

The Political Economy of *Hmaung-kho* in Socialist Myanmar

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The Burmese Way to Socialism paved the way for the massive growth of the *hmaung-kho* in Myanmar. *Hmuang-kho*, the author's term for all illegal economic activities in the country, accounts for more than half of Myanmar's economy and has altered the economic, political and social landscape. A creation of the post-liberation government, the *hmaung-kho* survived British trade restrictions. When the Revolutionary Council that took over in 1962 exerted control over the economy, the *hmaung-kho* sector flourished as state-run public stores drove Myanmar's poor to the black market. Later, the *hmaung-kho* provided more than just unavailable basic goods. It had given Myanmar's unemployed jobs and legally employed with additional income. It also contributed to the culture of corruption within the bureaucracy and higher government. These contributed in firmly establishing the *hmaung-kho* as both as a way of life in Myanmar and a better alternative to the Burmese Way to Socialism.

The word "*hmaung-kho*,"¹ which literally means taking refuge in the dark, is used to refer to illegal economic activities such as black marketeering and smuggling. Businesspeople engage in *hmaung-kho* activities to evade taxation and rigid economic regulations. They resort to illegal means because the legal economic sector does not leave them enough room to carry out certain business operations freely. Similarly, consumers rely on the *hmaung-kho* sector when the legal sector fails to satisfy their basic needs. Such economic environment in which the *hmaung-kho* flourishes is not peculiar to a particular period of Myanmar history. In fact, *hmaung-kho* activities have existed in Myanmar since pre-colonial times.² However, only in the days of the Burmese Way to Socialism did the *hmaung-kho* become the dominant economic sector of the country. The socialist government's³ attempt to exert control on virtually the whole economy, i.e. production, domestic distribution of commodities and foreign trade, left little room for many businesspeople to do their businesses legally. At the same time, the distribution system of the state was too inefficient to meet the needs of the general public. Consequently, many people resorted to engaging in *hmaung-kho* in order to resolve day-to-day economic problems. The socialist government occasionally took measures to bring the economy back on to the legal track. However, its failure to rectify the underlying problems of the economy led to the contraction of the legal economy and to the flourishing of illegal economic activities. The manifold intricate regulations

and unrealistic policies adopted in implementing the Burmese Way to Socialism and mismanagement of the economy by the socialist government brought about the expansion of *hmaung-kho*. As a result, the *hmaung-kho* became a primary sector of the economy with its volume exceeding that of the legal economy.

According to an unofficial estimate made by scholars, by the middle of the 1980s, the volume of the *hmaung-kho* activity was twice that of the legal economy. The *hmaung-kho* sector filled in the vacuum created by the centrally planned economy of the Burmese Way to Socialism. *Hmuang-kho* businesspeople had supplied the needs of the people that the state had failed to satisfy. By the early 1980s, the goods supplied by the *hmaung-kho* sector had accounted for about 80 percent of the people's basic needs. It should, therefore, not be an exaggeration to say that by supplementing the state's distribution system, the *hmaung-kho* sector had given rise to a social equilibrium that in turn had contributed to social and political stability in the country.

Clearly, the study of the political economy of Myanmar under the Burmese Way to Socialism will not be complete without paying special attention to the role of *hmaung-kho*. Many scholars and journalists alike have emphasized the importance of the *hmaung-kho* sector in Myanmar economy during the period of the Burmese Way to Socialism. However, due to the paucity of data, most of the existing scholarly and journalistic works are not able to shed light on the complexities of *hmaung-kho* activities. This paper on the study of the political economy of Myanmar attempts to fill certain gaps by studying the evolution of *hmaung-kho* as a dominant sector in Myanmar economy, the manner in which the state dealt with the *hmaung-kho*, and the socio-political effects of *hmaung-kho* activities on Myanmar society.

It should be noted that because *hmaung-kho* activities lay outside the official recording and reporting mechanism, it is impossible to present accurate statistical data on the volume of the *hmaung-kho* economy over time. Apart from the data obtained from official publications and some other scholarly work, most of the statistical data mentioned in the paper are estimates which I have made by using the information acquired from my interviews with businesspeople from key cities in Myanmar. I also consulted old ledgers of some business enterprises. Although the people I interviewed cannot be considered a true representation of Myanmar

society, I have tried to include people from as many social classes and regions as possible. However, by no means was I able to come up with precise statistics from “measuring the unmeasurable.” Therefore statistical estimates are presented to indicate the trend rather than the absolute value of the *hmaung-kho* activities.

The Emergence of the *Hmuang-kho* Sector as the Bedrock of Myanmar Economy

The Revolutionary Council (RC) that came to power after staging a coup on March 2, 1962 turned Myanmar into a socialist state, adopting the Burmese Way to Socialism under which the state took almost complete control of the economy. The role of the private sector, at least initially, was restricted to the retailing of a number of consumer goods. A few months after they came to power, RC officials made it clear in their speeches and official publications how Myanmar was to become economically independent. The primary objective of the Burmese Way to Socialism would be the expansion of the public sector to the largest possible and the reduction of the private sector's role in the economy to the minimum possible.⁴ The RC embarked on the construction of a socialist society in Myanmar, forming a political party from the rubric of the Burma Socialist Program Party.⁵ It systematically took control over the production, distribution and foreign trade aspects of the economy. The RC took draconian measures against both foreign and indigenous capitalists in order to deprive them of the economic power. By 1966, the RC had imposed restrictions on the transportation and trading of many products and nationalized all major private enterprises ranging from big foreign companies like the Burma Oil Company to medium-size factories and grocery stores. Moreover, the two largest currency denominations – the 50 and 100 kyat notes – were demonetized in 1964 in order to prevent the resuscitation of capitalists as dominant economic actors. After nationalization, foreign trade and domestic distribution of commodities were carried out only by government trade corporations under the guidance of the People's Store Corporation.⁶ Distribution of goods to the general public was conducted through public and cooperative stores. Four years after the coup, the RC had successfully taken over virtually the entire economy and the bulk of the means of production. In the political domain, the RC speeded up the construction of the socialist state by upgrading the party from the cadre level to the mass level in 1971.⁷ It also passed a new constitution in 1974 by which elections from the state to

ward/village levels were held. After the elections, the RC turned itself from an administrative organization of military leaders into an elected State Council that would build a socialist society, not a military council, as a representative organization of the people. All administrative agencies at the known divisional/state⁸ and township levels were replaced with divisional/state and township people's councils.

Despite these economic and political changes, the outcomes of policies almost always fell short of the target i.e. building "a new prosperous society in which people cannot exploit each other." The deficiencies inherent in the Burmese Way to Socialism and economic policies and inefficient state and party apparatuses had kept the intended new prosperous society out of the sight of both the officials and the general public. The socialist state did not have the necessary human and financial resources and technical expertise to steer the implementation process the way it intended. In addition, because the policy-making process was very centralized and the central state based policy-making on the distorted and modified reports submitted by divisional/state and township people's council, many of the policies did not suit the real life situation in some peripheral areas.

Government factories rarely paid attention to the demand and preference of the consumer people.⁹ Due to the shortage of industrial input, trained laborers and technical know-how, government factories could not operate in full capacity.¹⁰ While there was a decline in the production of the primary export item – rice – officials from the import wing of the trade ministry did not know how to order goods needed by the public. "Sometimes," recounts a retired trade ministry official, "we did not even know whom we should contact to order things urgently needed by the public." The consequence was that goods were out of stock when they were most needed by the public. For example, in the late 1960s, sporting goods ordered for the tournaments to be held in the cold season reached Myanmar only in the middle of the following summer season.¹¹

Not surprisingly, problems with exports, imports and domestic production had tremendous negative impact on the distribution of goods to the public. As imports largely depended on exports, a drastic drop in exports led to a drastic decline in imports. The share of exports and imports in the GNP dropped from 19.1% and 15.6% in 1961/62 to 8.05% and 13.08% in 1981/82 and 4.7% and 8.5% in 1985/86

respectively. While the population continued to grow, exports and imports continued to decline. In other words the supply of imported goods did not meet the demand of the people. Imported items and some local products with high demand were distributed through a quota system. That is, the supply of scarce goods was subject to rationing. Sometimes, certain goods were too scarce to ration to all people. Public stores rationed such goods to the general public on a first-come-first-serve basis. Only those who came “early” – before the goods were sold out – would get their quota of the goods. Public and cooperative stores also distributed goods through a “lucky draw” when the amount of goods was too minimal even to ration on a first-come-first-serve basis. This happened when a cooperative or public store received only one or a few pieces of a popular item. A clock, for instance, was deemed as a popular item at that time because it could be sold to *pyit-sikauk-thus* (collectors of goods for resale) at three or four times the public store price. Whenever cooperative or public stores received one or two clocks, draws are held since it was impossible to divide one or two clocks among 200 people. Sometimes, the goods received by public stores from corporations included defective and expired ones. In such cases, the store staff and local authorities took their quota from the best ones available. The general public selected from whatever was left. Again, those who went to the store early were more likely to get the fresh items. Since almost all essential goods except rice were rationed on a first-come-first-serve basis, people had to rush to the stores with “commodity purchase books”¹² whenever they heard new items were available.

People had to stand in a queue to purchase their quota at public stores and there were always long lines in front of stores during sale of popular items.¹³ Often did store officials have to ask the assistance of police officers to keep the crowd in order.¹⁴ In the late 1960s, public stores, especially the ones in the peripheral areas, received only a limited stock of basic items such as sugar. Hence, in theory, people could purchase scarce basic goods only with permits from the township security and administrative council. The permit was issued only for *tha-ye* (auspicious ceremonies such as wedding and novitiation ceremonies) or *na-ye* (offering alms foods and other offertories to monks in the memory of the dead). Well-connected people, on the other hand, were not subject to any restrictions. For some time, however, most people who were subject to restrictions as to getting these scarce popular consumer items for reasons other than *tha-ye* and *na-ye* had to go to black markets.¹⁵

It was very exhausting for most people to do shopping at public stores because the distribution system and the people involved in it were terribly inefficient. Sometimes, people had to do lengthy paper work in order to be able to buy some essential but scarce goods. The number of wholesale shops and personnel who handled the distribution in the socialist period was far less than those of the parliamentary period.

In the parliamentary period, about 12,000 private wholesale shops, more than a 100,000 retail shops and about 4,000 cooperatives were involved in the distribution of goods.¹⁶ However, in 1964, only about 3,000 wholesale and retail shops were handling the distribution of goods in the whole country.¹⁷ In terms of human resources, the distribution of goods during the parliamentary period was done by about two million people, but in the 1960s, only 50,000 people were involved in running public stores.¹⁸ Furthermore, the staff of the socialist public stores were terribly inept and arrogant when dealing with customers. It was partly because they lacked the expertise necessary in managing domestic distribution of goods and also to the heavy workload. Needless to say it took more time to buy things from inefficient sales people. In the case of some popular items such as imported textile, it could take almost a whole day to buy one's quota.

There were also problems with the allocation system of goods to public stores by the Central Trade Council because allocation was based on the number of people living in the distribution area. Preference and taste of the different social classes and different regions were not considered.¹⁹ The same kinds of goods were allocated to all regions of the country though the volumes of the goods allocated varied according to the population of the regions. Never was attention given to what people in a particular region needed or not. Items like toilet paper and tetron cloth, used mainly by urbanites, were out of stock at public stores in cities but were piling up as *a-yaung-htein* (hard to sell) goods in rural public and cooperative stores. Similarly, goods most needed by rural people were piling up in the warehouses of the urban public stores. Sometimes the weather or termites could ruin a staggering amount of *a-yaung-htein* goods. This problem with the distribution system was quite rampant in the country so much so that Chairman U Ne Win had to note in the speech given at the 1965 party seminar that "I should like to talk about the notorious People's Stores Corporation. Like rain on the river they send oil to Magway."²⁰ This may be due to dishonest intentions or lack of skill."²¹

Clearly, government public stores failed to address the basic needs of the general public. This situation forced ordinary people to seek alternative sources of their basic needs. This is where the *hmaung-kho* comes in. There were small and medium traders who had waited to take advantage of any economic opportunity that might emerge in the country. Unlike big businesspeople²² who, in spite of losses, still had personal savings (in the form of gold or jewelry) to live on, smaller traders had no choice but to earn their living. Despite the fact that nationalization was aimed at ending the dominance of big businesses, it was the petty traders who suffered. A famous female writer, Khm Hnin Yu, illustrated the hardship of petty traders under nationalization in her novel in which petty trader, Khin May said:

I thought the government took away our jobs and confiscated food...Let me tell you what we usually eat. We eat pork, fish or a meat curry only once a week. Sometimes we can't afford to eat meat even once a week.²³ We usually have our meal only with fish paste, or fish sauce with some cheap dried shrimps...Sometimes, we have our meal with fish sauce, gourd soup and some vegetable side dish. We put 25 pya-worth fish paste and dried shrimp into gourd soup and 25 pya-MSG into boiled fish sauce...When I was selling Daw Than's dried shrimps [dried shrimps from wholesaler Daw Than], I sold a small packet of shrimp and MSG for 25 pya each. I did pretty good business in my shantytown. Now, after nationalization, both fish paste and dried fish have disappeared. They are no longer on the list of the merchandise that we can trade freely. At least for the moment, this nationalization has a significant negative impact on poor people like me...Well sister, you said the government carried out nationalization in order to redistribute the wealth of the greedy rich people to poor people. At the moment, we cannot even afford to eat a bowl of gourd soup...This nationalization did not affect rich people like you that much, I still think only our cheap dried shrimps and fish paste were confiscated."²⁴

Understandably, petty traders tried to grab all economic opportunities. When the government failed to satisfy the needs of the general public, many small- and medium-size businesspeople became alternative providers of the essential goods, filling the economic vacuum left by the state. The *hmaung-kho* sector was not in the hands of petty traders alone. When *hmaung-kho* proved to be a lucrative business, many new players from various social classes, including students and civil servants,

engaged in *hmaung-kho* activities. *Hmuang-kho* activities were not confined to the distribution of essential goods. People relied on the *hmaung-kho* sector for certain services as well. As shall be discussed in more detail later, some preferred to provide services through the *hmaung-kho* sector because they made more money in the illegal sector than in the legal sector.

Depending on the demand of the market and the openness in the opportunity structure,²⁵ *hmaung-kho* people engaged in various forms of activities such as redistribution of goods from public stores, illegal trading of controlled commodities, smuggling some domestic products (such as jade, agricultural products) into neighboring countries and foreign products out of neighboring countries into the country and smuggling of foreign exchange and services.

Redistribution of Public Store Goods

Apart from the store staff and corrupt authorities, there were three kinds of businesspeople involved in the smuggling of goods from public stores: the *toe-sa-thu*, *set-ku-phyu-lu* and *pyit-si-kauk-thu*. People from the first group were poor people found in queues at public stores. Members of the second group were referred to as *set-ku-phyu-lu* (white paper people) because they tried to get the permission to buy scarce goods in large quantities by writing “commodity request letters” to their “connection” in the township security council or people’s council. *Set-ku-phyu-lu* collected the goods at government stores or warehouses and sold them to black marketeers who owned shops in the markets or just handed over permits to *hmaung-kho* traders at a price. The traders then collected the goods prescribed in the permit at the public store and resold them to “real consumers” through black markets. The last group included some medium-size traders who bought goods from *toe-sa-thu*, public store staff and local authorities (usually not directly from the authorities but from members of their families) and *set-ku-phyu-lu*. *Pyit-si-kauk-thu* gathered commodity-purchase books from poor people and bought goods available at public stores. The commodity-purchase books’ owners received a certain percentage of the profits. Poor people used commodity-purchase books as security in borrowing money from *pyit-si-kauk-thu*. In such cases, the latter did not have to share the profits with the owners of the books as it was considered as interest.²⁶

Whenever new items arrived, *toe-sa-thu* go to public stores earlier than the ordinary consumers and bought and sold them to *pyit-si-kauk-thu* who in turn resold the goods in black markets. *Pyit-si-kauk-thu* also engaged in transporting *a-yaung-htein* goods from urban and rural public stores. They brought *a-yaung-htein* goods which they had acquired from public stores through their connection, sold them to petty traders in rural markets and brought back *a-yaung-htein* goods from rural stores to cities. Since the failure to distribute all the goods to the people living in their respective areas would be a loss of face for them, responsible personnel at public stores were delighted to give hard-to-sell merchandise to urban *pyit-si-kauk-thu*. The goods were sold with no questions asked. When officials from village cooperatives and public stores found out the demand for rural *a-yaung-htein* goods in cities, they kept the goods until urban *pyit-si-kauk-thu* came and bought them. Because they had to collect the quota of goods for their respective stores at the nearest major city, they could just sell what was not sold in their villages to *pyit-si-kauk-thu* in that town. This not only reduced transportation cost but also relieved cooperative and public stores' staff of the hassle caused by the a large stock of unsold goods in their warehouses.²⁷ Clearly, the *hmaung-kho* sector provided a means to overcome the problems in the state distribution system. People who could not purchase goods from public stores for any reason did not have to worry about not getting their essential items from public stores as long as they had money. Hence, the *hmaung-kho* sector became the 23rd corporation when there were 22 government trade corporations or the 24th when there were 23 government trade corporations.

Smuggling Controlled Domestically Produced Commodities

As part of the measures to take over the domestic distribution of commodities, the RC took complete control over the transport and trade of 46 agricultural, 100 industrial, and 14 mining products on January 6, 1966. With this take-over, 430 commodities were to be distributed to the general public only through trade corporations and their public stores.²⁸ As has been discussed, the public stores did not possess the distribution capacity to satisfy the needs of the general public. The most basic commodities that were easily available in the pre-RC days were out of stock in places other than the place of production. For example, tea leaves of any kind, both dry and pickled, was on the control list. Whereas tea was abundant in Shan state, it was hard to get them elsewhere in the

first half of 1966. “We could,” says a retired high school teacher, “not even offer plain tea to our guests and visitors...Pickled tea salad at that time was one of the most expensive delicacies.”²⁹

The most regularly rationed goods – rice – did not meet the demand of the people either. If there were only one item available at public stores that would be rice. However, the rice ration a family obtained from public stores was barely enough for the family members. People needed rice for alms – food to offer to Buddhist monks and occasional visitors. At the same time, food shops were not allowed to get rice from public stores, at least not legally. In addition, as the variation in the taste of the people across classes and regions was never considered by the government’s distribution system, some people were rationed the kind of rice which they did not want to eat. The urban middle class people preferred easily digestible high quality rice whereas urban laborers liked to eat poor quality “hard rice” (so that they would not get hungry often). People needed a place where they could exchange what they got from public stores with what they wanted or a place where extra rice was available. Rice traders and brokers who managed to find a way around the socialist regulations, emerged as providers of the service which people were in need of. They successfully carried out the illegal transportation of rice from the delta area all the way up to Mandalay and other cities of central Myanmar. According to a long time rice trader, from the early 1970s to the collapse of the socialist government, 30% to 40% of the rice demand in Mandalay was supplied by illegal traders.³⁰ The dependence of the people on *hmaung-kho* sources for rice varied across regions. As noted by the same rice trader, although the people living in rice-cultivated areas did not have to rely on the *hmaung-kho* sources for rice. The market share of rice of the *hmaung-kho* in remote areas (e.g.. jade mine areas in Kachin state), where rice was not cultivated, could amount to 60% to 70% of the demand.³¹

Similar developments occurred in the distribution of other controlled goods especially beans, pulses, timbers and some industrial products. Timber and some industrial products like cement and fertilizers could be transported from one place to another with the permits of the corporation or department concerned. Some *hmaung-kho* people who managed to get permits through their connection used it in the way they wanted, not in the way they were supposed to. Sometimes, they used permits to transport goods for a number of times although they were valid only for

one trip. After the valid trip, some traders tried to transport the stolen goods they bought from some factory workers through a *na-lei-hmu* (understanding) with the officials at checkpoints. Thanks to the *hmaung-kho*, controlled basic goods were not completely out of stock or concentrated in the hands of people who had access to them. However, the prices of some basic goods skyrocketed and some people even had to change their diets from rice to some cheaper foodstuff like corn. The burdensome problems caused by full state control of all essential consumer goods were too immense for the state to ignore. The state itself came to realize within a few months that it did not have the ability to handle the distribution of all basic essential goods. Accordingly, about nine months after the control was imposed, the RC had to lift the restrictions on 23 agricultural and 11 fishery products.³²

In spite of the fact that this decontrolling of certain types of goods legalized some previously illegal trade and eased the hardship of people, many problems with the distribution system continued to exist and the *hmaung-kho* sector as a whole was not emasculated. The trade of some essential items like rice was not decontrolled. Some people tried to smuggle controlled goods by passing them off as decontrolled goods. The continued expansion of the *hmaung-kho* sector was manifested in the fact that trading of controlled goods at *kon-si-dai* (business center for the buying and selling of both controlled and decontrolled agricultural products) of Yangon, Mandalay, Pakokku, and Monywa were never suspended. Rice broker houses were always in operation though rice traders had to keep a low profile from time to time. As long as there was a gap between the government's supply of goods and the demand of the people, *hmaung-kho* distribution of controlled goods would never be terminated. Accordingly, *hmaung-kho* trade thrived. Even the trading of decontrolled goods were allowed only within the country. Once businesspeople tried to sell them in neighboring countries, it became illegal *hmaung-kho*. As shall be discussed, a large amount of agricultural products were smuggled into neighboring countries. At the outset, illegal transportation of the controlled goods was mainly done by people who were familiar to the trading of those now controlled (but then decontrolled) goods in the parliamentary period. However, as in other branches of the *hmaung-kho* sector, the growing demand for controlled goods and the inability of the government to satisfy it gave rise to many new economic opportunities which in turn led to the expansion of the already obsequious *hmaung-kho*.

Illegal Border Trade

As the local production of many essential goods fell short of the demand, smuggling goods out of public stores and factories and illegal transporting of controlled locally produced goods from places of production could not adequately satisfy the needs of the people. Not surprisingly, the trade that relied on external sources of commodities came to play a major role in Myanmar *hmaung-kho* markets. Since the import of foreign goods was controlled solely by the state, businesspeople had to illegally import the commodities, which could not be provided by domestic sources, from neighboring countries. The result was that Myanmar became a market for more developed neighboring countries such as Thailand, India and China. Of these three sources, *hmaung-kho* traders imported more goods from Thailand because people preferred Thai products for quality. Consequently, trade with Thailand exceeded that with China and India. In 1985, two-thirds of the total illegal import came from Thailand.³³ The trade with China was quite minimal until 1979 when market-oriented reform was implemented in China under the leadership of Deng Xiaoping. However, starting in the early 1980s, Myanmar's illegal trade with China's Yunnan province grew significantly, reducing the volume of trade with the other two countries. Although no statistics on the volume of illegal trade between China and Burma in the 1980s was available, the fact that all markets throughout Myanmar were flooded with China-made goods suggested that Yunnan province took over part of the market share of Thailand and India in Myanmar. Myanmar was then made, to cite the words of a retired professor, "a dumping ground for cheesy and crummy Yunnanese goods."³⁴ Although Myanmar people still preferred Thai goods over Chinese products, inflation and other economic difficulties had compelled them to turn to cheaper Chinese goods. Bangladesh also served as a cheap source of consumer goods, however, the poor infrastructure and transportation system did not favor the escalation of the border trade between Myanmar and Bangladesh during the socialist period. That is why, although the border trade with Bangladesh was quite important at the regional level in the Rakhine state, the volume of illegal trade with Bangladesh was, according to the estimates of a *hmaung-kho* trader, only about one-fifth of that with Thailand.

A few *hmaung-kho* people also illegally traded with Malaysia and Singapore but the volume of trade was negligible compared to those with Thailand, India and China. The goods imported by Myanmar *hmaung-kho*

traders included textile, drugs, food stuff, machine spare parts, sewing machines, bicycles, construction materials, motorcycles, stereo cassettes and various kinds of electronic devices. Since they dealt with foreign countries, Myanmar *hmaung-kho* traders could not simply trade using local currency. They had to sell local products to pay for the goods they wanted. Since all the business dealings involved in border trade were illegal, Myanmar businesspeople could not legally export the goods wanted by their foreign counterpart. They had to smuggle them out of the country. The goods that were smuggled out of Myanmar ranged from agricultural products to cattle, antiques, gems, jewelry and drugs.³⁵ The volume of *hmaung-kho* goods smuggled into the country by individual businesspeople or groups of businesspeople varied depending upon how much money a person or a group of people could invest. Most petty *hmaung-kho* traders smuggled only *ta-nai* (the amount one can carry with him, or two to three baggage loads of goods) and big *hmaung-kho* rajas, truckloads of goods. The goods were mainly transported by bus, truck and steam boats and to a lesser extent, by plane.

As the local production and the border trade were inversely related, whenever there was a decrease in the local production, there was a rise in border trade. Since local production was almost always on a downward spiral, the domain of illegal border trade became bigger, attracting more people seeking extra income. That is why the social background of the people engaged in border *hmaung-kho* was more diverse than those of the other two branches of the *hmaung-kho* sector. Until the late 1960s, veteran *hmaung-kho* people of the parliamentary period continued to dominate the border trade. When this trade proved to be lucrative, many (formerly legal) medium and petty traders joined in. Because there was an “insatiable demand” for various kinds of illegally imported goods, the border *hmaung-kho* sector absorbed all part-time and full-time newcomers. Students, especially high school and university students, engaged in border trade during their holidays in order to save money for their school expenses. As noted by a former student-cum-*hmaung-kho* trader, more than 50% of university students from his native town, Htawe (Mergui) were part-time smugglers.³⁶ They always tried to carry some *hmaung-kho* goods with them from their respective hometowns to the university town.³⁷ Civil servants also engaged in smuggling, especially when they were transferred from border cities back to cities away from borders or when they had to commute between border and inland cities while on office duty.³⁸ Those who did not have enough capital to do the business

on their own worked for big *hmaung-kho* rajas. People referred to them as carry,³⁹ the ones who “carry” *hmaung-kho* goods for someone. Many *toe-sa-thu* worked as carry whenever public stores and cooperative shops ran out of popular items or after public stores were closed down.

Not only did the illegal border trade furnish people with job opportunities, it also served as an intermediary between Myanmar and the world market. Although the socialist government kept the country in seclusion, the people did not completely lose access to new products in the world market because of the border *hmaung-kho*. In addition, unlike the government distribution and production system, *hmaung-kho* people always kept track of the changes in the taste and preferences of their customers. Government textile factories, for instance, produced the same old pattern of cloth, making little effort to improve designs. *Hmuang-kho* traders always brought latest fashionable textile and apparel whenever they were available at border markets. Contrary to the observation of many scholars and journalists, goods were not available only to the affluent members of Myanmar society. The *hmaung-kho* sector was, in fact, very class sensitive. Not all goods they imported were expensive. In the border *hmaung-kho* trade, attention was paid not only to what people wanted but also to what they could buy. Both expensive Calvin Klein and cheap underwear, for instance, were available in black markets. As noted by a storeowner from a major market in Yangon, “both rich and poor people came to our market. Of course, when the rich man was checking out a pair of Nike shoes, the poor man might be buying a pair of 15-kyat-worth rubber slippers.”⁴⁰ Not surprisingly, consumers came to rely on the *hmaung-kho* market more and more for their economic needs. When the state’s distribution and production mechanism failed, the *hmaung-kho* sector, especially the border *hmaung-kho*, came to dominate the economy of the country.

The Foreign Exchange *Hmaung-kho*

As in other planned economies, possession and trading of foreign exchange without permission were considered serious criminal acts in Myanmar. However, foreign exchange, especially the US dollar, was in great demand. People who traveled to foreign countries at that time could only get \$65 from government banks due to Myanmar’s limited foreign exchange reserve. Needless to say, people needed more than \$65 when they traveled abroad. The demand for the US dollar grew as many left to

seek work abroad. The fact that a significant number of people were arrested for trading foreign currency suggested that the foreign exchange *hmaung-kho* was widespread in Socialist Myanmar. (See Table 1.)

Hmaung-kho Services

The service *hmaung-kho* came into being due to government regulation of certain businesses from the service sector and the redtape in the bureaucracy. The best example of the service *hmaung-kho* can be found in the field of education. The socialist government took control over the education sector by nationalizing all schools. Private school teachers were allowed to teach at small tuition classes. It was illegal for government teachers to work at private tuition or outside their classrooms at a fee. In the middle of the 1980s, the government put restrictions on the size of tuition classes and the subjects taught by private teachers. These restrictions did not prevent private, government and university teachers who needed additional income from running classes illegally.

The arrogant nature of government and party officials, along with the widespread redtape in the bureaucracy, had kept many people away from government offices. Only those who were well connected received assistance at government offices. This situation gave rise to illegal service providers, the *pwe-sa*. The *pwe-sa* obtained services at government offices on behalf of the people who hired them. Although this profession was not illegal, local state officials made it clear that it was not to be tolerated, saying they disturbed government servants in performing their duties. Warnings are placed on the billboards of government offices. However, since *pwe-sa* were either well connected or themselves government officials, they had no reason to be afraid. Instead, anti-*pwe-sa* regulations enabled them to ask more money from their clients. Although the *pwe-sa* earned money through questionable means, they made the lives of the people who used their services much easier. A factory owner, for instance, who needed a license from the Directorate of Industry to run his factory, would have to complete complicated and lengthy paper work and deal with very unfriendly government officials. It could take several months for the factory owner to get the license from the directorate but a *pwe-sa* could get it for him within a few weeks. Many people, therefore, had to rely on illegal service providers for certain services they needed.

Measuring the Magnitude of the *Hmaung-kho* trade

Because measuring the volume of illegal economic activities was, writes a scholar, “measuring the unmeasurable,” it is impossible to know the exact volume of a country’s illegal economic sector. Some scholars and journalists have tried to estimate the volume of *hmaung-kho* trade in Myanmar on the basis of the information they gathered at the borders. The estimate presented by them ranged from half or twice as much as the volume of the official foreign trade. The information I gathered from my interviews with former *hmaung-kho* people suggested that by the middle of the 1980s the volume of *hmaung-kho* trade had exceeded that of the official trade. But the available data is not enough even to make an intelligent guess of how far the *hmaung-kho* trade had exceeded the official trade. In this paper, I tried to show the intensity of the *hmaung-kho* trade in terms of the extent to which the general public had to depend on the *hmaung-kho* sector for their economic needs. I accomplished this by using the data I obtained from my interview with about 200 people from various social classes and professions.

The extent to which people had to depend on the *hmaung-kho* sector varied across social classes. Cadres and officials of the party and state apparatuses did not have to depend on the *hmaung-kho* sector for their economic needs as much as the rest of the population did. At the same time, the extent to which party cadres and government officials had to rely on the *hmaung-kho* sector for their basic needs differed depending upon whether they had access to goods from special stores, public stores (before they were closed down) and cooperative and corporation stores. Access to special stores was decided on the basis of the positions in the party or government bureaucracy. From the Chairman of the Party’s Central Executive Committee and the president of the country down to members of Party’s Central Committee, director-generals and managing directors of various ministries were entrusted with the right to buy “basic goods” at special stores. Access to cooperative stores was, in principle, not confined to a few people. Everybody was supposed to be able to buy what they needed at cooperative stores, but as has been discussed, divisional and township level party cadres and trade and cooperative officials had better access to them. Not surprisingly, the extent of the importance of the *hmaung-kho* sector as a provider of basic goods rose constantly for the people with no special access to trade and cooperative stores but changed slightly over time for those with formal and informal

perquisites. In the case of services, high-ranking party and state officials did not have to rely on the illegal sector as much as the general public did. They could just ask their subordinates to provide the services they needed. Sometimes, they got the services by making a telephone call to officials concerned. Conceivably, a party central committee member did not need to hire an illegal broker or agent to get a train ticket or commodity purchase permits.

High-ranking party cadres and officials (members of Party's Central Executive Committee, State Council and Cabinet) acquired only 5% of their needs from the *hmaung-kho* sector both in the 1970s and in the 1980s. However, the needs of ordinary people (which accounted for about 90% of the population) provided by the *hmaung-kho* market rose from 40% in the 1970s to 80% in the 1980s. (See Table 2.) It is very clear that the bulk of the needs of most of the people were provided not by the public or cooperative sector but by the *hmaung-kho* sector. This is why, notes a former high-ranking party official, "unless the *hmaung-kho* sector came in as an alternative provider of basic goods, the whole country could have been in disarray since the early 1970s...*hmaung-kho* had alleviated much of the hardship in the country...Otherwise, our party could have collapsed much earlier than it did." What else other than the source that provided about 80% of the economic needs of about 90% of the population could be considered as "the major sector of the economy of the country?"

The Economic Responses of the Socialist State Against the Growth of the *Hmuang-kho* Sector

The socialist state, for its part, seemed to be aware of the problems inherent in the economy of the country. All political reports of the Burma Socialist Program Party Central Committee touched upon the negative impacts of the economy managed by the state. The reports also discussed the problems inherent in the state's production and distribution mechanism and the expansion of the *hmaung-kho* trade in the economy of the country.

The socialist state did try to correct the problems inherent in the economy and improve the distribution and production system. In the agricultural sector, the government introduced a Burmese version of the

“Green Revolution” known as the “Whole Township Special Paddy Production Program” in 1975/1976. At about the same time, state’s economic enterprises (SEES) were instructed to operate commercially.⁴¹ That is, the government tried to restructure the SEEs in order to make them more profit-oriented or efficiency-oriented institutions. Also, a number of major changes were brought into the distribution system. The task of distributing basic goods to the general public was transferred from public stores to consumers’ cooperative shops in 1970. Consumer cooperatives were to acquire goods directly from trade corporations and distribute these to the people.

Therefore, functionally similar corporations were merged in order to distribute goods to cooperatives more efficiently. In 1975, all public stores were closed down, transferring their properties and responsibilities to cooperative stores.⁴² Eight department stores in seven major cities were opened between 1979 and 1986 to provide people with more access to consumer goods.

Keeping the drawbacks of the public store system in mind, the government also tried to upgrade the cooperative system by making occasional changes in the way the cooperatives operated. In the early 1970s, for instance, cooperatives had to take all the goods offered by the government’s trade corporations and factories without knowing whether people would want them or not. Consequently, the warehouses of the cooperatives were jampacked with *a-yaung-htein* goods. To remedy this situation, the government introduced a new commodity procurement system for cooperatives known as the contract system. Under the system, cooperatives were to procure only the goods they believed were needed by the people in their respective regions. The reforms of the rice cultivation system and SEEs generated some positive results. Rice production increased and malfunctioning SEEs started to improve in terms of performance. However, these positive developments were just ephemeral. The socialist state was unable to sustain and speed up the tempo of the progress. The same old drawbacks, deficiencies and problems continued to hound the economy.

Why did the government’s reforms fail to improve the economy? The answer, though vital, is very simple. Although the socialist state identified the problems prevailing in the economy, it failed to get to the root cause of these problems. The sick economy was never given the right treatment.

The actions taken by the socialist government were no better than giving an analgesic to a patient with a kidney problem. The analgesic might relieve the pain but would not cure the disease. All in all, the socialist state failed to remedy deeply entrenched problems in the economy.

One of the problems the socialist state tried to address was the shortage of human resources. The socialist state lacked people with the expertise to lead the economic policy-making and implementation process properly. While it gave part of the responsibility to bureaucrats, the socialist state showed little trust in the bureaucracy by giving inexperienced cadres the power to intervene in the management of the economy. Cadres from the upper echelon of the party and state apparatuses such as State Council members, cabinet members, central executive committee members and the party's economic affairs committee formulated the policies, while the implementation of the same was carried out by the cadres from divisional/state and township party units and people's councils. Civil servants and technocrats also rendered assistance. With the exception of very few people, members of the economic task force of the socialist state were either inexperienced or incapable of performing the duties assigned to them. Although the RC recruited businesspeople into economic corporations in the early 1960s, it had to expel many of them within a few months because they leaked confidential information to their fellow businessmen or relatives.⁴³ General Ne Win talked on several occasions of the damage done to the country by the inept government servants. In order to correct the situation, the government offered various kinds of training programs to officials and cadres. However, these did not yield satisfactory results partly because the focus of most training programs was ideology, not skills and expertise necessary in running the state. There was also a lack of interest and enthusiasm on the part of most government servants. Some cadres and officers did learn "on the job" but, as U Tun Wai correctly pointed out, they were transferred from one department to another within a few years.⁴⁴ For instance, departments or sectors executive committee members of divisional/state which township people's councils supervised changed almost every year. The best cadres were, therefore, merely jack-of-all-trades-but-master-of-none people.

Starting in the early 1970s, government servants suffered from the economic hardships as salaries failed to keep up with the rate of inflation. The government made no salary adjustments between 1972 and 1980.

In the midst of economic difficulties, many corrupt government officers became even more corrupt, adding more strain to the troubled economy. State funds for development programs were misappropriated and power was abused to pursue personal interests. In light of this situation, state leaders⁴⁵ concluded that the responsibility for the socio-economic problems of the country lay more in the corruption of cadres and officials than in the policies. Accordingly, the state leaders came to place emphasis on the recruitment of “good” people rather than “smart people with bad character,” stipulating that it was easier to train good people to become capable than to correct the bad character of smart people. Although the underlying logic of this new recruitment policy was by no means preposterous, the way this policy was implemented by the officials from various levels of the state and party apparatuses was seriously questionable. It was, at the same time, never clear how they defined “good” or how they decided whether a person was good or bad. There was no clear guideline upon which the selection of “good” cadres and public servants should be based. What was clear in retrospect was that only the people who defer to senior party cadres were recruited. This new recruitment policy enabled incapable opportunists (who could convince the party bosses that they were “good” by doing what the latter liked) to acquire important positions. This situation was compounded by the opening of special stores for high-ranking officials ranging from the president down to the Party central committee members and director-generals and granting of political pension to retired party cadres. The government introduced these programs in the hope of curtailing corruption in the government with the assumption that cadres who did not have to worry about their income and retirement would not commit corruption.

The subsidized goods from special stores were perceived as a means of escape from the rising cost of living and the meager pension. These were very attractive benefits for all cadres, especially for bureaucrat-turned-cadres who were allowed to receive two separate pensions – one as a retired civil servant and another as a retired party cadre. Many opportunistic bureaucrats who were approaching the retirement age (60 years) tried to get nominated for posts in township or divisional party units or councils through their connection in the upper echelon of the party or state apparatuses.⁴⁶ To the detriment of the country, many opportunists were recruited into the state and party apparatuses. There were some good and capable cadres and civil servants who joined the party and state

apparatuses because they sincerely wanted to work for the country and the people, but they were outnumbered by the opportunists.

The opportunistic cadres did not do much for the party, let alone for the people but enjoyed all the perquisites. They bought whatever they could from special stores, kept what they wanted to use and resold the rest to black marketeers. In major markets of Yangon and Mandalay, there were shops and stores that regularly bought smuggled goods from central committee members of the party and other high ranking officials.⁴⁷ The corruption committed by these opportunistic cadres could be seen in their building of new houses. In no way could they afford to build new houses unless they had substantial additional incomes. Taking advantage of their position in the party and state apparatuses, they bought construction materials from the stores of the Construction Electrical Stores Trade Corporation. Having bought far more than they needed, they kept the materials needed for the construction of their houses and sold the rest to black marketeers to pay for other expenses of the construction. These officials and cadres did not have any interest in building a prosperous socialist state and did not pay attention to ethical and moral principles which party cadres were supposed to abide by. Instead, according to a Central Committee member, they took to *mas-ma-loke* (not doing any work), *ma-shote* (not getting involved in any complication) and *ma-pyoke* (not getting dismissed), the three *Ma*, as guiding principles in performing their duties.⁴⁸ That is, they would do as little work as possible because they believed this was the best way to avoid falling into any complication and to save oneself from being dismissed. It is worth noting that as long as it was not ultra-excessive, corruption was not considered as a violation of *ma-shote*. Corruption in general was not even regarded as stigma. Unless their enemies informed the Party's Disciplinary Committee, "modestly corrupt" cadres were not very likely to get into trouble for their corruption.

The violation of the *ma-shote* meant doing things that would run counter to the interest of fellow cadres and bosses. As opportunists dominated the party and apparatuses, criticizing corruption and mismanagement in the implementation of policies adopted by the central state could offend fellow cadres and regional bosses. That is why "violating the principles of," says a former cadre, "came to be synonymous with doing or saying the truth."⁴⁹ In some state/divisions and townships, those cadres who violated the principle of *ma-shote* were ostracized by

fellow cadres and lost the blessings of the regional party bosses. In this environment, most cadres stopped talking about the reality in their regions. The reports of local party and state organs carried only modified version of the socio-political and economic situations in their regions. In consequence, the central state, though not ignorant of what was going on in the country, came to lose sight of the intensity and depth of the problems in local areas.⁵⁰ This is one of the reasons for the state's failure to take appropriate measures in sorting out negative political and economic developments. While the central state failed to adopt appropriate policies, local state organs failed to work for the benefit of people residing in their administrative regions.

Not surprisingly, the state dominated by people operating on the three *Ma* principles did not have the ability to bring the economy back on the right track. The problems with the revamping of SEEs would be a good example. Planning to run SEEs commercially and granting managers some freedom in the management of the enterprises were fantastic ideas. However, as described by a retired director general, when the plan was implemented, "some officials from the top" such as managing directors, ministers, etc., did not really want to allow managers to run the enterprises.⁵¹ Because the enterprises and the factories were sources of their privileges, perhaps they were worried that rescinding their control of the state enterprises would lead to the loss of comforts they enjoyed. Managers and members of the management team of SEEs did not have to strictly follow the instruction of their superiors if they thought it would hamper the production of their factories. People operating on the three *Ma* principles did not do so. Some of them thought that they owe their jobs to their bosses and avoided doing things that would antagonize their superiors. In many factories, the reform process stopped moving forward within a few months after it was introduced, and the SEEs veered back into the same old pattern.⁵²

Another paramount issue was the state's failure to boost exports, rice exports in particular. The growth in rice production brought about by the state's reform was still outpaced by population growth. The problem here was that there was little incentive for the peasant to increase rice production. The state's rigid pricing policy and procurement system did not help. The peasant had to deliver a certain amount of rice decided by the government according to "the area sown and yield" at a price set by the government.⁵³ In exchange for the promise to provide all his basic

needs both in the ricefield and in the household, the government offered the peasant a very low price for his produce. Despite a price increase in 1980, the value of rice fixed by the government remained far below the market price.

Although the government did provide low interest loans, fertilizers and some consumer goods at cheap subsidized rates, the minimum needs of the peasant were hardly satisfied. The peasant had to rely on black markets even for agricultural inputs.⁵⁴ The government did not keep up with its promise. The peasant needed more income to pay for what he bought in the black market. Because of this, the main income of the peasant came from selling either rice or paddy or both. He had to illegally hoard and sell some of the rice or paddy he had produced to *hmaung-kho* rice traders. The government, for its part was interested only in procuring as much rice as possible whereas the peasant was more interested in getting as much money as possible.⁵⁵ As noted by a retired high-ranking official, some officials trained in economics suggested at meetings on economic policy-making that government raise the prices of rice offered to the peasant. However, state leaders rejected it because they were worried that a rise in rice price would create more economic problems for the general public.⁵⁶ They firmly stood by the rigid pricing policy, keeping prices of rice low (in the legal sector).

What the government did not consider was that rural people in general and peasants in particular suffered from the rigid pricing policy. The peasant had to subsidize the food expenditure of urban people. The peasant did not have the incentive to boost rice production. The formula used by the government in fixing the amount of delivery quota for the peasant was very arbitrary. The rate by which the amount of quota increased after reaching a threshold was too high for the peasant to put up with. This "compulsory delivery formula," writes a resident Myanmar economist in collaboration with his Japanese counterpart, "acts as a definite disincentive to increase yields above a certain level and the system also discourages large landholders."⁵⁷

In spite of the launching of the green revolution, rice production did not increase as much as it should have. Once a top exporter of rice in the world, Myanmar's production lagged far behind that of neighboring countries. Resorting to coercive means, the government arrested peasants who failed to deliver their quota and kept them in prison until the

obligation was met. In theory, if either bad weather or pestilence destroyed the harvest, the peasant would be exempted from the compulsory delivery requirement. In practice, however, peasants from many parts of the country did not get any exemption. As it would be a loss of face for township council members unless they could buy the amount of rice set by the center, no matter what happened to the ricefield peasants were forced to deliver their quotas to the government rice purchasing centers. Lest he is willing to spend time behind bars, the peasant is forced to buy rice from other peasants to deliver his quota. The government did not come up with incentive-oriented policy that would motivate peasants to increase production. Fortunately, not all township people's council members were cruel to peasants. Some cadres stood by the peasant's interests.

With the government's failure to boost rice exports, the possibility of improving export performance was gone because it was much harder, if not impossible, to increase the production of the second largest export item, teak, for a number of reasons. First, the production method employed in the extraction of timber, infrastructure and means of transportation were still primitive. Although mechanization of timber extraction was done in some limited forest areas, the Timber Corporation mainly depended on human laborers, elephants and buffaloes in logging and moving timber. Although the major means of transporting the logs was floating them along rivers (this is especially true in Yangon and other cities along the river), it took time to move timber from forest to market. Secondly, about one-third of the forest area was located in "insurgent-infested" regions. That is why the production cost of teak often included human lives. Even if the production mechanism and infrastructure were improved and the insurgency controlled, the government could not increase production of timber recklessly because they are semi-exhaustible unless proper actions are taken to preserve it. Although reforestation was possible, it could take five decades or more for forests to regenerate. In fact, the socialist government had extracted more teak than it should have. While the target for the timber production was set on the basis of the whole forest area in the country, the government's timber extraction was concentrated mainly in secured forest areas. In order to meet the target, the Timber Corporation had no choice but over-cut the forest resources in the secured forest areas.

Consequently, since the late 1970s, the volume of timber production by the government had already exceeded maximum sustained yields. Given this, the government could not ignore the problems besetting the expansion of the timber production. "We had produced," says a retired officer of the Timber Corporation, "the most [timber] we could under the circumstances." The volume of production had exceeded the ceiling.

The expansion of export could in no way be based on the forest sector."⁵⁸ The export items other than rice and timber such as mineral products were also exhaustible and their shares in the export were negligible. That is why the inability of the government to increase rice exports was tantamount to the government's failure to improve the whole export performance. As has been illustrated, the failure to improve the export performance negatively affected the import and production, further weakening the government's ability to meet the needs of the general public.

The socialist government tried to solve economic problems and budget deficit by getting foreign aid and loans. This use of foreign loans and bank credit did not really solve the problems the country was facing. While bank financing caused inflation, the contribution of foreign aid and loans to the economic development was quite limited.⁵⁹ A large amount of foreign aid had been invested in the industrial sector but was concentrated on establishing new factories rather than upgrading old ones.⁶⁰ The result was the worsening of the old problems. In addition, the responsibility to make debt-serving payment had undercut the government's ability to make further investments. Myammar in the 1980s was in serious economic trouble.

In the face of sluggish and torpid export, import and production performance, the attempt to improve the distribution system also proved to be futile. Both the cooperatives and department stores did not really find their way out of the same old pattern of distributing goods to the people. Department stores did distribute some essential items in the first three years of operation but the volume and types of goods they supplied plummeted year by year and in the middle of the 1980s, people often saw more bare shelves than goods in them.⁶¹ The Mon-ywa department store, the last store opened by the socialist government, was opened in 1986 without having literally anything to sell. As local authorities attended the opening ceremony, the store manager had to borrow merchandise from

some private stores in town and put them on the shelves of the stores for authorities to see. Similarly, cooperative shops were no means better than its predecessor, the public stores. In terms of ineptness, they both shared many things in common.

The volume of some essential items distributed by the trade and industrial corporations through cooperative stores never exceeded 40% of demand.⁶² (See Table 3.) Sometimes, the provision of some goods dropped to less than 10% of demand.⁶³ To be sure, cooperatives did not procure items that were only wanted by their customers. Due to lack of a systematic market survey by the trade and industrial corporations, some commodities with low demand were over supplied and some with high demand, undersupplied. For our purpose, what government corporations could provide was not material; the crucial thing here was to what extent corporations and cooperatives satisfied the economic needs of the general public. As I have repeatedly mentioned, they did not have the capacity to meet the needs of the general public. Not all people had equal access to the goods from cooperative stores and warehouses. The party and state officials and their nearers and dearers had better access to scarce items. In George Orwell's words, we could say, "some were more equal than others."

In addition to corrupt officials, after the party was upgraded from cadre to mass party in 1971, the local state (divisional and township level state organs) as an institution also smuggled some commodities into the black market. Smuggling was undertaken in order to raise funds needed to finance the holding of ceremonies and meetings in their regions and the hosting of visiting officials from the center. There were seven major ceremonies that all state/divisions and townships had to sponsor: the independence day (January 4), the union day (February 12), the peasant day (March 2), the resistance day (now called armed forces day, March 27), the workers' day (May 1), the martyrs' day (July 19), the national day (the date of this ceremony follows the lunar calendar which usually falls in the last week of October) and the water festival (The date of this ceremony also follows the lunar calendar which usually falls in the second week of April). Besides, the local state institutions had to hold one big annual meeting and several small meetings every once in a while and host officials from the center who were making inspection tour in their regions.⁶⁴ The expenses for all these events range from a few hundred to hundreds of thousands of kyats. For example, the average cost of holding

small occasional meeting for a township is about 150 kyats, but it is about 400,000 kyats for holding union day and related ceremonies which involved the relaying of a small union flag around the country.⁶⁵

With the exception of the annual monthly budget for small meetings, which barely covered the cost of holding a number of small meetings, local state organs did not receive any financial assistance from the center to pay for the expenses of the state-sponsored ceremonies.⁶⁶ One of the means of fund raising employed by all local state organs was the selling of popular goods from cooperative shops and trade corporations' stores to black marketeers. Fund-raising committees, which were formed with businesspeople-cum-party members, did such business dealings with black marketeers, and sometimes by a branch of the township party unit, especially the Worker's Organizing Committee. Usually, the fund raising committee bought goods from cooperative shops in the name of distributing to party members⁶⁷ and sold them back to black marketeers without informing the members whose names were used in buying the goods. The local state had to play both as facilitators and members of *hmaung-kho*. Otherwise, it would not be able to perform many of its duties. In 1979, the State Council issued a decree prohibiting the fund-raising by people's council of all levels without the prior permission of the council of ministers.⁶⁸

The party central committee also urged local state organs not to spend too much money in holding state ceremonies.⁶⁹ This decree, however, was stillborn. Local state officials continued to raise funds without getting the permission of the council of ministers until the party and the government collapsed. One of the most important criteria used to judge the capability of party cadres who headed local state organs was how well they managed the aforementioned ceremonies. It was not surprising that cadres put a lot of effort in making these ceremonies and meetings, especially the annual ones, as grand as possible. In addition, knowing how to host officials from the center could also be a qualification for local state officials for upward mobility in the party hierarchy. Therefore, local state officials were not hesitant in resorting to illegal means to raise funds, which was *sine qua non* for the implementation of the center's instruction. No wonder, this government could not salvage the country's sinking economy. And consequently, the *hmaung-kho* sector grew rather than shrink.

Taking Legal Actions Against *Hmaung-kho* Activities

The socialist state could not stay blind regarding the growth of *hmaung-kho* activities since the expansion of the *hmaung-kho* sector was a manifestation of its failure to exert control on the economy. Accordingly, it promulgated new laws and amended old ones in order to accredit itself with the power to take severe actions against those that would disrupt or disturb the construction of the socialist economy in the country. There were four major laws under which people involved in *hmaung-kho* trading were prosecuted. They were the Public Property Protection Act, the Communal Property Protection Act, the Foreign Exchange Regulation Act and the RC's Law No. 1/68 (also known as the Socialist Economic System Protection Act). The first two laws were similar in form as they both were referred to in prosecuting violators of public properties or people arrested for stealing or smuggling public properties into black market. However, the second law dealt with cases that involved severe violation of public properties.

The severity of the violation of public properties was to be decided on the basis of the monetary value of the properties involved. Those found guilty of "unauthorized possession of any public property, or commit theft, misappropriation or mischief in respect of any public property" were to be punished either with a maximum prison term of seven years, whipping, imposing a fine or all three. However, those found guilty of theft, misappropriation or mischief of any communal property were to be punished either with a prison term that may range from 10 years to life imprisonment or a jail term and fine.⁷⁰ In the case of the violation of the Foreign Exchange Regulation Act, the violator faced a prison term that may extend up to three years and/or a fine.⁷¹

The Socialist Economic System Protection Act granted the state the power to punish smugglers of all kinds with the minimum prison term of six months or death depending upon the magnitude of the offense. The acts that constitute offenses against this law include:

- 1) Violation or involvement in violation of regulations prescribed by government according to law.
- 2) Taking part in activities prohibited by government.
- 3) Trading part or involvement in such trade in commodities declared tradable only by government agencies. This includes buying, pro-

- cessing, storing, transportation and transfer of such commodities for marketing in a private capacity.
- 4) Taking part in activities specified in sub-section 3 either individually, collectively or organizationally.
 - 5) Obstruction or involvement in obstruction to state enterprises for production, trade, transportation, storage, stores examination, processing and banking – all considered part and parcel of the socialist economic system.
 - 6) Illegal import or export of currency and stores or involvement in such activities.
 - 7) Manufacturing, storage, handling and use of counterfeit currency or demonetized currency. Handling and transaction in foreign currencies without permission.
 - 8) Destruction or involvement in the destruction carried out according to policies and program laid down by government.

The law also prescribes severe punishment for its violators. Those found guilty under sub-sections 1 to 3 were meted six months to 10 years prison terms or a maximum fine of 5,000 kyats depending upon the gravity of the offense. Violators of sub-section 4, 5, 6, 7, 8 and 9 were to be punished with a minimum jail term of 10 years or death. The punishment could be a combination of a jail term and fine if the judge thought it was appropriate.⁷²

In enforcing anti-*hmaung-kho* laws, the government occasionally launched various forms of anti-*hmaung-kho* campaigns, offering the people who provided information leading to the arrest of *hmaung-kho* people “handsome” rewards. The Order No 3/81 of the Council of Ministers issued on June 1, 1981, provided the informers and government organization responsible for the seizure, 10% and 20% respectively of the value of the *hmaung-kho* goods.⁷³ The remaining 20% was to be “credited to the Central Fund for welfare of service personnel of the State”.⁷⁴

The government arrested smugglers and government officials who smuggled goods out of public, cooperative and special stores. The party cadres who were implicated in *hmaung-kho* crimes were indicted according to both laws and party discipline. Every year, a certain number of party cadres were prosecuted and dismissed on charges of economic crimes. Between 1978 and 1981, more than 600 members of township

and ward/village councils were prosecuted on charges of economic crimes.⁷⁵ Some senior party officials up to the level of the central executive committee members were expelled from the party. Due to growing involvement of party cadres in illegal economic activities, both the Disciplinary Committee and the State Council warned cadres from involvement in economic misconduct. However, many cadres and government servants discarded these caveats and restrictions. Not all cadres and bureaucrats who committed economic crimes were prosecuted. Cadres and bureaucrats were charged with economic misconduct only either when their acts were severely excessive, when the *hmaung-kho* reported their involvement, or when their acts were relayed to the Disciplinary Committee or to the State Council, especially by their enemies. Even those who were involved in fund raising for local party organizations could be prosecuted if the Disciplinary Committee learned of this.⁷⁶

The arrest of *hmaung-kho* people and confiscation of *hmaung-kho* goods were carried out by the search committee composed of members of township people's council, custom officers, police officers, and (sometimes) judges. Trains, buses and trucks and suspected houses were searched for *hmaung-kho* goods. Government legal action, however, did not prevent the *hmaung-kho* sector from expanding. Instead, the magnitude of the *hmaung-kho* trade increased over time. This situation was, in fact, not difficult to understand. As in many other command economies and third world countries, laws were never properly enforced and consequently, many *hmaung-kho* people managed to work around the legal constraints of their illegal business activities.

Sometimes, local state officials consciously ignored anti-smuggling laws and decrees in dealing with *hmaung-kho* traders. After the looting that accompanied the 1968 rice shortage, many regional party chairmen informally instructed township party unit and council members not to take "reckless actions" against *hmaung-kho* activities. "They [chairmen of regional party units] apparently reasoned," says a former township party unit chairman, "that straitjacketing *hmaung-kho* activities in their respective regions would create difficulties rather than solutions for the people living in their regions." As the shortage of consumer goods could give rise to riots, local state officials seemed to have adopted the view that the existence of alternative sources of goods for the people, though illegal, was essential in order to make sure that things did not get out of control.

Apparently for this reason, search committees focused their search on the routes outside their respective townships and *hmaung-kho*, consumer goods that were already in towns were rarely confiscated. That is why all *hmaung-kho* markets in Myanmar functioned as if they were legal markets.

In addition, local state officials avoided taking severe action against *hmaung-kho* rajas because arrests could negatively impact on the families of the people who worked for them. In the early 1980s, for instance, the Sagaing Regional Party Unit Committee decided not to take action against a big *hmaung-kho* raja in Monywa simply because he employed about 50 families. The regional party committee worried that his arrest might put about 250 people in trouble.⁷⁷ Moreover, *hmaung-kho* people served as sources of funding necessary to carry out many of the functions of the local state. Not only did *hmaung-kho* people buy goods sold by the local state officials to raise funds for above-mentioned ceremonies, but they also donated a lot of money and rendered many other assistance to fund-raising committees of local state organs. They, for instance, let state officials use their cars for official or personal purposes. Also, the *hmaung-kho* sector was a source of additional income for many party and council members and civil servants; since they could not have a comfortable life without additional incomes,⁷⁸ the termination of the *hmaung-kho* sector directly ran counter to their personal interests. State officials, therefore, did not take strict and uniform action against *hmaung-kho* traders so much so that the general public came to sarcastically comment on this situation that *lu-ko-khin-yin-mu-ko-pyin-de, lu-ko-hmone-hdaw-mu-ko-htone-de* ([state officials] amend rules and regulations to suit the needs of the people they like but they would strictly follow rules and regulations in dealing with the people they hate). That is, local authorities activated laws only when the violators of laws were the people they did not like. They discarded laws and regulations when the violators were their nearers and dearers.

Hmuang-kho people, for their part, resorted to various means to avoid arrest. The most common way was establishing close ties with government officials at the townships located along the route through which they transported *hmaung-kho* goods. As we can imagine, there were checkpoints along all major *hmaung-kho* routes.⁷⁹ The *hmaung-kho* people send someone to checkpoints and had them secure *na-lei-hmu* with the personnel at checkpoints even before their trucks arrive. It was

easier for the agents of well-connected businesspeople to reach *na-lei-hmu* with responsible personnel. Some *hmaung-kho* rajas also used government officers in transporting their merchandise from one place to another. Jade merchants, for example, had some government officials carry jade and precious stones from the jade mine area to border towns or nearby road stations.⁸⁰ The fact that *hmaung-kho* people successfully managed to avoid arrest was discernible in the fact that in spite of the rewards offered by the government in 1981, the number of cases prosecuted under the Socialist Economic System Protection Act did not rise significantly. (See Table 1.)

Well-connected *hmaung-kho* people, therefore, did not see anti-*hmaung-kho* laws, regulations and campaigns as hindrances to their business operations. In fact these allowed them to monopolize the market. Whenever there was a major anti-*hmaung-kho* campaign, most *hmaung-kho* suspended operations because the searching of buses and trucks was more thorough because of the quota in arrest of *hmaung-kho* people and seizure of *hmaung-kho* goods. However, well-connected *hmaung-kho* traders usually had the information in advance so they were able to hoard some essential goods before the campaign started. When the government launched the campaign, the flow of commodities stopped and the *hmaung-kho* people were the only ones with the merchandise. Just as the Prohibition enabled Al Capone to monopolize the trade of alcohol, anti-*hmaung-kho* campaigns and regulations helped well-connected *hmaung-kho* people to secure a monopoly of the goods they were trading. At the time of anti-*hmaung-kho* campaign, depending upon the demand of the goods they hoarded, the profit they made, went up three to 10 times the amount they made before the campaign. A businessman noted, that had the socialist government not introduced anti-*hmaung-kho* laws and launched anti-*hmaung-kho* campaigns, he would not have been successful today.⁸¹

However, not all *hmaung-kho* traders are well connected at the same time. Some well-connected *hmaung-kho* traders are at times unable to escape arrest. It is impossible for well-connected *hmaung-kho* people to make friends with all responsible personnel along their *hmaung-kho* route. That is to say that all *hmaung-kho* traders, whether well-connected or not, ran the risk of being arrested and getting their goods confiscated by the government. There were instances in which *hmaung-kho* goods were confiscated at checkpoints even though the owner had made prior

na-lei-mhu (arrangement). This happened when the officials with whom the *hmaung-kho* trader had made *na-lei-hmu* was not at the checkpoint at the time the latter's trucks passed or when a disagreement occurred among the members of the search committee over the division of the bribe money. Strange as might it sound, there were some officials who were determined not to make any deals with *hmaung-kho* traders at checkpoints.

Officials from the search committee could not always make deals with *hmaung-kho* traders either. Both custom and police officers were required to make a certain number of arrests of *hmaung-kho* traders and seizure of certain amount of *hmaung-kho* goods every month. In addition, the search committee had to make some arrests and confiscations when *a-yaung-htein* goods were piling up at cooperative shops⁸² at a time when the township council needed to raise funds for holding some ceremonies.⁸³ Also, the State Council from time to time instructed division/state and township councils to launch anti-*hmaung-kho* campaigns especially when they received letters of complaint on the expansion of the *hmaung-kho* sector from some party members. However, there was always a discrepancy between the instructions of the central state and the way they were implemented by local state officials. Hence, the objective of the central state was rarely achieved. In most cases, those arrested were mainly petty *hmaung-kho* traders because they could not afford to make *na-lei-hmu*. Petty *hmaung-kho* traders relied on luck when they do business. On average, *hmaung-kho* rajas controlled about 85% of the business operations and only about half of petty traders escaped arrest (interviews with former *hmaung-kho* traders). *Hmuang-kho* rajas themselves were rarely arrested even when their goods were seized; only their "carries" had to go to jail.

The seizure of *hmaung-kho* goods did not usually drive *hmaung-kho* rajas out of business. Because *hmaung-kho* rajas do not invest heavily in one operation, they always had sufficient money to start several new operations. In case they needed more money, they (as most well-connected people) could borrow as much money as they needed from their business partners. Furthermore, new carries were always available. It was not easy for the socialist government to emasculate the *hmaung-kho* trade. A party cadre once wrote that:

Taking advantage of the situation in which most people had to burden economic difficulties, [big] *hmaung-kho* traders persuaded unemployed and underpaid people to work for them...The government did not fail to pay due attention to this problem...It has taken some measures to deter the expulsion of such evil economic activities. However, the problem here is that the measures taken by state officials were too conventional to be effective. They arrested only those found with *hmaung-kho* goods, not the real owners of the goods, as culprits...Greedy *hmaung-kho* people did not personally do things that would subject them to imprisonment according to existing law by the authorities.⁸⁴

All in all, the legal measures employed by the state failed to check the growing momentum of *hmaung-kho* activities. By the early 1980s, *hmaung-kho* goods accounted for about 70% to 80% of the goods traded in major markets of Yangon and Mandalay. In spite of the government's occasional arrests, for instance, *kyauk-wine* (jade center) – a place where small jade traders got together to buy and sell usually low priced jade stones – was always crowded with two to three hundred people. It was not easy for the government to take effective actions against *hmaung-kho* activities since every household in the country was involved in *hmaung-kho* activities there, either as buyer or seller. That is why “it was impossible,” notes a retired high-ranking party official, “to take effective actions against *hmaung-kho* activities. If all of the people who were involved in *hmaung-kho* activities were to be arrested, that would be the whole population; we would just have to build walls along the border of the country. Only when we put the whole population in jail would *hmaung-kho* activities come to a halt. Well, even then, I am not quite so sure it would.”⁸⁵

The Socio-political Implications of the *Hmaung-kho* Sector

Hmaung-kho solved many of the economic problems of Myanmar. Not only did it serve as a major provider of the needs of the people, it also rendered job opportunities to people of all social classes. Apart from businesspeople of all sizes, government servants, students and the local state as an institution solved their financial difficulties by engaging in *hmaung-kho* activities occasionally. Without drawing on the *hmaung-kho* it would be very hard, if not impossible, for local states to function, and at the same time, government officials including party cadres would suffer more from economic difficulties. The *hmaung-kho* sector created

many jobs for coolies, horse cart men, bus drivers and trishaw men. Examples of people enjoying the benefits generated by the *hmaung-kho* abound. In terms of social class, for instance, coolies would be placed in the lowest echelon of Myanmar society. However, the incomes of coolies working as porters at *hmaung-kho* markets in major cities were much higher than the salary of a high school teacher or a township-level bureaucrat. More often than not, the children of the former got more pocket-money than the children of the latter. However, unlike well-connected *hmaung-kho* people, coolies and other members of the transportation sector are left with only very little income whenever the government launched anti-*hmaung-kho* campaigns. That is why “as long as the *hmaung-kho* trade was operating well,” says a coolie, “we did not have to worry about our living. We made enough money to have *see-ryan-atha-hin* (oily meat curry)⁸⁶ frequently.”⁸⁷

The profits made by *hmaung-kho* people did not just go into their coffers alone. Willy-nilly, *hmaung-kho* traders had to share the profits they made with many other people in various ways. They had to bribe search committee members and government officials. Even lawyers got a share of the profits. *Hmuang-kho* people hired lawyers to represent them in courts and in government office when they or their people were arrested, or when they wanted to buy properties. The first matter is self-explanatory, the second might need some explanation. Because the income they had accumulated was acquired illegally and was not properly taxed, it is therefore not easy for *hmaung-kho* people to get titles for the properties they purchased. Only those who had paid taxes on their income had the right to obtain titles to properties. *Hmuang-kho* people, therefore, needed to find a way to turn their black money into white or legal money. Since it involved a lengthy complicated paper work they needed lawyers to solve their legal problems.

Another group of people with whom the *hmaung-kho* people had to share a fraction of their income was university, high school and private school teachers. As they did not have much spare time to take care of their children, *hmaung-kho* parents invited university or experienced high school and private teachers to provide academic assistance. Although it was illegal for university or high school teachers to teach at private schools or to offer special classes outside formal classrooms for a fee, most of the high school and university teachers rarely turn down the job offers of *hmaung-kho* parents because the rising cost of living had forced

them to moonlight to get some additional income. The point I would like to make here is that part of the profits made by *hmaung-kho* traders also went into the pockets of some university and high school teachers. It is very difficult to know the exact number of teachers teaching the children of *hmaung-kho* people at that time and the amount of money involved. According to a university faculty-cum-tuition teacher, about 30% to 40% of university teachers from Mandalay and Yangon universities were teaching children of *hmaung-kho* people. They received from 50,000 to 300,000 kyats a year depending on the popularity of the teachers.⁸⁸

In an effort to establish good relationship with all the people living in their quarter, *hmaung-kho* people also made donations to social and religious organizations. With the donations, old schools, hospitals and religious buildings were renovated, new school and hospitals were built, and pagoda festivals were held grandly. *Hmuang-kho* people might not have made these donations out of altruism, but nonetheless their contribution is beneficial to the communities their donations were directed. The donations of *hmaung-kho* people also created job opportunities for carpenters, masons and traditional dance troupes. As an old performer noted:

Dance troupes had to pray that *hmaung-kho* people across the country did good business. Only then would they be able to donate a lot of money needed for renovation of pagodas and hiring of dance troupes at pagoda festivals to the pagoda trustees in their respective township. We were hired to perform only when *hmaung-kho* traders in our town donated money [sic] for pagoda festivals. That is why we performers said among ourselves that the more profits *hmaung-kho* people across the country made, the more money we earned.⁸⁹

Although the performer's statement could be a bit exaggerated, it was quite clear that the donation of *hmaung-kho* people was crucial for the grandness of pagoda festivals. To be sure, many businesspeople from legal sectors and government officials donated to religious and social organizations, but throughout the socialist period, the easiest way to make a lot of money was, as has been said, engaging in *hmaung-kho* trade. Accordingly, *hmaung-kho* people could donate much more and more often than others and not surprisingly the bulk of the donations to social, religious and government organizations were made by them.

Clearly, the *hmaung-kho* sector helped people to meet their basic economic needs. Besides, job opportunities created by the *hmaung-kho* sector were not confined to those who wished to make a living by engaging in *hmaung-kho* activities, but as has been discussed above, were extended to people from other (legal) sectors and professions. That is, the *hmaung-kho* sector also rendered the people the ways and means to overcome such economic problems as unemployment, the difficulties, caused by rising cost of living among others. History has witnessed that economic problems could lead to social and political instabilities. To mention a few, one of the major causes of both the Saya San peasant rebellion of the colonial period and the labor protest of 1975 lay in economic problems. It should not, therefore, be against reason to consider a phenomenon that alleviated economic problems and hardships prevalent in the country as one of the factors that had given rise to a social equilibrium which in turn contributed to social and political stability in the country.

The Boomerang Effects of the State's Demonetization Measure Against *Hmaung-kho*

Unlike local state officials, the central state officials were not very friendly to the *hmaung-kho* sector and *hmaung-kho* people. While acknowledging the importance of the *hmaung-kho* sector as an alternative provider of the needs of the general public, they still held the attitude that *hmaung-kho* trade was anathema to the Burmese Way to Socialism as the growing intensity of the *hmaung-kho* sector indicated the failures of the government's socialist economic policies.⁹⁰ Since the middle of the 1980s, the economic performance of Myanmar was found to be in complete disarray; the inflation was uncontrollably high; the manufacturing sector was showing negative growth rate and the share of export and import reached a record low. The socialist government initially did not take full responsibility for this economic recession but imposed part of the responsibility for the economic problems of the 1980s on private businesspeople in general and *hmaung-kho* people in particular. Accusing businesspeople especially *hmaung-kho* people of evading tax, hoarding black money, manipulating market and destabilizing commodity prices, the socialist government came to try to strip private business people of economic power again. That is, the government singled out *hmaung-kho* traders who controlled the economy of the country at that time as culprits for the country's economic downturn and tried to vitiate their economic

power in order to reassert their control over the economy. Since the *hmaung-kho* trade was a kind of hidden economic activities the government could not simply nationalize their businesses. It then resorted to the means it had employed in 1964 – demonetizing some currency notes. On November 3, 1985, the socialist government issued Notification No. 1. Special/85, declaring K 100, K50 and K20 notes worthless.

Everybody had to deposit the demonetized notes at designated banks and offices. The deposited demonetized money up to K5,000 were immediately exchanged for “legal tender currency of equivalent amount.” However, the people whose demonetized currency notes accounted for over K5,000 had to exchange their demonetized notes for legal tender in the following way:

(i) “For up to K5,000 from the amount deposited, legal tender currency [was] issued in exchange immediately...”

(ii) The fifty percent of the remainder after such exchange for K 5000, legal tender currency was also issued immediately (The Guardian, November 9, 1985, p.1). The government withheld the remaining fifty percent temporarily. Those who could prove that he earned the money through legal means and had paid tax on it were allowed to withdraw all the money back. If the tax was not paid on the money deposited, the tax and fine would be deducted from the money withheld and return the rest. If the money was obtained by illegal means, all of it would be confiscated.⁹¹

Hmuang-kho traders did not deposit all of their demonetized notes to their respective assigned banks by themselves. Instead, they distributed their money to some of their friends or poor people whose demonetized notes accounted for less than K5000 and had them exchange their demonetized notes for legal tender. In spite of the government’s announcement that it would take severe actions against all irregularities, most *hmaung-kho* people were said to have managed to get back about 70% or more of their demonetized notes in legal tenders.⁹² The government’s attempt to redirect the trajectory of the economy to the destination prescribed in The Burmese Way to Socialism just remained in vain. While the economic performance of the country continued to be sluggish, *hmaung-kho* sector grew faster than ever. The socialist government then came to undertake unexpected measures to sort out

the development in the country. On November 1, 1987, lifting the control on trading and transportation of all agricultural products including paddy and passing the Private Enterprises Rights Law, the government widened the economic space for the private sector to function. However, this unexpected policy change was followed by unexpected demonetization of K75, K35 and K25 notes. The whole country was hard hit by this demonetization as the demonetized notes were not exchanged for legal tender. The border trade crashed as foreign traders at the border came to lose confidence in Myanmar currency. A Thai scholar writes on the impact of the 1987 demonetization on the Thai-Myanmar border trade as follows:

Almost all the consumer goods traded in Burma and the Karen state came from Thailand...The value of the goods exported from Mae Sot was at least 5-6 billion baht a year. When the Burmese government demonetized the 25, 35 and 75 kyat notes, those who held millions of kyats complained loudly because the money had suddenly become worthless scraps of paper....Ever since then, trade in Burma has been very depressed. The old kyat notes were demonetized and new 45 and 90 kyats notes were issued. But merchants have refused to accept the new notes...Large scale trading has come to a halt. Thai merchants who engage in trade along the Thai-Burmese border are afraid to accept payment in kyats.⁹³

With the economic crash, the demands of people for most consumer goods drastically declined. People had to save all the money they had for food. With the exception of the trading of rice, cooking oil, salt and some other essential food items, the trading of all other goods was greatly affected. Most businesspeople, especially *hmaung-kho* traders, did not do good business. Stores that sold textile goods could not find buyers. The profits *hmaung-kho* people made dropped dramatically and consequently they could no longer share their profits with other people. Tuition teachers did not get their pay because the parents of their students did not have the money. Many coolies could not find jobs as very few merchandises were traded. As *hmaung-kho* businesspeople could not donate money to social and religious organizations, carpenters, mason and performers had to shoulder more economic difficulties. The whole economy was in topsy-turvy and people could not find a way to get out of it. In the eyes of most people, it was not the *hmaung-kho* people but the socialist government which was responsible for all their economic problems

because it was the latter which took away their money (by means of demonetization). When the economic hardships had reached unbearable point, people began to express their grievances by engaging in uprisings and riots. In consequence, the old social equilibrium that maintained political and social stability in the country collapsed and the whole country was overrun by political uprisings and riots.

The socialist government was not indifferent to these socio-economic problems. The economic problems prevailing in the country were so immense that the socialist government had to publicly admit its failure, and talked of the need to make, radical economic policy changes. U Aye Ko, the then general secretary of the party central executive committee, reported to the extraordinary party congress in July 1988, that:

[T]he state economy is declining as economic activities could not be carried out in harmony among them or between one section and another even in one enterprise, there is a fall in commodity production and inability to run economic enterprises rationally; there is general decline in efficiency and inability to control loss and wastage and such other shortcomings...There is decline in commodity production at mills and factories due to insufficiency of raw materials, spare parts for machines and fuel oil supply so much so that some of the mills and factories stopped running. State-owned economic organizations too could not produce goods commensurate to the investments but are burdened with debts. There is a dim chance for state-owned economic organizations to make considerable progress to boost production of goods in a very short period. In such a situation the prices of basic commodities including rice and edible oil have risen and so have the price of personal and household goods and thus the cost of living for the people has become very high and there is a strong desire to overcome the stringency and due to all that, it is necessary to make changes in connection with the economy.⁹⁴

The Extraordinary Party Congress did make radical policy changes in order to boost production in the public, cooperative and private sectors. Contrary to the original objectives of the Burmese Way to Socialism, the policy changes were designed to enlarge the economic space for the private sector to operate. In the agricultural sector, ownership of the land was to be granted “as long as one is commercially producing long-term industrial crops and long-term fruit bearing trees”.⁹⁵ The government also

planned to grant the private sector the permission to extract and trade forest products except teak, and mining products other than oil, jade, pearls, and gems and to establish, with the exception of armament and ammunition, “small-scale, medium-scale and large-scale industries and produce and sell the products”.⁹⁶ More radically, the private sector was to be allowed to produce hydroelectric power and publish newspapers.⁹⁷ While guaranteeing the property rights of the private business establishment, the government also promised to change the then existing rules and regulations to suit the new economic environment. No doubt, the above mentioned policy changes the socialist government planned to implement were more likely to remedy the socio-political and economic ills of the country and bring the country back onto the road to sustainable development than the demonetization measure. However, it would take time to fully implement all the policy changes. An equilibrium could be ruined in a second but a disequilibrium could not be fixed overnight. The policy changes undertaken by the government was like giving a proper treatment to a terminally ill person only after the disease had passed the curable stage because the socialist government did not have the social and political capital necessary to buy the time needed for the implementation of its new policies. Stricken by nationwide uprisings, the socialist government did not even get a chance to implement its new policies. With no other alternative to resort to, the socialist government had to vanish itself into history, closing the chapter for the Burmese Way to Socialism.

Conclusion

The creation of a large public sector and the government’s inability to provide the needs of the general public had paved the way for the emergence of the *hmaung-kho* sector as a dominant sector of the economy of the country. Playing the role of the alternative provider of the economic needs of the people and creator of job opportunities in the economy, the *hmaung-kho* sector had helped the people to solve their basic economic problem and abated the intensity of the socio-economic problems that could engender social and political instabilities in the country. In planned economies like Myanmar, the illegal economic sector grew when the legal economic sector failed to fill the needs of the general public. That is, the state’s economic power receded while the economic power of the illegal private sector increased.

The state's response toward the growth of *hmaung-kho* was not homogeneous. Different levels of the state hierarchy had different attitudes toward the *hmaung-kho* sector. The local state accepted *hmaung-kho* as a necessary evil, but the central state could not accept the economic environment in which the economy was controlled by illegal private businesspeople. In such situation, the best way to reconsolidate the state's position in the economy would be to turn illegal businesspeople from being the enemies of the state into allies of the state by legalizing the illegal economic sector. However, the central state tried to emasculate the economic strength of *hmaung-kho* traders by launching anti-*hmaung-kho* campaigns. Taking tough actions against *hmaung-kho* people without really having political, social and economic power to do so had negative boomerang effects on the state. This was the case in Socialist Myanmar. The central state, at that time, was financially nearly bankrupt and politically very unpopular. Not surprisingly, the central state's measures against *hmaung-kho* activities did not yield the desired results but they backfired on the state instead. The whole economy went astray. In the end, the state was paralyzed by the public disorder born out of the grievances of the people and the implementation of the Burmese Way to Socialism came to an end in fiasco. ❁

Endnotes

- 1 I use a Burmese word, *hmaung-kho*, to describe illegal economic activities in socialist Myanmar, instead of the more popular English words, second economy, parallel economy or informal economy. In writing this paper, I did not wish to get involved in the debate on the definition issues associated with these words. As different scholars have used these words in somewhat different contexts, scholars who use these words are obliged to clarify what they mean by them and justify why their respective definitions are the most appropriate ones for their respective studies. Since the primary focus of this paper is more empirical than definitional, I will keep myself out of the theoretical debate just by using the word, *hmaung-kho*. This refers to all economic activities that according to existing laws are illegal.
- 2 That pre-colonial Myanmar lived on subsistence economy does not necessarily mean that trading by common people did not exist in those days. A small number of people did engage in trading and many of them illegally traded goods of royal monopoly. For example, under King Bodawphaya, selling precious stones to foreigners was illegal. But foreign merchants never had difficulties finding a local merchant who provided all the kinds of precious stones they wished to buy. For details, see Toe Hia, History of Myanmar under King Padon (in Burmese) MA thesis, Department of History, Mandalay, 1970.

The British free trade policy could not do away with *hmaung-kho* either. The smuggling of timber and other goods was quite rampant throughout the colonial days. Similarly, the open economy of the parliamentary period was not open enough to keep Myanmar

society completely out of illegal economic activities. The control of import and export of certain goods through licensing and granting monopoly of trading and distribution of certain goods to semi-public and public enterprises led to the ubiquity of *hmaung-kho* throughout the country. An enormous amount of goods that were supposed to be distributed to the general public by the Civil Supply Department, cooperatives and joint-ventures, were smuggled into local black markets throughout the country. In addition, there also existed illegal cross border trade along the Myanmar-Thai, Myanmar-India and Myanmar-East Pakistan (later called Bangladesh) borders. Some businesspeople, especially those living in towns and villages near border areas, smuggled agricultural products, raw metals such as lead, silver and gold and some imported items under the OGL system (things that could be imported without acquiring license) into neighboring countries. These OGL items mainly went into Thailand. Probably because of the differences in the tariff rates between Myanmar and Thailand, some goods imported into Myanmar from foreign countries were much cheaper in Myanmar than in Thailand. Taking advantage of this condition, some businesspeople smuggled some imported OGL items meant for domestic consumption out of Myanmar into Thailand.

- 3 Some scholars, especially non-Burma scholars, found difficulty referring to the government that came to power in Myanmar after the 1962 coup as a "socialist government" or "socialist state." They claim that the Burmese Way to Socialism was not real socialism and that the ideology did not really have a role in policy-making and implementation. Although these assertions were quite superficial and their validity debatable, "socialist government" and "socialist state" are used interchangeably in this paper not to show that the government under study was a socialist government but just to refer to a government that claimed to be building a socialist society.
- 4 For instance, see the speech given by the Chairman of the RC, Gen. Ne Win at the Tatmadaw Theater on February 15, 1963.
The main objectives of the Twenty-Year Plan implemented in 1971 were to increase the share of the public and cooperative sectors from 36% and 3% to 48% and 26% respectively, and to reduce the share of the private sector in the economy from 61% to 26%.
- 5 Although party organizations of various levels were supposed to supervise the policy-making and implementation process of relevant levels of people's council and the council of the ministers, these institutions, the party, the people's council and the cabinet were interlocked. Party Chairman U Ne Win was president of the country until 1982. Likewise, all cabinet members were also members of the party's central executive committee or central committee.
- 6 Due to its mismanagement of the distribution of goods, the People's Store Corporation was dissolved and replaced with the Trade Council in 1964.
- 7 During the cadre party period, party officials in all strata of the party organizations were nominated by the RC and membership to the party was confined to some selected cadres but after the party was upgraded as a mass party, party officials from the level of the Central Executive Committee to the ward/village level were nominally elected by party members at the party's general assembly.
- 8 According to the 1974 constitution, minority areas were grouped into seven states (small "s") and the rest of the country was divided into seven provisions. Although different in name, state and division people's councils were functionally equivalent administrative units that stood between the State (capital S – the highest administrative unit in the hierarchy of the state apparatus) People's Council and township people's councils.
- 9 Interview with a retired director-general. At the request of many of my interviewees, their names and the dates of interviews will not be mentioned.
- 10 U Tun Wai, 1990: 32.

- 11 Ibid.
- 12 Commodity purchase books issued by public stores to their respective members were used to record the goods bought. Public stores sold goods only to those who had commodity purchase books.
- 13 Interview with former chairman of township cooperative society.
- 14 Thatin News Journal, 1968: 2.
- 15 Interview with a former secretary of a regional party unit.
- 16 Myint Myint Kyi, 1986:57.
- 17 Universities' Publishing Committee, publication No. (69), 1971: 103.
- 18 U San Nyein, et. al, 1994: 40.
- 19 BSPP, Party Seminar 1968: 119.
- 20 Magway is one of the major oil producing regions in Myanmar.
- 21 S.P.P., Party Seminar 1965: 190.
- 22 Big businesspeople included owners of big export and import companies and big factories, whose invested money accounted for 5,000,000 kyat or above. As most Chinese and Indian big businesspeople left Myanmar after nationalization, majority of (former) big businesspeople who remained in the country during the socialist period were mainly Burmese.
- 23 In a Burmese meal, the inclusion of rice is always taken for granted.
- 24 Khin Hnin Yu: 339-341.
- 25 The opening of the opportunity structure was accessed on the basis of whether or not officials at checkpoints were subject to compromise and whether or not there were anti-*hmaung-kho* campaigns.
- 26 Interview with a former pyit-si-kauk-thu.
- 27 Interview with a former pyit-si-kauk-thu.
- 28 Guardian, January 7, 1966: 1.
- 29 Interview with a retired high school teacher. Nothing better illustrates the scarcity of necessary goods in the first four or five years after the RC came to power than the following "lucky fish story." Sometime in the late 1960s, a poor man brought home a fish he caught and asked his wife to fry it. His wife responded that there was no cooking oil at home. Then he asked his wife to grill it. His wife disappointingly replied, "no fire wood." Then the husband said, "well, in this case, just marinate it with salt. This time, the wife responded angrily, "we have no salt either." Since they had nothing needed in preparing the fish, the husband brought the fish back to the river to free it. As soon as it was released, the fish shouted with great joy, "Long live the BSPP."
- 30 Interview with a rice trader
- 31 Ibid. All other rice traders I had interviewed supported these estimates.
- 32 Botahtaung, September 29, 1966: 1.
- 33 Tin Tin Aye, 1996: 90.
- 34 Interview with a retired professor.
- 35 Botahtaung, December 21, 1983: 4.
- 36 Interview with a hmaung-ko trader.
- 37 Ibid.
- 38 Interview with a retired custome officer.
- 39 The word "carry" is used as an abbreviated form of carrier or courier.
- 40 Interview with a store owner.
- 41 U Tun Wai, 1990: 32.

- 42 Trade corporations, nonetheless, kept some stores open in some major cities in order to distribute the goods such as construction materials. Only those with permits issued by local authorities have access to the goods.
- 43 BSPP, Party seminar 1965: 192.
- 44 U Tun Wai, 1990: 22.
- 45 “State leaders” may sound awkward to those who are not familiar with the political jargon of Myanmar politics. I use the words as a direct translation of the Myanmar word, *Naing Ngan gaung-saung mya* that comprised of all political elites such as the party chairman, the president, the secretary of the State Council, the central executive committee members of the party and cabinet ministers.
- 46 Interview with a regional party unit secretary.
- 47 Because of their regular business dealings with high-ranking officials of the party, some shops in the Saint John and Mingalar markets were referred to as Central Committee shops or stores.
- 48 Interview with a Central Committee member of the party.
- 49 Interview with a former chairman of a township party unit.
- 50 Interview with a former State Council member.
- 51 Interview with a retired director general.
- 52 Interview with a retired director general.
- 53 Tin Soe, et al 1990: 135.
- 54 Ibid.: 143.
- 55 Ibid.
- 56 Interview with a retired Director-General.
- 57 Ibid.: 144.
- 58 A retired officer of the Timber Corporation, interview.
- 59 U Tun Wai, 1990: 36.
- 60 Ibid.
- 61 A former trade official (H), interview.
- 62 Dr. Aung Tun Thet, et. al, 1985: 12.
- 63 Ibid.
- 64 Interview with a township people’s council member.
- 65 Ibid.
- 66 Ibid.
- 67 The fund-raising committee did so because it was required to mention the purpose of buying goods from cooperative shops.
- 68 Report of the Council of State to the Pyithuhluttaw, 1979: 27.
- 69 Report of the central committee to the party congress, 1985.
- 70 The Hanthawaddy Daily, January 22, 1963: 1.
- 71 U Ba Kyine, 1983: 318-320.
- 72 The Working People’s Daily, February 15, 1968: 1.
- 73 Guardian, April 11, 1981.
- 74 Ibid.
- 75 Report of the State Council to the Third Pyithuhluttaw, the first meeting, 1981, Appendix 43.
- 76 In 1981, the Bureau of Special Investigation had to file lawsuits against about a hundred party members and cadres who raised funds by selling some goods from cooperative stores to *hmaung-kho* traders in Mandalay Southeast Township. A party member who did not get along with some of the people in the fund-raising committee informed a high-ranking party official who was on inspection tour in the township of this

- illegal act. Township party unit officials did not turn their back on these party members. At the request of the chairman of the township party unit, most party members were acquitted and only very few were punished with minimal fine. No one was given a prison term.
- 77 Interview with a former secretary of the Sagaing Regional Party Unit.
- 78 Sometime in the late 1960s, a chairman of a township party unit from a border town had to attend a special cadre training in Yangon. Unlike the rest of the trainees, he lived like a rich man because he managed to obtain additional income by engaging in the *hmaung-kho* trade. His wife sent him three Thai-made fancy umbrellas a week through pilots from Myanmar Air Way. Every weekend, this chairman of a township party unit went to the Mingalardon airport in Yangon and picked up the umbrellas and sold them to *hmaung-kho* storeowners at the Bogyoke Aung San Market.
- 79 There were 5 to 20 checkpoints between the delta towns and Mandalay, 5 to 15 between Kalay (a town near Indian-Myanmar border) and Mandalay, 5 to 25 between Myawaddy (a town near the Thai-Myanmar border) and Yangon, 5 to 15 between Muse (a town near the China-Myanmar border) and Mandalay, and 20 to 30 between Tachileik (a town on the Thai-Myanmar border) and Yangon.
- 80 Interview with a jade merchant.
- 81 Interview with a businessman.
- 82 In order to get rid of *a-yaung-htein* goods, cooperative stores required would-be buyers of popular confiscated *hmaung-kho* items to buy a certain number amount of *a-yaung-htein* goods.
- 83 The fund-raising committee sold confiscated *hmaung-kho* goods to the general public in order to raise funds for the township party or people's council. Sometimes, the search committee sold the confiscated commodities immediately back to the original owners at a price negotiated between them.
- 84 Hapthawaddy, December 21, 1975: 2.
- 85 Interview with a central committee members of the party.
- 86 Myanmar people like to put a lot of oil into the curries they cook. As both oil and meat are quite expensive, the fact that one often eats *syepyan-atha-hin* implies that that person is financially well off.
- 87 Interview with a coolie.
- 88 Interview with a retired lecturer.
- 89 Interview with a performer.
- 90 Interview with a member of the party's central committee.
- 91 The Guardian, November 8, 1985: 3.
- 92 Interviews with a group of businesspeople.
- 93 JPRS, 1988: 2.
- 94 WDP, July 25, 1988: 1-2.
- 95 Ibid.
- 96 Ibid.
- 97 Ibid.

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Table 1. Economic Crimes

Year	Cases filed under the Public Property Protection Act	Cases filed under the Com-munal Property Protection Act	Cases filed under the Socialist Economic System Protection Act	Cases filed under the Foreign Exchange Regulation Act
1974	6048	174	2944	249
1975	6144	244	2601	225
1976	9920	151	3315	199
1977	7611	232	2374	162
1978	6668	333	2966	151
1979	6017	210	1712	186
1980	6105	266	1275	202
1981	6481	227	1187	207
1982	6207	266	1284	180
1983	2559	198	1101	97
1984	6641	214	1080	136
1985 (July 1- Dec. 31)	2795	121	677	45
1986 (Jan. 1- June 30)	2368	95	578	91
1987	6150	246	2277	122

Source: The Reports of the Council of People's Justice to the Pyithuhluttaw (1974-1987)

Table 2. The Importance of the Hmaung-Kho Sector for People from Different Classes (percent of the total respondents)

Highest Ranking Party and State Officials

(Party Chairman, President, State Council Members, Cabinet Ministers, etc.)

Year	State+Cooperative	Legal Private Sector	Hmaung-kho Sector
1970s	80	15	5
1980s	85	10	5

Mid-level Officers I (Director-General, Managing Directors, Central Committee Members of the Party, Division/State Council members)

Year	State+Cooperative	Legal Private Sector	Hmaung-kho Sector
1970s	45	30	25
1980s	50	30	20

Divisional and Township Level Officers who had access to public and corporation stores

Year	State+Cooperative	Legal Private Sector	Hmaung-kho Sector
1970s	45	30	25
1980s	50	15	35

Divisional and Township Level Officers who had only very limited access to public and corporation stores

Year	State+Cooperative	Legal Private Sector	Hmaung-kho Sector
1970s	50	20	30
1980s	20	10	70

Ordinary General Public and Low-Ranking Government Servants

Year	State+Cooperative	Legal Private Sector	Hmaung-kho Sector
1970s	30	30	40
1980s	5	15	80

Table 3. Comparing the Contracts Between Trade and Industrial Corporations and Consumer Cooperatives During the Periods 1973/74-1983/84

Serial no.	Contract no.	Contract value/the value of merchandise offered by corporations	Contract value/the value of demand
1	12	45.30	29.99
2	13	47.09	34.64
3	14	48.59	17.15
4	15	55.29	21.76
5	16	57.65	10.36
6	17	58.66	11.08
7	18	66.65	25.09
8	19	56.61	8.92
9	20	62.56	18.95
10	21	70.69	11.67
11	22	76.60	16.54
12	23	74.15	14.03
13	24	72.20	18.66
14	25	72.93	16.19
15	26	78.71	13.01
16	27	74.66	11.72
17	28	80.17	14.53
18	29	88.70	11.79
19	30	81.99	8.13
20	31	85.85	11.02
21	32	85.17	12.43
22	33	85.46	7.83
23	34	68.20	8.02

Source: Dr. Aung Tun Thet et al, *The Importance of Contracts Made Between Industrial and Trade Corporations and Cooperative Societies for the Domestic Commodity Distribution* (in Myanmar), Unpublished paper, 1985.