



THE POLITICAL ECONOMY OF MYANMAR'S CONFLICT

Analyzing the Pros and Cons of De-escalation Through Economic Incentives

Conflict de-escalation based on the sharing of war dividends among conflict parties may provide temporary respite. However, without progressing to meaningful political negotiations, it could simply delay and worsen the underlying conflict. Without considering the political economy of Myanmar's conflict, a resolution to the crisis is unlikely.



Border Guard Forces, civilian travelers, and trucks on the Asian Highway Road between Myawaddy and Kawkaireik, September 2023.

■ Events

On September 9, 2024, the Chief Minister of Karen State, Saw Myint Oo, met with Thailand's Ambassador to Myanmar in Hpa-an, Karen State. After discussions on cross-border trade, the two sides negotiated the reopening of the Asian Highway, a crucial trade route for Myanmar-Thailand trade. Since the 2021 coup, repeated clashes between the Karen National Liberation Army (KNLA) and the Myanmar Armed Forces (MAF) have led to the temporary closure of the vital Myawaddy-Kawkareik section of the Asian Highway, shutting it down at least five times. The latest closure occurred in December 2023 at the start of the siege battle to capture Kawkareik town and has not yet reopened. Intense fighting in the Myawaddy township between March and April 2024 led to the KNLA fully controlling the Myawaddy-Kawkareik Asian Highway. Though no official announcements have been made, the Border Guard Forces (BGF) maintain security of the Myawaddy town on behalf of the State Administration Council (SAC).

■ Preliminary Analysis

The frequent closures of the Myawaddy-Kawkareik section of the Asian Highway necessitate the use of three rural routes crossing the Dawna Mountain Range for transporting goods and passengers. As a result, transportation of goods slowed

down and the border trade value significantly dropped. According to the SAC's Ministry of Commerce, Myawaddy border trade value decreased by approximately \$927 million during the 2023-2024 fiscal year. Karen armed groups controlling the Dawna Range routes have also reportedly collected an average monthly toll fee of approximately four billion Myanmar Kyat (approximately \$900,000, based on the United Nations operational exchange rate of \$1 = 4,500 MMK). In the long term, not only do traders and business owners suffer, but ordinary consumers also face hardships due to increased prices and scarcity of medicines and other essential goods. Thus, the reopening of the Asian Highway is crucial not only for national-level border trade but also for the daily lives of ordinary people. Brigade 6 of the Karen National Union (KNU) is currently leading negotiations to reopen the Asian Highway, with Brigade 7, the Democratic Karen Buddhist Army (DKBA), and the KNU/Karen National Liberation Army—Peace Council (KNU/KNLA-PC) participating. The SAC negotiates through the proxy Col. Saw Chit Thu's Border Guard Force (BGF).

After Operation 1027 in 2023, neighboring countries like China have pushed for conflict de-escalation based on trade, commerce, and investment projects. The SAC and resistance forces are being nudged to accept a profit-sharing system. However, this strategy differs from the

- ▶ humanitarian ceasefire advocated by Western nations, the United Nations, and ASEAN.

To revive border trade, China, Thailand and Myanmar's neighboring countries are focusing on their mediating effort to push for an agreement between the SAC and resistance forces. These efforts involve not only facilitating border trade agreements and infrastructure projects like roads and bridges, and establishing economic zones, but also inviting stakeholders to become partners in arrangements spanning from taxation to shared administration of border areas, and involving as economic partners in various sectors, all aimed at stabilizing cross-border commerce. On the other hand, they also pressure stakeholders to uphold these agreements by monitoring the implementation and closing border gates controlled by Ethnic Armed Organizations (EAOs) if they refuse incentives, such as access to market opportunities.

The de-escalation strategies based on economic incentives were observed at the Haigeng Discussions in Kunming, Yunnan Province. For instance, at the fourth Haigeng Discussion, China proposed and pressured to accept a profit-sharing deal to re-open the border trade, allocating 30 percent to the SAC and 70 percent to the Myanmar National Democratic Alliance Army (MNDAA) and the rest of the Three Brotherhood Alliance (3BHA). Although neither side disclosed such information, the agreement failed to materialize as the 3BHA relaunched the offensive against the MAF with the second round of Operation 1027. They seized control of the

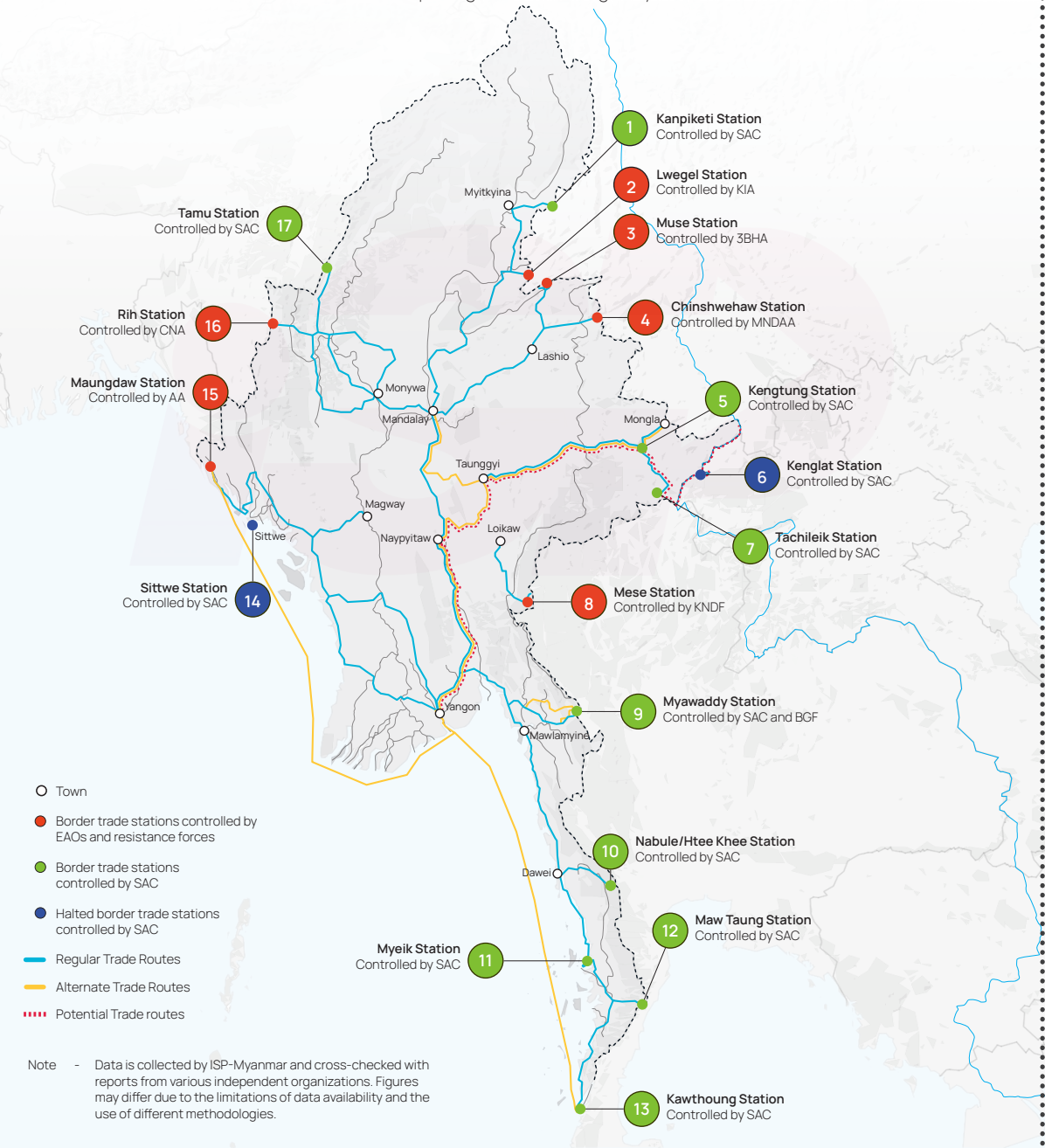
important cities of Lashio, Mogok, and the North Eastern Regional Military Command (RMC) of the MAF and extended their reach to towns near Mandalay.

This prompted China's stringent measures on the 3BHA, which in turn appeared to catalyze internal disagreements within the Federal Political Negotiation and Consultation Committee (FPNCC), under the leadership of the United Wa State Party/Army (UWSP/UWSA), regarding conflict de-escalation and the role of China. This development can be understood as "a shift in the balance of power within the FPNCC" in post-Operation 1027, as ISP-Myanmar foresaw and detailed in the [On Point No. 19](#) published on December 5, 2023. While the clashes have subsided, the MAF —tacitly approved by China— has escalated attacks on the 3BHA in a "revenge campaign of raining bombs." Over time, a ceasefire in various forms may emerge.

With the northern Shan trade route with China disrupted, the SAC is now endeavoring to forge a new trade corridor through eastern Shan. Concurrently, efforts to rekindle trade activities at the Myanmar-Thailand border, particularly the reopening of the pivotal Asian Highway, are underway. The reopening of the highway is a condition that Thailand demanded the SAC and resistance forces to fulfill in order to demonstrate goodwill towards them. Indeed, a ceasefire driven by economic interests might temporarily offer some respite in conflict-ridden areas. It could reduce hostilities and ease public distress by rejuvenating border trade. Additionally, it could steer armed groups ▶

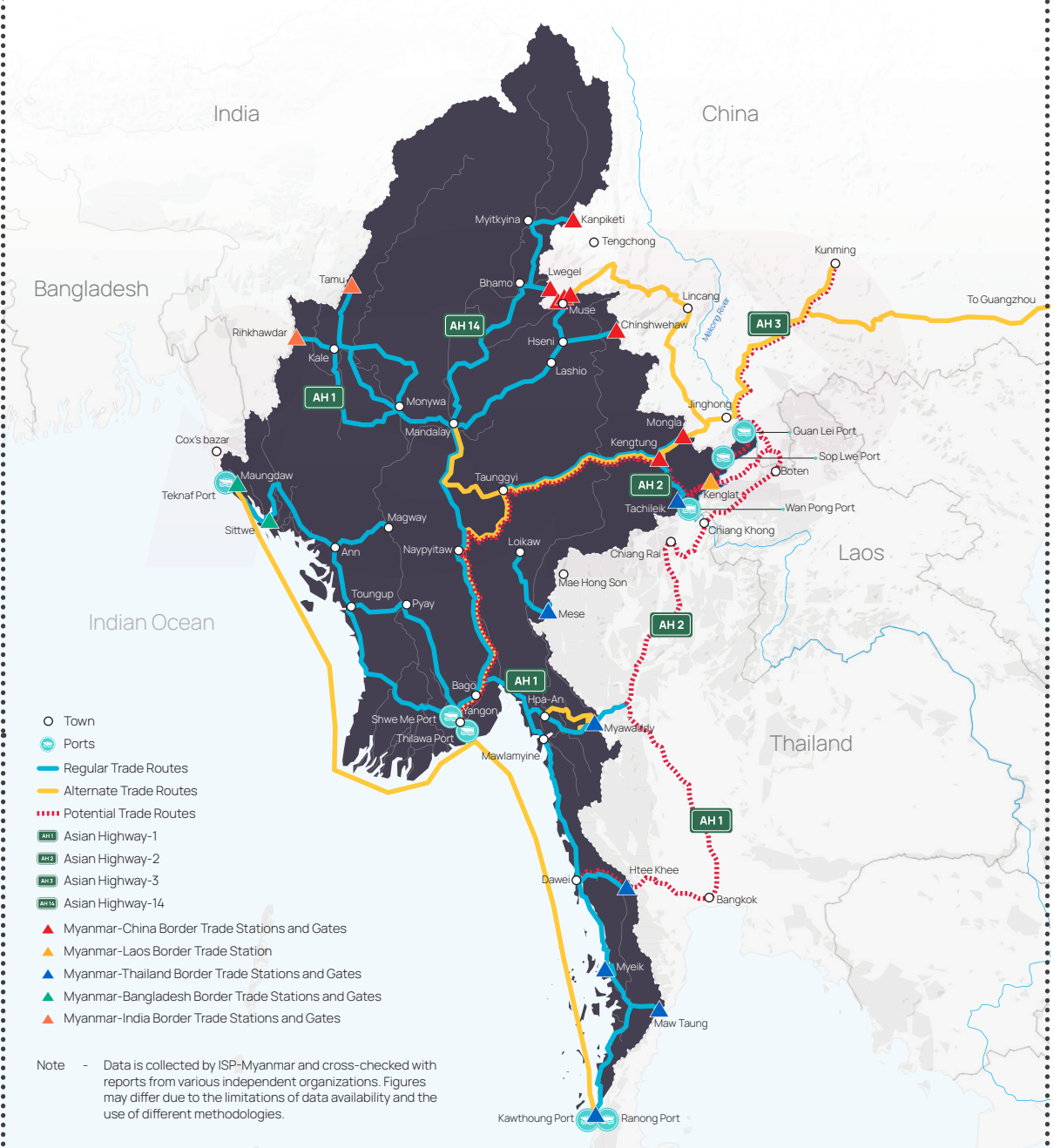
■ The 17 Border Trade Stations and Their Conditions

There are a total of **17** border trade stations between Myanmar and neighboring countries. **Six** of these border trade stations are controlled by Ethnic Armed Organizations (EOs) and resistance forces. The State Administration Council (SAC), in principle, controls **11** border trade stations; **two** stations have ceased trading, and some trade routes are blocked. Currently, the SAC is considering the development of a new trade route through eastern Shan to China, as the previous northern Shan pathway has also ceased operations. Concurrently, Thailand is spearheading discussions with all stakeholders to facilitate the reopening of the Asian Highway.



■ Border Trade Routes: Old, New, and Potentials

After substantial delays and disruptions across traditional land border routes, maritime pathways are increasingly becoming a viable alternative for trade with Bangladesh and Thailand. Additionally, the eastern Shan, a trade route under consideration since 2019, is emerging as a potential new route for trade with China. Furthermore, a new trade route through the Tanintharyi Region, the southern part of Myanmar, connecting Thailand, Laos, and China could be developed as well. This route is strategically linked with the Greater Mekong Subregion Economic Corridors.



► towards legitimate commercial activities, diminishing their participation in illicit enterprises such as narcotics trafficking. However, it must be noted that a ceasefire based on economic incentives and war dividend-sharing is not economic power and resource-sharing based on principles relevant to decentralization, federalism, or even confederation and respective institution buildings. This is nothing more than a temporary resolution involving the sharing of the war dividends among conflicting armed groups arranged by neighboring countries. During times of disagreement over profit-sharing or when economic ties are strained by climate crises or pandemics disrupting trade, these fragile war profit-sharing systems are at risk of collapsing, potentially reviving illicit economies. Even without immediate disruptions, ongoing demands from neighboring countries and their extended international markets can exacerbate the extraction of natural resources within Myanmar, often at the expense of the local population who suffer from a lack of accountable resource governance.

■ Scenario Forecast

Negotiations regarding the reopening of the major Asian Highway may result in success, failure, or a temporary opening followed by another closure. The Karen

National Liberation Army (KNLA), which has significant control over the route, is demanding to receive 70 percent of the tax revenue generated from the goods passing through, while the SAC is insisting on an equal split of 50 percent, according to those involved in the negotiation. So, these negotiations, which started in early September, appear to be encountering ongoing difficulties. Thailand is likely to support various measures to facilitate a successful agreement.

The most critical issue is that using economic incentives for conflict de-escalation may provide only temporary relief. If these initiatives do not lead to a political resolution and a shift from profit-sharing to economic power-sharing based on federal principles, the people of Myanmar and the country as a whole will suffer. Since 1988-89, ceasefire agreements between successive military juntas and ethnic armed groups have resulted in extended profit-sharing arrangements, causing severe suffering for the people due to ceasefire crony capitalism. This historical lesson must not be forgotten. ASEAN, the United Nations, and the international community need to recognize that without understanding and taking into account Myanmar's complex political economy in addressing the crisis, their efforts will continue to be misdirected. ■

■ Daily Average Trade Conditions at Border Trade Stations

The data presented here reflects the average daily border trade value at each station, estimated from the total border trade value reported by the SAC from February 2021 to June 2024.

Myanmar-China Border

- 1 Kanpiketi Station:**
Controlled by SAC, active.
Daily trade: \$0.49 million.
- 2 Lwegel Station:**
Controlled by KIA, active.
Daily trade: \$0.36 million.
- 3 Muse Station:**
Controlled by 3BHA, active.
Daily trade: \$6.20 million.

At the Muse Station, the 3BHA controls Kyukoke (Panseng) and Kyinsankyawt gates and Muse 105-mile Trade Zone. Although trade ceased on October 27, 2023, some trade has continued at the Man Wein Gyi gate controlled by SAC.
- 4 Chinshwehaw Station:**
Controlled by MNDAA, inactive.
Daily trade: \$1.09 million.
- 5 Kengtung Station:**
Controlled by SAC, active.
Daily trade: \$0.27 million.

- 10 Nabule/Htee Khee Station:**
Controlled by SAC, active.
Daily trade: \$6.69 million.
- 11 Myeik Station:**
Controlled by SAC, active.
Daily trade: \$0.4 million.
- 12 Maw Taung Station:**
Controlled by SAC, active.
Daily trade: \$0.06 million.
- 13 Kawthoung Station:**
Controlled by SAC, active.
Daily trade: \$0.7 million.

Myanmar-Bangladesh Border

- 14 Sittwe Station:**
Controlled by SAC, inactive.
Daily trade: \$0.32 million.
- 15 Maungdaw Station:**
Controlled by AA, inactive.
Daily trade: \$0.03 million.

Myanmar-Laos Border

- 6 Kenglat Station:**
Controlled by SAC, inactive.
Daily trade data not available.

Myanmar-Thailand Border

- 7 Tachileik Station:**
Controlled by SAC, active.
Daily trade: \$0.49 million.
- 8 Mese Station:**
Controlled by KNDF, inactive.
Daily trade data not available.
- 9 Myawaddy Station:**
Controlled by SAC and BGF, active.
Daily trade: \$5.21 million.

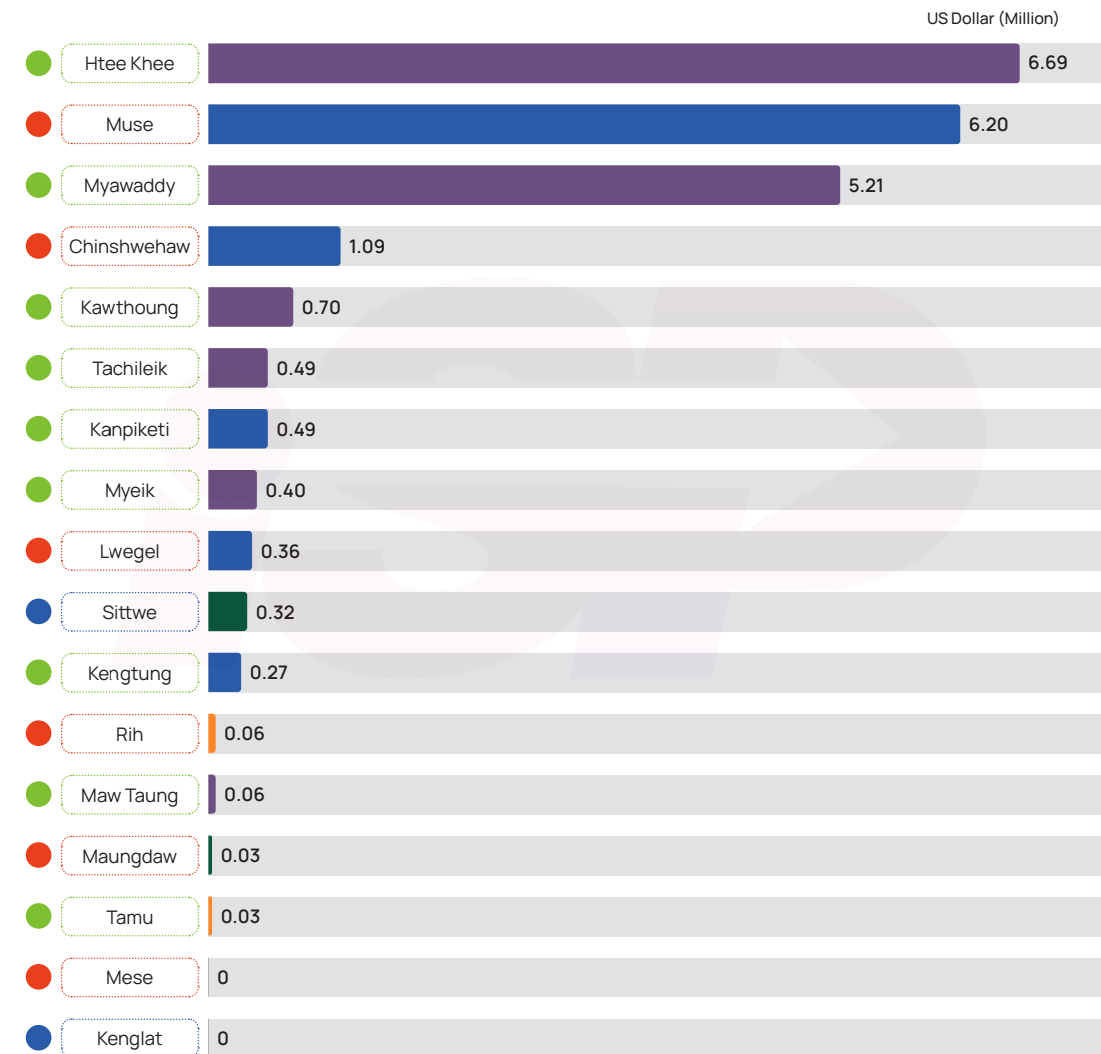
Myanmar-India Border

- 16 Rih Station:**
Controlled by CNA, inactive.
Daily trade: \$0.06 million.
- 17 Tamu Station:**
Controlled by SAC, active.
Daily trade: \$0.03 million.

- Border trade stations controlled by EAOs and resistance forces
- Border trade stations controlled by SAC
- Halted border trade stations controlled by SAC

■ Highest Border Trade with Thailand

The formal daily average trade value of the 17 border trade stations exceeded **\$22 million** over the three years since the coup. The Nabule/Htee Khee Station on the Myanmar-Thailand border recorded the highest trade, with an average of **\$6.69 million** daily. The bar chart presented here reflects the average daily border trade value at each station, estimated from the total border trade value reported by the SAC between February 2021 and June 2024.



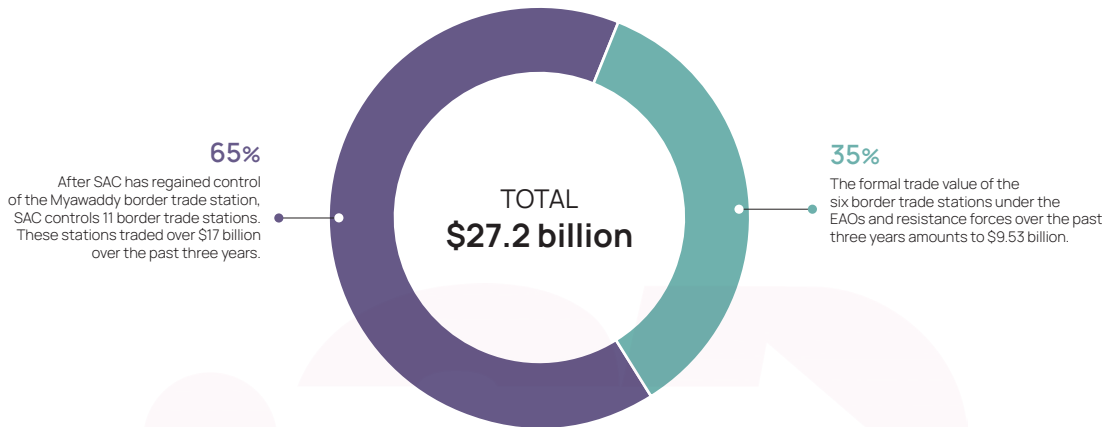
- Border trade stations under EAOs and resistance forces
- Border trade stations under SAC
- Halted border trade stations under SAC
- Myanmar-China border trade stations
- Myanmar-Thailand border trade stations
- Myanmar-Bangladesh border trade stations
- Myanmar-India border trade stations

Note - While natural gas trade was not usually included in the calculation of border station trade values, the Ministry of Commerce has included the natural gas trade value to Htee Khee border trade value since 2018.

Reference - State Administration Council (SAC)'s Ministry of Commerce.

■ Resistance Forces Control Over One-Third of Border Trade Value

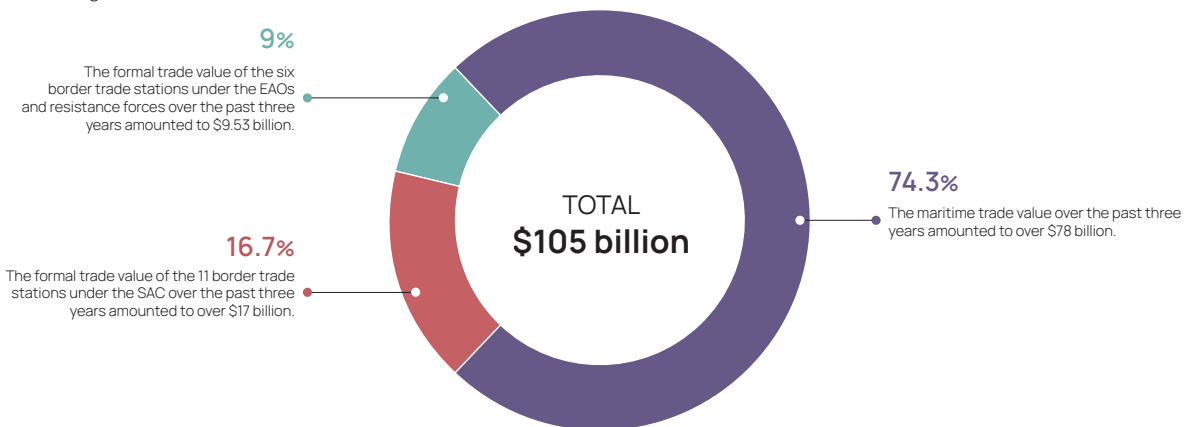
Between February 2021 and June 2024, Myanmar's total border trade value exceeded \$27 billion. Notably, the six border trade stations controlled by Ethnic Armed Organizations (EOs) and resistance forces represent a significant portion of this trade, valued at over \$9.53 billion and constituting 35 percent of the total border trade value. Therefore, halting legal trade at these six stations has resulted in recurring trade losses amounting to billions of dollars.



Note - The data above is sourced from the SAC and presented in USD.

■ SAC Loses Control of Over Nine Percent of Foreign Trade

From February 2021 to June 2024, Myanmar's foreign trade value surpassed \$105 billion. Maritime trade surpassed \$78 billion, accounting for 74.3 percent of total trade value. The six border trade stations under the Ethnic Armed Organizations (EOs) and resistance forces traded over \$9.53 billion, accounting for nine percent of Myanmar's foreign trade value.

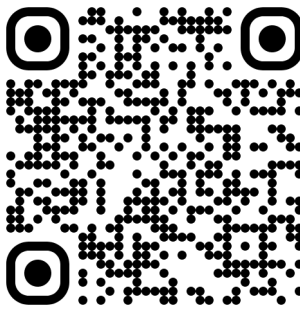


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