospitals.¹⁶ The UWSA have an estimated 3,500 to 4,000 armed drug trafficking soldiers. Some estimate that the Wa could beat the Burmese army in a confrontation, so the Rangoon government, for now, stays clear of the area.

Illegal drugs from the Wa are brought into Thailand in caravans on trails. Since the actual border is in question in many areas, traffickers can walk across it carrying backpacks. They often are armed with AK-47s and hand grenades. They will shoot it out with the police, since if they are caught the penalty is death. At times, gun

¹³ A single tablet costs about \$0.08 cents to produce in Burma, sells across the border for \$0.67 and for \$3.24 in Bangkok.

¹⁴ Burma denies being the source of illegal narcotics or cooperating with the Wa in trafficking.

¹⁵ Davis, Anthony. Thailand Tackles Border Security. *Jane's Intelligence Review*, March 2000.

¹⁶ Chemical raw materials for producing the drugs apparently are procured from China, India, Thailand, and other countries.

fighters occur that last from five to six hours. As interdiction efforts along the northern border with Burma have been strengthened, the caravans have moved south to the area around Mae Sot and around to the east to the border with Cambodia.

With respect to suppression of the illegal drug trade in northern Thailand, the plan for northern Thai authorities is to establish a narcotics prevention line close to the Burmese border, engage in a media psychological campaign to teach the dangers of narcotics, suppress narcotics producers and businesses, seek international cooperation with Burma and Laos, and consolidate the Thai organizations for managing the narcotics problem. Their first mission is to reduce imports of narcotics produced in neighboring countries.

The U.S. Drug Enforcement Administration has been in Thailand for 30 years and has close working relationships with Thai authorities. The DEA works with local law enforcement agencies by providing financial support, intelligence information, help in arrests, and in overseeing their operations. Even though the methamphetamines are generally not transhipped to U.S. markets, the DEA has helped in their suppression because the Thai have helped in the anti-heroin/opium effort and because suppliers tend to produce both types of drugs.

The long-term threat from the UWSA transcends the immediate problem with illegal narcotics and refugees. It is part of the geopolitical importance of the area. The Wa had been assisted by the Chinese in their insurgency against Rangoon rule. Chinese advisors – engineers, teachers, and political advisors – reportedly are working in the UWSA areas. Another complication is that links between the UWSA's southern command and Taiwan also are long standing, and Taiwan provides assistance to schools and associations in villages in northern Thai provinces bordering the Wa areas.¹⁷

As for the close relationship between Beijing and Rangoon, Thai officials stated that Chinese military assistance to Burma was not a significant concern. They have heard complaints from Burma about the poor quality of Chinese weapons and feel that the Burmese will not let a foreign power dictate policy to them – even if that power is China. Thai officials also noted that if the Myanmar government gets too close to China, India may react, because India has opposed Chinese influence in the Indian Ocean region.

Displaced Persons and Refugees from Burma

As of April 2000, Thailand was housing 102,343 displaced persons from Burma in ten temporary camps – which all too often have turned into semi-permanent settlements. An estimated 700,000 Burmese live in Thailand outside the established camps. The country divides the displaced persons/refugees from Burma into four groups: (1) Those who entered Thailand before the Burmese military took power. They are legal refugees and most have Thai citizenship. (2) Those displaced from the fighting in Burma who are in temporary shelters controlled by the Thai government. They are not allowed to leave the camps. (3) Those displaced from the fighting but

¹⁷ Davis, Thailand Tackles Border Security, *FEER*, *op. cit.*

not in the camps and who are illegally in the country. (4) Burmese or members of minority groups who have entered Thailand seeking economic opportunity without proper documentation. They also are illegal immigrants.

Ban Mae La Temporary Shelter, Thailand



For the second category of persons in Thai shelters because of the fighting in Burma, the policy of the Thai government is to provide them with temporary shelter and humanitarian assistance and to facilitate their safe return to their homes in Myanmar when the situation there returns to normal. In March 1998, after several attacks from Burma on two temporary shelters along the border, some 10,000 displaced persons were moved further inland.

In administering to the needs of the refugees, the Thai government is assisted by various international non-governmental organizations (NGOs). These include the Burmese Border Consortium, *Medicins sans Frontieres*, International Rescue Committee, and Handicap International as well as the United Nations High Commission on Refugees. Educational efforts receive support from NGOs, such as International Christelijk Steunfonds, Catholic Office for Emergency Relief and Refugees, Taipei Overseas Peace Service, and ZOA Refugee Care.

For asylum seekers, the Thai government first determines if they are entitled to refuge. If so, they are placed in a temporary shelter deeper inside Thai territory. If they are economic migrants, they are deported back to their country if the situation permits. In reality, many of the displaced persons simply find their way into Thai society.

The largest temporary shelter is Ban Mae La camp in Tak province with 30,758 persons, primarily ethnic Karens of Christian and Muslim backgrounds. (Unlike the Wa, the Karen are not known for dealing in narcotics.) Despite being called a temporary shelter, it has existed for three decades. Located in a valley bisected by a small stream, its thatched roofed huts house families that are provided minimal levels of food and care. Children abound in the camp, as the high birth rate of 4% results in relatively large families and heavy schooling needs. A major problem with the camp is a shortage of water during the dry season.

School Children in Ban Mae La Temporary Shelter, Thailand



For FY1999 and 2000, the U.S. State Department is administering U.S. appropriated funds related to the crisis in Burma and along the Thai-Burmese border of \$6.5 million. Of this, \$3.0 million is targeted for humanitarian activities administered by the U.S. Agency for International Development and \$3.5 million for democracy activities administered by the Office for Democracy, Human Rights, and Labor.¹⁸ Most U.S. funds used for the refugee camps are provided to NGO's working there.

For Thailand, the temporary shelters, as well as general refugee problem, impose significant economic burdens on society, particularly after the economy was hit by the financial crisis. Some Thai villagers complain that the displaced persons receive more food and better medical treatment than Thai citizens, themselves. In fact, the medical clinics in some camps are also used by local patients for specialized medical treatments. Thai officials also point out that the problem of displaced persons from

¹⁸ U.S. Agency for International Development. Budget Justification, Fiscal Year 2001, Annex II. Asia and the Far East. P. 50.

Burma follows upon a flood of refugees from Vietnam, Cambodia, and Laos during the Vietnam war and turmoil that has continued for decades in Southeast Asia. With Burma, moreover, the situation appears particularly bleak, because Thailand maintains a policy of not compelling displaced persons to return to Burma until it is safe to do so. At this point, that is not possible, since the Rangoon government claims most of the displaced persons are not Burmese citizens.

The flow of displaced persons also has brought health problems (communicable diseases), a rise in crime, and the spread of internal Burmese political unrest to Thailand. Among the health problems have been a rise in malaria, tuberculosis, and encephalitis. They also have placed an extra burden on social welfare services. The illegal refugees also are accused of engaging in drug trafficking, smuggling, and theft. As for political unrest, in October 1999, Burmese student activists seized the Myanmar Embassy in Bangkok (which led to Rangoon closing its land and sea borders with Thailand after what it considered to be lenient treatment by Thailand of the students involved), and in January 2000, another group of students and dissidents took over the Ratchaburi Hospital near Bangkok. Both incidents were viewed unfavorably by the Thai public. The Thai government has expressed the need to balance its international responsibilities with respect to Burma with its domestic needs.

The displaced persons from Burma illegally working in the Thai economy also have become an issue for the Thai government. In the Tak province alone, officials estimate that about 30,000 illegal refugees work in the industrial sector. Another 30,000 work in agriculture. The Thai government has allowed some of the workers to remain temporarily, but as their temporary work permits expire, the government has been powerless to do much about them. The deadline for them to leave has already been extended once and may be extended again in 2000. Essentially, they have no place else to go. That is the crux of the problem for most of the refugees from Burma.

Appendix

Table 1. Top 25 U.S. Imports from Thailand in 1999 by Standard Industrial Classification (Dollars)

SIC	Commodity Description	Import Amount
36	Electrical and Electronic Machinery, Equipment, and Supplies	3,304,240,239
35	Machinery, Except Electrical	2,897,613,306
23	Apparel and Related Products	1,617,617,802
9	Fish, Fresh or Chilled; and Other Marine Products	1,234,170,598
39	Miscellaneous Manufactured Commodities	1,097,423,536
20	Food and Kindred Products	812,037,188
31	Leather and Leather Products	554,586,691
30	Rubber and Miscellaneous Plastics Products	467,561,252
38	Scientific and Professional Instruments; Photographic and Optical Goods; Watches and Clocks	348,332,703
32	Stone, Clay, Glass, and Concrete Products	325,591,366
25	Furniture and Fixtures	269,337,221
34	Fabricated Metal Products, Except Machinery and Transportation Equipment	256,773,004
22	Textile Mill Products	186,160,125
24	Lumber and Wood Products, Except Furniture	160,904,543
8	Forestry Products, Nspf	149,837,058
33	Primary Metal Products	115,289,078
99	Special Classification Provisions, Nspf	113,234,686
98	Goods Imported from Canada and Returned to Canada Without Having Been Advanced in Value or Improved in Condition or Combined with Other Articles	93,848,973
28	Chemicals and Allied Products	92,227,452
37	Transportation Equipment	71,774,479
1	Agricultural Products	55,238,240
26	Paper and Allied Products	36,465,470
29	Petroleum Refining and Related Products	21,266,203
27	Printing, Publishing, and Allied Products	12,776,852
92	Used or Second-hand Merchandise	8,585,809
13	Crude Petroleum and Natural Gas	8,530,664
2	Livestock and Livestock Products	7,898,008
14	Nonmetallic Minerals, Except Fuels	2,975,249
91	Scrap and Waste	1,274,479
21	Tobacco Manufactures	102,658
10	Metallic Ores and Concentrates	94,861

Source: U.S. Department of Commerce

Table 2. Top 25 U.S. Exports to Thailand in 1999 by Standard Industrial Classification (Dollars)

SIC	Commodity Description	Export Amount
36	Electrical and Electronic Machinery, Equipment, and Supplies	1,726,098,279
35	Machinery, Except Electrical	737,690,858
37	Transportation Equipment	673,532,452
28	Chemicals and Allied Products	507,246,836
1	Agricultural Products	243,795,612
38	Scientific and Professional Instruments; Photographic and Optical Goods; Watches and Clocks	215,801,758
20	Food and Kindred Products	158,977,235
26	Paper and Allied Products	100,940,706
3X	Manufactured Commodities Not Identified by Kind	96,428,132
34	Fabricated Metal Products, Except Machinery and Transportation Equipment	88,742,748
39	Miscellaneous Manufactured Commodities	78,353,738
33	Primary Metal Products	53,405,710
30	Rubber and Miscellaneous Plastics Products	49,183,823
29	Petroleum Refining and Related Products	39,532,140
31	Leather and Leather Products	39,144,091
91	Scrap and Waste	30,580,404
99	Special Classification Provisions, Nspf	26,553,034
24	Lumber and Wood Products, Except Furniture	26,095,727
22	Textile Mill Products	23,476,214
32	Stone, Clay, Glass, and Concrete Products	17,886,169
14	Nonmetallic Minerals, Except Fuels	11,479,122
27	Printing, Publishing, and Allied Products	10,711,666
25	Furniture and Fixtures	8,842,423
9	Fish, Fresh or Chilled; and Other Marine Products	7,055,499
23	Apparel and Related Products	4,530,657
2	Livestock and Livestock Products	4,270,553
8	Forestry Products, Nspf	2,086,168
21	Tobacco Manufactures	513,818
92	Used or Second-hand Merchandise	308,537
10	Metallic Ores and Concentrates	166,937
13	Crude Petroleum and Natural Gas	90,050
12	Bituminous Coal and Lignite	4,485

Source: U.S. Department of Commerce